"Hathway Cable & Datacom Limited Q2 FY2018 Results Conference Call"

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Analyst:

Mr. Abhishek Bohara – ICICI Securities

Mr. Vikash Mantri – ICICI Securities

Management:

Mr. Rajan Gupta – Managing Director - Hathway Cable & Datacom Limited

Mr. Vineet Garg - Chief Financial Officer - Hathway Cable & Datacom Limited

Mr. Rajaraman Sundaram – Chief Operating Officer, Video Business – Hathway Cable & Datacom Limited

Mr. Ajay Singh – Company Secretary – Hathway Cable & Datacom Limited

Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Q2 FY2018 Results Conference Call, hosted by ICICI Securities. 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 the 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. Vikash Mantri from ICICI Securities. Thank you and over to you Sir!

Vikash Mantri: Good afternoon everybody. We at ICICI Securities are pleased to invite you to the Q2 FY2018 Results Conference Call of Hathway Cable & Datacom Limited. We have with us the senior management of the company represented by Mr. Rajan Gupta, MD, Mr. Vineet Garg, CFO and Mr. Rajaraman Sundaram, COO of the Video Business. Over to you sir for initial remarks.

Rajan Gupta: Good evening all and thank you for joining us for the Q2 earning call. With me on this call is Mr. Vineet Garg our CFO, Mr. Rajaraman Sundaram, our COO of Video Business, and Mr. Ajay Singh our Company Secretary. Q2 has been an eventful quarter with major improvement in business health across financial and operating parameters. Focus has been on monetizing all levers of growth agreed year beginning for both our broadband business and video business. I will now take you through some specific numbers of HDPL. Q2 EBITDA for HDPL is Rs.33.1 Crores with 14% EBITDA margins. EBITDA has grown 22%, quarter-on-quarter driven by strong revenue growth and better efficiency. Collections have grown 10% quarter on quarter and 18% year-on-year signaling strong improvement in rates and efficiency. There is an increase in Phase II ARPU from Rs.95 to Rs.98. Phase III ARPU has seen jump from Rs.55 to Rs.58. Phase IV seeding is complete and monetization has started. ARPU in the Phase IV has increased from Rs.9 in Q1 to Rs.41 in Q2. I would like to share for better transparency all ARPU numbers given in this call are without taxes and all financial numbers are as per Ind-AS. Hathway Connect implementation has improved from 56% in Q1 FY2018 to 61% in Q2 FY2018. In Phase III and Phase IV, Hathway Connect implementation has helped us establish consumer level billing and increased collection efficiency. There is a good stability on the content side and focuses on monetizing Phase III and Phase IV boxes and maximizing revenue. While average ARPU in Phase III is 58 and in Phase IV average ARPU is 41. Many of these markets have reached Rs.60 ARPU level. Focus in Q3 will be taking all Phase III and Phase IV markets to Rs.60 to majorly accelerate revenue growth.

After an update on video business, I now move to update on broadband business. We have added 30,000 net consumers in Q2 in standalone HCDL. There is revival in net add momentum with October month net add at 15,000. Our efforts towards acquiring right broadband consumer have started yielding desired results. There has been continuous focus on Home Pass build up in existing towns. Home Pass numbers as on September 30, 2017 is 4.8 million. EBITDA margin is at 44%, EBITDA increased by 20% compared to Q1. This is due to continuous increase in revenue and reduction in cost. HCDL the broadband business is PAT positive with Q2 PAT at Rs.14 Crores. Last 12 months, we have seen increased competitive intensity in data business from mobility players. To increase consumer stickiness, we have taken the following initiatives. Increased base speed of all consumers to 40 MBPS. Average speed nationally is now 60 MBPS. We have increased data limit of all consumers by 200 GB per month. This has been done without affecting our EBITDA growth. This is possible based on strength of new data center we have built up and all alliances we have done on hosting content servers and peering, caching, etc. Facebook is our new partner, which has put servers in our office. In partnership with Microsoft, we have started giving 1TB cloud storage and Microsoft office package free of cost to all our yearly pay term consumers. This is a major step towards the delighting our loyal consumers as they now can download on high speed, unlimited content and store practically unlimited videos and other content. Due to the above initiatives, we have seen average usage per consumer increase from 78 GB per consumer per month in Q1 2018 to 98 GB per consumer per month in September, so there is a 20 GB increase happened in the last quarter to this quarter.

We also started offering GPON Fiber to Home Services in a high potential DOCSIS markets started with South Mumbai. Through this initative, we are able to offer 200 MPBS speed with 1000 GB data limit monthly to premium consumers thereby getting additional revenue and increasing consumer stickiness. To further improve customer service, we have tied up with Microsoft for launching their world-class CRM solution. This is helping us use digital tools to enhance customer experience and implement preventive churn management. Overall, all these initiatives have helped business becoming strong and we have ring-fenced all our high ARPU consumers.

In Q1 concall, I have shared with you all full year plan of saving Rs.50 Crores in noncontent costs for both HDPL and HCDL. I am happy to share plan is on track and we have achieved target on the same for Q2. This will happen through series of initiatives around automation, process re-engineering, and right sizing various functional structures. I must say these are not one-time savings. These are structural changes and impact for same will be seen in our P&L for quarters to come. We have also started pilots on utilizing synergies of video and broadband business and some very exciting propositions are in pipeline. Currently, they are being tested on the ground, pilots being done in selected market and we will be sharing results of the same in our next quarter concall. I am now handing over to Vineet Garg, our CFO for taking us through financial details. Over to you Vineet, please.

