



**“Hathway Cables & Datacom Limited
Q1 FY2019 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 19 post results conference call of Hathway Cable and Datacom Limited hosted by Batlivala and Karani Securities India Private Limited. As a reminder all participant lines will be in a 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 * and 0 on your phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Neeta Khilnani. Thank you and over to you ma'am.

Neeta Khilnani: Thank you Yashashri. Good afternoon to all the participants and thank you for joining in. We at Batlivala & Karani Securities are please to host the 1Q FY19 Earnings Conference Call of Hathway Cable & Datacom Limited. To discuss the results and the outlook we have the senior management of the company represented by Mr. Rajan Gupta, Managing Director, and Mr. Sitendu Nagchaudhuri, Chief Financial Officer. I will now hand over the call to Mr. Rajan Gupta for his opening remarks which would be followed by a Q&A session. Over to you sir.

Rajan Gupta: Good evening all and thank you for joining us for this first quarter earning call for FY19. With me on the call is Sitendu Nagchaudhuri, CFO. Dulal Banerjee, our Chief Business Officer, Ajay Singh, Company Secretary & Mahesh Mevada, Head of Investor Relationship.

FY17 and FY18 were transformational years for both HCDL and HDPL. At a consolidated level revenue grew 34% over these 2 years. EBITDA grew 178% EBITDA margins improved by 11% from FY16 EBITDA of 11% to FY18 EBITDA of 21.7%. At core of this exponential growth was strategic framework shared with you all in FY16. As we embarked on our growth plans for FY19-FY20 we once again faced extremely challenging business environment. The mobile telecom industry is passing through extraordinarily turbulent times. It's price for GB for retail customers down by almost 90%. While it helped in growing mobility data consumption by 6 times, it also provided much cheaper options to extremely low usage home broadband customers, thereby creating short term stress on our revenue and EBITDA. Recently introduced post-paid mobility plans with data limits around 20 GB and pricing in the range of Rs. 200 to Rs. 250 expedited this movement of low usage wireline based to mobility. Considering this market challenges, we have rolled out a new strategic growth framework which will focus exclusively on creating exceptional customer service experience for heavy data users which we define as greater than 80 GB per month users. This framework will lead to J curve growth strategy in which we initially invest in growing these high usage customers through mix of FTTH, Pay TV, OTT, IOT services and finally turnaround to harvest revenue and EBITDA growth.

Now I will share detailed update on broadband business. HCDL revenue for Q1 is 129.8 crores which is 11% negative Q on Q and EBITDA for Q1 is 55.3 crores. Year on year there is a 12% growth in EBITDA while Q on Q EBITDA declined from 63.9 crores in Q4 FY18 to 55.3 crores in Q1 FY19. EBITDA margins remain at healthy 43%. We also reduce our Opex by 7 crores in Q1. This was possible through reduction in bandwidth costs and other operational expenses. Revenue dropped in Q1 FY19 over Q4 FY18 was due to following factors: One time strategic realignment of consumer portfolio to focus only on high speed, high consumption segment. 30K net negative additions as compared to Q4. Apart from regular churn we had 57K forced churn for low speed, low data consumption consumers. Average data consumption for these consumers was 12 GB per month. These consumers have a tendency to switch to mobility due to low usage. After introduction of low price mobility post-paid data plans these consumers have started asking packs in the price range of Rs. 200. Carrying them on network would result in a major inefficiency in network capex. We also had 27K number increase in active but non-paying customers due to seasonality. These customers are in 30 day bucket before they get churned. In July majority of these consumers are coming back on our network. We also had the Rs. 20 drop in ARPU. There was no MRP change, there was no pack pricing changes. Drop in ARPU is due to realignment of product portfolio wherein the low price plans also have higher GBs. We maintain 43% EBITDA margins through Opex optimisation so there was no effective ARPU drop on the EBITDA margins. We would also like to share some more consumer usage strength to give you some colour on potential of focusing on high data consumers. From June 2017 to June 2018 which is a 12 months period, consumers using 0 to 20 GB data have gone down from 23% of base to 6% of customer base. This is both due to increase in data consumption as well as loss of this low usage segment to low price plans or mobility. On the other hand greater than 80GB data consumers have increased from 24% to 54% of customer base. This realigned customer portfolio is extremely healthy for long term profitability. This onetime realignment of portfolio allows us to give all our current consumers 1000 GB per month data limits on speeds from 50 MBPS to 1 Gig without spending any major extra capex on data centre and network hubs. While we added 300K home pass in Q1, balance of the year there is no further home pass expansion plan and entire focus will be on adding high data usage customers in existing 5.5 million home passes.