Vineet Garg: Thanks Rajan. Good afternoon ladies and gentlemen. Just to reconfirm, financial records of the company are based on the Ind-AS. HCDL broadband business PAT before exceptional item is at Rs.15.3 Crores against Rs.10.2 Crores in Q1. This is up by 50%. Financial charges during the quarter include foreign exchange M2M loss of Rs.3.32 Crores. EBITDA numbers are at Rs.59.8 Crores up by 20% from Q1. Q2 EBITDA number includes Rs.4.17 Crores dividend income received by the company. Gross revenue is at Rs.131 Crores up by Rs.2 Crores from last quarter and Rs.11 Crores from Q2 of last financial year. HDPL CATV business EBITDA is at Rs.33.1 Crores up by 22% from the last quarter. CATV subscription revenue is at Rs.140.1 Crores up by 6% from the last quarter. For the Q2 of FY2018, CATV total revenues stand at Rs.244.9 Crores up by Rs.8.4 Crores compared to Q1 of this financial year. On the clubbing of EBITDA of broadband and CATV business, it stood at Rs.92.9 Crores. If you exclude non-operational income, it will be Rs.87 Crores and this will be up by Rs.10.7 Crores from Q1, which is 12% increase and up by Rs.33.7 Crores from Q2 of last financial year, which is 63% up. During the quarter Rs.50 Crores capex is deployed in the broadband business and Rs.25 Crores is CATV business. Gross debt of the company is at Rs.1,621 Crores. Both the businesses put together, net debt is Rs.1,578 Crores. Net debt is reduced by Rs.108 Crores compared to Q1 of FY2018. This is from my side. Now we can take up questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Thanks for the opportunity. Sir my question is on the broadband business, so if you say during this calendar year, we have added about 1 lakh broadband subscribers, I just wanted to understand why is this not getting reflected in terms of revenues because from Q3 of last year to Q2 of this year, the broadband revenues are almost flat, just up a couple of percent point. Now I understand lot of your this stickiness measures evolve around offering more value to the customers rather than setting ARPU as such, so just your comments on the same.

Rajan Gupta: Same has been shared in earlier calls as well. First of all, we obviously have some revenue increase, but I agree with you, revenue increase is not in line with the increase in subscribers. I have shared earlier also the biggest point is we have been upgrading the pay term of all our consumers, which means essentially if average pay term nine months back was around three months, now the average pay term is at four months, which essentially means that we are upgrading lot of people from three months, six months to one year. On a one year pack, we offer around 25% value as compared to three-month and six-month pack. Now this was essentially done to ring-fence all high ARPU consumers and make sure longevity with our base. So I think we have a two-pronged strategy. I have been sharing with you the same earlier as well - keep on giving lot of value additions to consumer, we did with the increasing speed, we did with the increasing data limits to going up as high as 1000 GB and now we have started giving 1TB cloud storage to all our yearly consumers. But in parallel, we also give very high value on yearly pack. But you will appreciate this has been done without any effect on the EBITDA. In fact EBITDA has been increasing Q-o-Q, Vineet has shared those numbers. The numbers are all double digit. So the overall strategy was in a highly competitive environment, reduce your operating cost significantly, pass on that benefit to consumer to make sure your consumer proposition is very strong plus do all the value adds on and the management strongly believes this is making the business stronger and ring-fencing all our high ARPU consumers.

Yokesh Kirve: Sir regarding, say apart from the long duration pack, are there any other factor which are in play, I mean such as the gap in the recharges between two recharges by the customers, is that also a factor?

Rajan Gupta: Yes that is another thing I have shared in fact, I shared last time but now that the one year full cycle has got complete, so we have shared earlier also around 10% to 12% of the consumers are delaying recharges by anything from five to eight days. But this is now more or less after September quarter it has come in base now. This trend started last year with the mobility data rates collapsing from Rs.300 per GB approximately for 3G to round Rs.60, I think that is the latest kind of weighted average rate for mobility. So that effect definitely was seen, but in October we have seen that we are out of that effect because that is a base effect, now that has already build up in the base.

Yokesh Kirve: Right Sir. Sir finally you mentioned regarding the broadband net adds in the month of October, I missed that if you can repeat that?

Rajan Gupta: I mentioned in the month of October we have seen 15000 net adds essentially the matter which we are trying to say is that whole one year cycle for mobility dropping data rates that have got completed in September 2017, which essentially means all the consumer behavior that was supposed to change, has already changed and this is the time we are seeing higher retention and higher gross adds and we expect the trend to continue.

Yokesh Kirve: Sir again this going back to long duration pack I mean so that has effect to decline in the ARPU so when will that trend will bottom out if you can offer any comments?

Rajan Gupta: We see that trend bottoming out, as I said most of this already comes in base effect which is where I took this one year period. In that one year period already it is in base effect and we should see now going forward the revenue also should start as per increase in consumer net adds.

Yokesh Kirve: Okay, great thanks for that and all the best.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Alright, thank you for the opportunity. Can you share the broadband customer mix 700,000 customers that you have in terms of a technology EOC, DOCSIS 2, 3, GPON and how many of your GPON customers would be FTTB customers that is one? Second question is you mentioned there is incremental upgrade going on from DOCSIS 3 to 3.1 so what is the cost of that incremental upgrade and how much additional ARPU you expect to generate out of this. Also related question is that there is a parallel network being deployed you mentioned, so are we looking at any accelerated depreciation on asset write offs in broadband?

Rajan Gupta: Sanjay there are three questions which you asked, I will answer one by one, okay. First in terms of technology mix, so we have broadly three technologies, one is DOCSIS 3, 3.1, second is high quality MEN which means all manage features etc., and third is GPON fiber to home, we really do not have any GPON fiber to building. We do only GPON fiber to home. So we have currently around 70,000 consumers on GPON fiber to home. There are around 50,000 consumers on high-quality Metro Ethernet LAN wherein also we can offer 100 mbps speed to all consumers and all balance consumers are on DOCSIS 3, 3.1. Essentially we do not have any consumers today as we are talking on any of the slow speed broadband technology which is DOCSIS 2 or low-quality LAN. So that is the only reason we have been able to share that the minimum speeds which have increased to 40mbps and average speed what we offer nationally is around 60mbps.

Sanjay Chawla: What is the minimum speed or minimum range in high quality MEN?

Rajan Gupta: In Bangalore and Hyderabad, in some of the large vertical buildings we have, we offer only 100mbps. Now moving to your next question, when we were doing GPON in the current DOCSIS area, so what we are we doing about that? So essentially the thought was many of the south Bombay buildings and similarly some of the premium areas in other metros, we already are 20% penetrated, ROE for the business is already there, and assets are fully getting utilized. Now we had two opportunities either we put a fresh DOCSIS parallel network to target the next 20% or we move to the next technology which is GPON fiber to home and start offering 200mbps. So we decided for second option. So we are launching GPON fiber to home in the buildings where already penetration have happened for DOCSIS. But in case of DOCSIS consumers, where we have to upgrade to GPON as well, then our incremental cost for that is Rs.3000 per consumer. And the incremental ARPU typically which we are getting is around Rs.100 per month from those consumers. So there is a payback of 30 months as well. I have shared multiple times to all investors that we have an internal yardstick of 30 months payback before we take any investment decision. Similarly DOCSIS 3 to 3.1, there is no net additional cost the way it works out is today the DOCSIS 3.1 technology pricing have crashed and it is equivalent to DOCSIS 3 pricing. What we are doing is from all the premium areas, we are shifting DOCSIS CMTS to non-premium areas where consumer is okay with the 40mbps speed as well. So for example south Bombay, within western suburbs we have a very good market. So these are the markets where DOCSIS 3.1 upgradation has happened. Now CMTS which have come out of this market are going to next level, for example parts of Delhi, parts of Hyderabad and some other smaller cities. So we do not really have any incremental capex because of this.

Sanjay Chawla: This has any incremental ARPU when you move from 3.0 to 3.1?

Rajan Gupta: In DOCSIS, the DOCSIS plans are same for 3 and 3.1. There is no change there.

Sanjay Chawla: Okay. So you mentioned Rajan, 30 months of payback this is on assuming what margin?

Rajan Gupta: I would say current margin if you can see they are upwards of 40% so that is how math has been.

Sanjay Chawla: I am sorry, just to clarify, I meant the upgrade from DOCSIS 3 to GPON there is a Rs.3000 per customer incremental capex and you expect an incremental ARPU of Rs.100?

Rajan Gupta: Yes, instead all that Rs.100 flows to the bottom-line because as far as the cost is concerned the GPON costs are lower. I have shared with you earlier also in GPON, we save on two costs, one is electricity and second is a rental. GPON is entirely passive network. So we do not spend any money on electricity on the network and also we do not have any rentals to keep all those UPS and generators. So actually GPON EBITDA is 5% better than the DOCSIS EBITDA. So when we shift any consumer from DOCSIS to GPON whatever incremental ARPU accrues, that directly flows to the EBITDA.

Sanjay Chawla: Okay so are we looking at any accelerated depreciation on the way upgrading DOCSIS 3 to GPON?

Rajan Gupta: Sanjay again there is confusion; we are not taking those equipments anywhere. Once again I am saying we have done two things wherever 20% penetration has happened, for example there are buildings on Kamala Mills our main technical office, already we are more than 20% penetrated. Now these are building because capex are deployed with 20% assumption of Home Pass penetration. We have shared this index every time in every call our whole modeling is based on 20% penetration. So there are, for example in a building of 100 homes, we already have 20 consumers then already my ROE that has come and that capex will remain. Now if you shift to DOCSIS 3.1 or get additional consumer using GPON fiber to home, then accordingly additional revenue also is coming. I mean these are all proactive efforts because as far as consumer is concerned even 50 mbps speed is a real delight which DOCSIS 3 is giving. These are all pro-active efforts from our side to make sure we can give more GBs to consumer, we can have more consumers in a particular CMTS but as far as consumer is concerned, there is no technology issue.

Sanjay Chawla: Right. What have been the trends in the GPON deployment cost, last 12 months or 24 months especially the CPE cost?