Apart from upgrading speeds, adding even higher data limits, we have also started offering bundled home surveillance solutions and next generation Wi-Fi solutions to accelerate additions of high usage customers. I will now take you through some specific numbers of our cable business. Q1 subscription revenue grew at a healthy rate of 19% Y on Y and 3% Q on Q. There was a onetime decline in activation revenue of 5 crores due to 5 year activation revenue monetisation period being over for the boxes seeded in 2012-13. EBITDA for Q1 grew 33% Y on Y and negative 9% Q on Q. Activation revenue decline was so recent for Q on Q decline in EBITDA. Total expenditure for Q1 FY19 was

same as Q4 FY18. I am happy to share increase in content cost was neutralised by reduction in other Opex. Productions have grown 24% year on year demonstrating strong improvement in efficiency. Q1 FY19 collection efficiency is at 98%. We have rolled out price increase in phase 3 and phase 4 markets in May 2018. 6-7% impact of same is already there in Q1 and full effect will come in Q2. Phase 1 and phase 2 price increases have been rolled out from 1st August. In first 4 months of FY19 we have added 34K HD consumers. This is a big increase over year opening HD base of 2.16 lakh consumers. We are now getting Rs. 80 per consumer per month incremental revenue from these HD consumers. We have recently strengthened our HD pack with Hathway now having highest number of HD channels across any other DTH and cable platforms. We now given 96 HD channels and this should further add momentum to our HD growth strategy. With objective of offering highest quality of service to our broadband and Pay TV consumers at lowest possible price, just like last year we have this year started several projects on identifying and removing out ways from our business. On top of Rs. 50 crores opex savings achieved in FY18, we are now aiming for Rs. 40 crore opex reduction in FY19.

I will now hand over to Ajay Singh our Company Secretary for update on fund infusion plan from promoters. Ajay please.

Ajay Singh: Thanks Rajan. With regards to the current funding in the company by the promoters, as you all are aware that the company has already put in for shareholder approval for equity infusion of Rs. 100 crores from promoter group company for preferential allotment which would be significantly at a price which would be significantly higher than the current market price and in line with the SEBI regulation. Apart from this the company has also received unsecured IDC of Rs. 100 crores in the month of July from one of the promoter groups. Going forward also preferably in the next 18 months the promoters have shown inclination to infuse funds in the company which would be around Rs. 150 crores which maybe mix of equity infusion and quasi equity in the form of long term unsecured loans or ICDs. I would now hand over to Sitendu for detailed update on financials.

Sitendu Nagchaudhuri: Thanks a lot Ajay and a very warm good afternoon to all participants. Now we take you through the specific financial numbers for the first quarter FY19. Company has maintained and published its financials as per Indian accounting standards which are called Ind-AS prescribed under Section 133 of the Company's Act 2013 and recognised accounting practices and policies to the extent applicable. Standalone performance of HCDL which is the broadband business: Revenue stood at Rs. 129.8 crores. EBITDA has increased 13% year on year basis to Rs. 55.3 crores up from Rs. 49.3 crores in the first quarter FY18. EBITDA margin remained stable at a

healthy 43%. Broadband business PAT loss for Q1 is at Rs. 2.7 crores which includes a foreign exchange loss of Rs. 8.4 crores during the quarter.

The standalone performance of HDPL which is the Cable TV business: Subscription revenue increased to 157.6 crores which is a growth of 19% on year on year basis up from Rs. 132.5 crores in the first quarter last fiscal. CATV business operating EBITDA increased by 32% on YoY basis to Rs. 36.3 crores compared to Rs. 27.4 crores in the first quarter of FY18. During the quarter Rs. 50 crores of capex have been deployed in the Broadband business and around 20 crores of capex in the CATV business.

The debt status for the companies as at the end of the first quarter FY19 the gross debt for the two companies put together stands at Rs. 1,755.1 crores and the net debt stands at Rs. 1,712 crores as at the end of 30th June 2018. Now we open the floor for questions. Thank you.