Rajan Gupta: If you see the, I mean I may not able to give you in this call, pricing for each equipment, that is also little bit confidential but if I talk about overall cost per consumer in GPON, I mean two years back it used to be upwards of Rs 12,000 in fact even more, the last figure which we published was the Rs.8,300 for GPON cost per consumer. As we are talking GPON cost per consumer is hovering more towards Rs. 7,500. Having said that these are averages which vary from area to area, building to building but broadly from the financial modeling perspective we can take Rs.7500 per consumer for GPON fiber to home.

Sanjay Chawla: Okay. What are the concerns has been the Home Pass penetration where we have assumed 20%, right now we are little below 15% overall that is one and secondly there is also this issue of churn, so can you comment on what has been the churn rate in your customer base and how do you actually define an active customer because I believe that numbers that you report also have got some inactive customers?

Rajan Gupta: No churn is a pretty much industry definition. The way churn is defined as any consumer which in 30 days does not recharge, for example my recharge is due on say 15th September, if at 15th October I do not pay, I become a churn consumer. So this is a pretty much standard definition about churn.

Sanjay Chawla: Is that the customer will be taken out of the reported base or will it be……..?

Rajan Gupta: Absolutely. So 30 days is the kind of churn. Within 30 days if consumer does not get re-activated by paying again that is a churn definition. And second, sorry I forget your second question.

Sanjay Chawla: The Home Pass penetration also…….

Rajan Gupta: Yes, so Home Pass penetration is a moving figure. If we do not keep on increasing more home pass and then we will obviously reach very easily 20%, but the idea is to keep on increasing Home Pass and also if you see the way EBITDAs are increasing Q-o-Q, this whole 20% penetration modeling was worked out at 35% EBITDA, today EBITDA even without one offs has reached greater than 40%, so we are anyway confident of 20%

penetration also over a period of time and current EBTIDA itself justifies the kind of payback which we have promised.

Sanjay Chawla: Can you share the churn rate in your customer base overall, what is the monthly churn?

Rajan Gupta: So churn rate monthly remains at 1.5% but we did have a student population which we shared in last call also. There was a one-time churn of the student population. We lost around 50,000 consumers in last one year. These were single user less than 20GB a month and then they were single device. So essentially they were cheap android tab which they use to access wire line because earlier price arbitrage was there. The wireless was Rs.300 and wire line was around Rs.40, so all these consumers have gone back to mobility. But I am happy to share that base has been cleaned, in fact if you see in my concall I mentioned we are focusing on acquiring the right base. So one of the objective which we have taken is we do not want the consumer who is not a 100GB per month consumer. In developed countries typically 200 GB per consumer is a usage of wireline and in developing countries around 100 GB. So 100 GB per month is the minimum benchmark we have for a wireline consumer, so we want a consumer where Wi-Fi router is connected to the TV and usage is very heavy because that is a real broadband consumer.

Sanjay Chawla: Thank you very much and all the best. I will come back if I have got more questions.

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

Charles Cartledge: Thank you very much for the call and congratulations for the results. Rajan could you just help me better understand the competitive situation in broadband. As I remember it, late last year R-Jio was offering a very cheap or free data and this is why you ring fence your high usage subscriber but since then three things have happened one, if I understand that they have launched this, they hope that people will connect their TV service to their mobile data but I am told that data usage limit is such that it is not really practical for most household because they watch more than one hour TV, and then now I believe they have increased their tariffs. So my feeling had been that the competitive threat from R-Jio at least from their mobility solution was rather less now than it has been. So my thinking was that that was a temporary situation, but you did talk earlier in the remarks that you made about a sort of ongoing competitive intensity so I like to know who is that from and where is that from. Thank you.

Rajan Gupta: Charles I think your reading of the market is absolutely correct, so there has been improvement from three quarters back but the improvement is still quite marginal as far as competitive intensity of the market is concerned. Mobility data rates still hover anything from Rs.20 per GB to Rs.50 GB. This obviously means the low usage consumer which were using 20GB, 25GB, and 15GB a month for them it does not make a sense to come into wire line because we still charge anything from Rs.700 to Rs.1000 per month. So that aspect of competitive intensity still continues but we have seen improvement in market. As I keep on sharing we are standing on an inflection curve. For us internally it was a very conscious decision, since we were confident on cost reduction, we say let us keep on dropping cost, keep on passing benefits to consumers, which is pretty much clearly reflected in our kind of EBITDA growth we have done, in spite of giving that kind of value to consumers. But probably winter is there for another six months that is what I can say, we see signs of improvement and from here onwards every quarter the market competitive intensity should improve.

Charles Cartledge: Thanks very much.

Moderator: Thank you. The next question comes from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: Hi I have few questions, first on the broadband space, how much of this ARPU decline would you contribute to competition from free services like Jio and how do we see I mean now we know that they are not in the market to I mean we always knew this but now the common thought is that now they are not in the market to keep prices though eventually they will keep increasing the prices so how do we see ARPUs going into the end of FY2018 and also it is commendable that you have improved margins from 38% to 41-odd% ex of your dividend that you received from GTPL. So what was this cost optimization you did apart from the penetration increasing in cities?

Rajan Gupta: Let us start with the cost first, I have been sharing in last two three con calls, we have a lot of work happening around remodeling all our processes, so lot of process re-engineering, for example if for customer installation right from the moment we pick up order from the customer, the moment we install, there were eight people earlier involved in a particular office, there are going to be only four people involved. Lot of automation has happened on IT; like I shared last time in billing we need nationally 750 staff, now we need only 350 staff. So lot of process re-engineering, automation and also collapsing of structure both vertically and horizontally. So we had six layers from MD to the down, now we have four layers. So if we have two functions doing a particular job, now we have only one function. So that is about cost and in fact a lot more other work is happening which we will share in next quarter. As far as ARPU is concerned I think I mentioned that it was a very conscious decision to pass on value to the consumer which I guess is not very different from what other large telcos are also doing. For us positive thing is we are able to grow EBITDA in parallel, based on the kind of efforts we have taken on cost reduction. And another cost which I forgot to mention is about bandwidth cost. We have increased our bandwidth usage by practically three times in last one year without incurring a single extra rupee on bandwidth cost, the kind of data center modeling we have done, the kind of peering-caching solution, the kind of content server we are hosting from all global content providers. So because of all these efforts we are saving lot of cost which partly we are taking into EBITDA, partly we are passing on to consumers, thereby increasing the stickiness thereby delighting them and thereby hoping they will continue with us for long term. So that is the kind of model that we were trying to work. Well the winter is on, reduce your cost and these are all structural reduction, so which will remain, pass on some benefit to consumers, balance take it to EBITDA.

Kaustav Bubna: Okay now I understand that, that is great but there is obviously some pressure from Jio because of free services because you otherwise would not have posted 2% Q-o-Q growth you would have posted higher growth so could you elaborate something on that like when did that ease out because I mean broadband I would expect way higher growth I mean after all these initiatives that you have taking because there is obviously.

Rajan Gupta: I think the next higher growth again has to come through more number of consumers but.

Kaustav Bubna: But are not translating into because of your ARPU decline.

Rajan Gupta: Yes, I do not see ARPU increasing at least for next 18 months. We will see winter of 18 months as far as ARPU is concerned. We do not see any hardening of rates significantly, mobility should see that some effect of that should happen wireline, broadband but you see we are already charging like 717 plus taxes. What consumer end up paying after GST is still somewhere around 900 range. So we do not see that increasing further, we see that stabilizing in and next level of revenue growth has to come through additions of new consumers.

Kaustav Bubna: And as Jio said that they were going to release some details on the pricing of their broadband, have they done that?

Rajan Gupta: I mean that is in public domain right, so I am not aware of about any such thing.

Kaustav Bubna: Yes, because until then is just pressure on everyone.

Rajan Gupta: No substantially, you see, I have shared earlier also what is our focus, our focus is to build a model in which we keep on reducing cost and keep on strengthening the product we have. Essentially it means for example if there is a way this model of 40% EBITDA can work out even at lesser Rs.50 ARPU, then you are further strengthening your ability to scale up. So that is the kind of internal thinking we have.

Kaustav Bubna: Okay fair enough, that is fine. Moving onto the Cable business there has been a lot of pessimism in this vertical but I have noticed all the Cable players have, if you look at Q-o-Q trend for the last four to five, six quarters they have posted a very good Q-o-Q growth. Now the question is on the future, now Phase IV has become active, so now you will take accruing revenues from Phase IV, could you tell me a view on this segment then what your plans are?

Rajan Gupta: If you see Phase wise EBITDA for example, like while overall EBTIDA of the business is around 14% but Phase I, Phase II EBTIDAs are greater than 20%, the issue was essentially Phase III, Phase IV because all the boxes were seeded and the ARPU was not coming against that, while the cost was already sitting in the P&L. So I think essentially what you see over last three quarters, the Phase III and finally now Phase IV in this quarter is getting monetized and we see this now continuing for another two quarters in terms of Phase III, Phase IV reaching desired levels. Some markets in Phase III and Phase IV have reached Rs.60 plus tax kind of ARPU, other markets are still around Rs.30-35 which is why average for Phase IV is still 41, With that further improving, everybody should reach near 60. So next two quarters focus will be on again increasing ARPUs, revenue driven by Phase III and Phase IV, some increase in phase II has also happened. Once the basic model is intact, you move to next to level in terms of investment in high-definition boxes, the pricing of HD box is coming down month on month, next quarter we should be able to share our HD plans for next year. We are doing lot of POC on internet TV the connected boxes, so once this whole Phase III and Phase IV is complete, that is the time we start talking about next level of ARPU growth, which is where HD and the connected boxes will come into picture.

Kaustav Bubna: There are any update on the TRAI order?

Rajan Gupta: We remain very positive; I think in the industry there is lot of alignment around that but order is still awaited in Chennai High Court that is what we are waiting for.

Kaustav Bubna: Okay great. Thank you.

Moderator: The next question is from the line of Abhinash Kumar from Moon Capital. Please go ahead.

Abhinash Kumar: Hi all, I mean one question my last participant already asked so I was curious enough is there any news or maybe any update on what is the status about the TRAI order, I mean when is it supposed to come. Secondly is I mean let us assume when the order is out how soon can we see the on-ground implementation when the content cost becomes a complete pass through for the MSOs and your EBITDA starts zooming up? So that is one question and second would be on a strategy question more, so I mean for the Cable business where do you see the ARPU going especially in the Phase III, Phase IV markets. Will it be from the end consumers paying a higher ARPU or will it come from proportion change of ARPU revenue sharing between LCO and MSOs or there will be some what we call market sanitization where the MSOs usually decide not to undercut each other and allow the same ARPU levels to prevail, so especially in the Phase III, Phase IV markets so if you are talking about the ARPU flow to the company where will it come from. So these are the questions from my side?

Rajan Gupta: So I mean it is a little longer one so I start with the TRAI order, once again I say that industry is very positive about it. In general, at least 80% of the participants between MSOs, All India Digital Cable Federation and IBF- the broadcast association, we see there a lot of alignment happening, a lot of progress towards that and there is need for a consumer MRP. So I think there is lot of alignment but obviously it is still not 100% complete, we all know the matter is pending with the Chennai High Court but essentially what is happening is there is lot of work happening in background getting ready to implement that. So there are broadcasters who were very positive, so they are already working with the MSOs specifically at least in terms of making a model around that. Also we are making ourselves ready from IT perspective. It is a huge IT task, a lot of work is happening around that to make sure whenever the order comes, we are ready to implement. So that was the one question and on ARPUs in Phase III, Phase IV, essentially if you see even Phase II started with 40-50 and it kept on increasing. So we see a similar trend in Phase III, Phase IV, I mean there was a time when it was Rs.30 we said it will reach Rs.60. Now it looks like we will be reaching towards Rs.60 very soon and in due time it will reach Rs.90 levels. We will see an increase as far as Phase III and Phase IV is concerned, I cannot commit the timelines but over a period of time you will see Phase III, Phase IV reaching Rs.90. So that is one. In terms of what is happening to the consumer on the ground, you know obviously consumer also is very delighted to get more number of channels, the kind of service, the kind of channels, the quality of TV, picture quality all that has improved with time. So I think it is mixture of both, consumer is offering much more to LCO. And LCO also realizes that MSO has done a huge investment in digitisation and some more share of that also is coming. I think both the factors are working in parallel.

Abhinash Kumar: To get your perspective, this 60 to 90 move will basically be divided between the end consumers paying a higher ARPU and also LCOs sharing a higher proportion to MSOs.

Rajan Gupta: Because they realise that we are investing a lot of money and making sure digitalization is fully successful. We are increasing bandwidth quarter-on-quarter, we can offer more and more number of channels. So I think both ways it is working.

Moderator: Thank you. The next question is from the line of Sidharth Bera from Nomura Securities. Please go ahead.

Sidharth Bera: Thanks for the opportunity. Sir I wanted to understand on this Hathway Connect Implementation, we have even reached close to 61%, will it benefit ARPUs in some way or how does it benefit actually in our P&L?

Rajan Gupta: It is not only a P&L benefit. There are various benefits which come through this Hathway Connect. First of all, it helps you in establishing consumer level billing. So Hathway Connect makes sure LCO has a portal through which LCO is billing to consumer level and we have the full visibility of that. So it has various benefits. I do not know if you can take all on this call as it is at least half an hour kind of tutorial but essentially we are saying through Hathway Connect, LCO is able to manage its consumer much much better because of which his collection increases. There are no collection leakages at the LCO level and as MSOs we have full visibility on package level billing what LCO is billing to consumer and because it is a prepaid model, we don't need to focus on collections and our cash flows become more streamlined, collection efficiency increases and our sales team is able to focus more on next level activities rather than worrying about the collection per se. As far as the ARPU is concerned, Obviously Hathway Connect helps in ensuring no leakages which in a way increases ARPU, but the base rate of the market depends upon each market conditions and level of competition and various other things.

Sidharth Bera: Second question is on the ARPU front, in Phase I ARPUs, they have like remained at the same level of 105 for now like quite a few quarters, so what is the strategy in terms of in the longer term price hikes you would like take or how to improve these ARPUs going ahead when in terms of volumes you have completed now the digitization part.

Rajan Gupta: Two things here. In phase I we do see ARPU increase happening in some markets. So there are markets where in the month of September we have taken Rs.3 jump, Rs.5 jump but parallelly there are markets where we are not the market leader specifically markets towards the north side, markets remain really competitive among all MSOs and we are the number three player there. So there are Phase I markets where we see continued stress, there are Phase I markets where we are able to increase rates, but in longer term Phase I ARPUs have to be increased through mixture of ground-rate increase and also through infusion of HD boxes and connected boxes and the low potential of broadband plus video going together which I earlier shared that we will come back to you in Q3 concall.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec Captial. Please go ahead.

Amit Kumar: Thank you so much for the opportunity Sir. Just a quick one on the Cable business, I think there was a meeting between IBF and the digital Cable federation I know recently specifically with respect to a little bit of areas, few sort of Phase III, Phase IV markets where Analogue Cable still remain and I think AP, Telangana have been sort of previously been highlighted as one of the sort of key markets out there, where you also have fairly large presence. Just wanted to get an update on what was decided and what is the way forward on this?

Rajan Gupta: So essentially, frankly analogue is no more a big issue. That meeting was called for highlighting various other things. Analogue or piracy was one very, very small point. It has majorly come down, but as a MSO group, we obviously need to make sure things are 100% correct. So wherever there are any minor issues both IBF and AIDCF has agreed to make a work group and we together are going to work to make sure it is 100% complete, but I am also sure this is not a big issue, there is a major improvement which has happened through joint efforts of various nodal officers and Cable federation and IBF. The meeting was more to align what is the future growth of industry, what are the levers of growth for subscription in the industry and how to get the distribution partners and the IBF so that now we can together work on that.

Amit Kumar: Alright, understood. My second question on the broadband business is you have been doing a little bit of deals with these OTT, peers and you also in your earlier comment talked about a lot of freebies basically being given to consumers. Specifically, I just noted that one specific deal with the YuppTV which is a pay TV platform as well. There are two things really. One is what is the structure of deals such as with the YuppTV I mean do you also contribute something or the consumer sort of pays for that and second is that do you have some data on this TV's how much of these are essentially… rather how much these TVs are basically used by the consumer, what is the penetration rate here some sort of sense this would be helpful.

Rajan Gupta: First in terms of structure of the deal I think it is confidential so that I would not be able to share but internally for us the basic yardstick is till the time it does not affect our EBITDA growth in our basic business model which is centered around greater than 40% EBITDA and till the time, the model is working we keep on giving extra value to consumer. Based on usage, we see numbers are increasing, we started with YuppTV, next quarter will announce one or two very big names, a lot of work in progress is happening, technical integration is happening, I think these are early days for OTT industry and we will see a stage where numbers are big enough to come and share with all of you.

Amit Kumar: So what I have been basically trying to understand is that some of these freebies you are giving it all your entire consumer base of 7 lakh subscribers. How many of those 7 lakh subscribers do actually end up using some of these and I know it is basically think you are giving that value to the consumer, is the consumer essentially also sort of seeing value in that. Is there some data around it?

Rajan Gupta: No, we do not have any data to share specifically on that. The biggest value which we started giving was speed and GB on which I have been sharing data. Like for example, I have shared now that 60 mbps is the average speed now, which people have started utilizing and data for example has moved to 98 GB per month for consumer, so there is more than 20 GB increase in this quarter itself, those are the biggest freebies. YuppTV if you see during last quarter was the first quarter we started giving it to consumers. We are working on a couple of other OTTs and these are early days frankly for this kind of partnership.

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

Rohit Dokania: Good evening. Thank you for the opportunity. Two questions from my side. One is if I look at the Jio ARPU this time and the average usage and if I try to calculate cost for GB for the customer that comes to about Rs.12 to Rs.13 odd and similarly if I do the same exercise for ourself from 720 approx. and about 98 GB that comes to about Rs.7.5 odd. So I think there is not really much sort of difference and I am not even ascribing any value to the Jio voice plan assuming zero, if I ascribe a value then probably it will come down to 10 bucks. Do you think there is a case of per GB sort of pricing going down for us because there is not really much of a difference between wireline and a mobility in terms of per GB pricing where it is globally it tends to be probably 5x to 7x kind of a number.

Rajan Gupta: I am not too sure about your global numbers, because there are a lot of global markets. Entire Asia Pacific work on unlimited data for wireline consumers, all operators in Hongkong and Singapore, they work on unlimited data for wireline, essentially a wireline consumer is a consumer which connects Wi-Fi router to TV or any of the large screen and watches it for various high-end applications including OTT, Binge watching on weekend and various other high bandwidth requiring applications. So there is a definition of wireline consumers. You would have seen some of your colleagues just now on the concall were trying to debate other way round. The rates are hardening and why can't we increase ARPU. So essentially if you see what we have done is when you said Jio is Rs.12 now, it used to be zero. So that is the time we said let us make a model which is very strong model in terms of where we are proactively passing benefits to consumer both in terms of giving extra value like we said on yearly packs we are offering 25% discounts and as well as giving other value adds on so I think that the strategy is pretty much working. We do not see any further decrease in rates of our ARPU because of RJio. We have already seen the Phase. Even if they are getting Rs.12, it is better than zero which was there for good six months.

Rohit Dokania: Sure Sir. Thanks for that and just the last one question. I think you highlighted that in GPON the capex per service probably now fallen to around Rs 8000 or below and I think probably one or two calls back you said your capex per subscriber is Rs 8,300 or in thereabouts. So is that all incremental subscribers for us are coming on GPON or is it that the capex per sub for us has also fallen because it would be a mix of DOCSIS 3.1 and GPON?

Rajan Gupta: As per last quarter Capex for DOCSIS and GPON both was Rs. 8,300. The GPON capex has come down to Rs. 7500. We still continue to acquire consumers both in GPON as well DOCSIS. The net adds which you see are approximately now 50%-50% between DOCSIS and GPON and same trend will continue at least for next few quarters. But there is no major difference in capex in DOCSIS and GPON now.

Rohit Dokania: That is what I wanted to understand. Great Sir. Thank you very much and wish you all the best.

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

Naval Seth: Thanks a lot for the opportunity Sir. One question on the cost saving initiatives as you had mentioned will continue in ensuing quarter, so your broadband cost for quarter if I am not mistaken is around Rs.78 odd Crores, so what kind of number one should look at going forward whether there would be 5%, 10% further reduction in cost and levers if you can mention as such?

Rajan Gupta: Levers I already mentioned essentially there are four- five levers we are working on. Currently I do not have any additional numbers to share on that. I have shared Rs.50 Crores plan for the cost reduction for the full year, we are pretty much on track. No additional numbers to share as of now.

Naval Seth: So how much of that Rs.50 Crores already has flowed into the P&L?

Rajan Gupta: We had said that around Rs.12 Crores should flow, so Rs.12 Crores is already there in the quarter. But it is not something which will continue without taking extra efforts in future as well. So next two quarters also, we need to keep on working on those levers, whatever levers I shared for the cost reduction, but going forward more than cost, the lever for growth has to be revenue, lever for growth has to be consumer additions.

Naval Seth: As you rightly mentioned that lever for growth is revenue, so if cost saving is substantial from here on also, then operating leverage would be again significant once revenue rebounds with the subscriber growth kicking in, in quarters to come.

Rajan Gupta: Sure.

Moderator: Thank you. The next question is from the line of Rahul Aggarwal from VEC Investment. Please go ahead.

Rahul Aggarwal: Good evening. Thanks for the opportunity. I had two questions. Firstly, on the debt repayment side, so correct me if I am wrong. Total gross debt is about Rs.1600 Crores roughly and my understanding is on the broadband side essentially whatever we are making on the free cash flow is all spent on capex. So that should be cash flow negative for repaying any debt and I think the Cable business right now it is not on a cash breakeven. Is that correct?

Vineet Garg: The payment of debt this year your understanding is right, it is pretty much because we got realization from liquidation of GTPL shares, so the debt has reduced.

Rahul Aggarwal: My question was essentially over – I was looking at over next two years, so my question really was that since as of now…?

Vineet Garg: What I am saying, the game plan we discussed earlier as to be cash neutral, so we deploy in capex the amount which we generate from the business. Generally, in P&L whatever the cash generation has happened, the amount is deployed in Capex.

Rahul Aggarwal: Sure I understand that.

Vineet Garg: Attaining breakeven.

Rahul Aggarwal: Yes, I understand that, what I am saying is in terms of your comfort with this kind of debt, it is almost equal across Cable and broadband but in terms of repayment you are quite comfortable over next two years assuming that there is no cash left to actually repay this?

Vineet Garg: Yes, there is no challenge on the repayment of that, wherever is required, we are sufficiently funded and completely tied up.

Rahul Aggarwal: So essentially we should assume like flat kind of debt over next two years is it?

Vineet Garg: Yes, at least next one year.

Rahul Aggarwal: Okay and second question was as Rajan was discussing about the technology and you know DOCSIS 3.1 and GPON being laid out, just had one broader question, so let us say your 7 lakh consumer today and it is more to do with 12 cities right, so let us say you will have maximum number of that coming into the four metros, is that understanding right?

Rajan Gupta: That understanding is right.

Rahul Aggarwal: The question really was let us say if I have to look at competition and assuming that mobility data offering is essentially all for a low consumption base kind of subscriber. What would be your view like the exact competitors here? So let us say if we talk about Mumbai, Delhi specifically based on your technology if I keep the pricing separate, what would be competition in your view. Like who are the guys you are actually competing with assuming that they offer similar kind of value what you are offering in terms of tech and service.

Rajan Gupta: I think we have to take it offline, because it will require at least 15-20 minute discussion. I am happy to take it offline whenever you want it.

Rahul Aggarwal: Alright, okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Sidharth Bera from Nomura Securities. Please go ahead.

Sidharth Bera: Thanks for the opportunity again. Just wanted to check on the Cable side, have we closed the deals with broadcaster in this year or it is still to be done?

Rajan Gupta: All deals have been closed that is why we have stability of content cost as well as overall stability of content being given to consumers.

Moderator: Thank you. The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.

Kunal Vohra: Thanks for the opportunity Sir. First question, wanted to understand like how is the competitive intensity from Airtel like they have upgraded the network to the fiber, what kind of overlap do you have with them and how do you see that offering versus what you have and also some views on activities which you are seeing from Jio on the ground basically how you are seeing competition from Telecom operators on broadband side?

Rajan Gupta: I do not want to comment on a particular operator, but essentially overall all telecom operators are obviously busier in mobility, we know a lot of action is happening there. Parellelly some of them have wireline business and they have strengthened that over last one year, but we have already faced that. They also focus on increasing speed, trying to get more consumers, retain their consumers, I think everybody is playing their card. The way we are strengthening our offering, they are also trying to do that which is why it is a very competitive market. That is the essential reason we have been passing on more value to consumers by reducing our cost. So that is the kind of market we are playing.

Kunal Vohra: Okay and second question Sir on your stake in GTPL, would you look to sell it down further, what are your thoughts on that, how are you looking at it in the medium term?

Rajan Gupta: GTPL is the company which I think is doing exceptionally well while I do not want to comment on their numbers in this call. In the next few days, they will have their investor call and our effort is to increase value for all shareholders in that company so that is what is currently happening. We see next one-year a lot of work needs to be done, they have done an exceptional job in the video business and now a lot of work is happening in broadband business so currently focused on increasing value for all shareholders there.

Kunal Vohra: Understood, that is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Rajan Gupta: Thanks all for joining Q2 earning call. For Q3 we have a clear task on hand, our structural efforts on cost reduction have really helped us and same will continue in Q3 as well. Next level cost optimization will involve much deeper partnership with information technology teams. We are also bringing on board TCS as our managed service partner to help us further refine processes and streamline cost. For HDPL, Phase III, Phase IV is single biggest monetizing opportunity. We are seeing good focus on that in Q2 and you will see an acceleration of that in Q3. Broadband we have very clearly made our infra ready to delight our consumers, accelerate subscribers growth and handle any potential competition. So overall we see exciting time for both HCDL and HDPL and both these businesses are ready to take full advantage of growing market opportunity. Thanks once again and have a great weekend.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.