Moderator: Certainly Sir. We will now begin the question and answer session. Participants using speaker phones are requested to use the handset when asking questions. To enter the question and answer queue please press */1 on your phone now. If you would like to withdraw your request and exit the queue, press * and 1 again.

We have a question from Mr. Vivekanand Subramanian from Ambit Capital. Please go ahead.

Vivekanand Subramanian: Hi. Thanks for the opportunity. You have given a good cohort breakdown of the users by GB consumed. But still I find that around 46% of your subscribers consume less than 80 GB of data a month. Is that a concern in your view? Do you think that the recharge rate or renewal rate of the consumers, who opt for less than 80 GB of data a month, is that going to be a concern going ahead? Second the second question is on the ambitious plan that you have outlined on cost reduction. How confident are you of arriving at this 40 crores opex reduction and where is it going to come from? Third question is on the bundling you mentioned about home surveillance and high speed Wi-Fi. Anything else which is on the cards and any thoughts on how amenable customers are to such bundles? Thanks.

Rajan Gupta: So Vivek 3 questions essentially. Let's start with the first one which is a usage bucket. So anything which is above 40 GB, which is essentially currently if you see around 81% part of a base, there we haven't seen any stress at all. In fact these are people who are renewing absolutely on time. There is no delay in recharges. There is no deal seeking behaviour that we have seen in consumers in this segment. And anything less than 40 GB that's where deal seeking behaviour starts in a big way and there also deal seeking behaviour is more prone in zero to 20GB rather than 20 to 40 GB. Even in 0

to 20 GB impact was very minimal till the time mobility post-paid plans came more like a 20 GB monthly data limits, 20 to 30 in a price range of 200 to 300. And in any case these consumers were not connecting their Wi-Fi router to the TV. So they were essentially consumers who were anyway doing on a small screen where they anyway can have mobility SIM. So essentially in summary, absolutely no impact even in terms of consumer behaviour or the current experience for greater than 40 GB. In 20 to 40 GB there was minor impact and 0 to 20 GB definitely considerable impact. Now while obviously this quarter also is a bad quarter in terms of seasonality like for example we have seen on an average our consumers were out of the network for around 15% of the time; even people who have paid fully. I guess that is because of vacation period. But we see now from next quarter consumption per user should further keep on exploding the way it was doing for last 2 years. A lot of these people which are in 20 to 40 GB bucket will start seeing upgradation. However, the 0 to 20 GB whatever remaining 6% definitely while we keep on growing in higher data segments some impact will have for the 0 to 20 whatever is remaining left. Second question on cost reduction, now that's one thing we can be very sure about. After doing the work we have done last year reducing 50 crore opex, in fact out of 40 crore if you see already 50% of the plan is more or less already implemented. Obviously this 40 crore is analysed. It is not for one quarter. If you see the Q1 result itself, for HCDL and HDPL will show you the kind of reduction which has happened. I mean HDCL itself has reduced around 7 crore opex and HDPL in spite of content cost increase has an increase overall cost. So 40 crore you can assume that will definitely happen just like last year. Lot of this, you asked from where it is coming. I mean most of it is coming obviously from fixed costs. But from variable bandwidth cost also is coming down. We have been sharing earlier also the kind of datacentre we have, the kind of caching and pairing technology. We are putting more and more OTT servers in our offices. So we are obviously reducing bandwidth cost. And also bandwidth pricing is also coming down. This Q1 we have seen good amount of reduction in the bandwidth pricing as well. Balance all is fixed cost which is basically getting reduced to automation of various processes. Recently we even started implementing rather piloting both in terms of the way we transact from one function to another function. Now some of these things will take time. But 40 crore plan is a very concrete plan and will get executed. On bundling of various services as I mentioned we already started home services bundling in selected cities on a 4 months plan. Whichever geographies we started doing it, we have seen around 10% increases in gross additions. We have seen around 6 to 7% of current consumers upgrading to it. Obviously we haven't spent too much money as of now on marketing these plans. We still want to get the right product; current product itself has traction. But now we are coming with the second level of cameras which look even much better. That's how consumers' feedback is coming. So the way I see is the next 3-4 months will master the product, master the service and that's where we are going to explode in terms of marketing. And on your question on any further value additions are coming, I mean I thought I would mention towards end of my call, there

are many other things coming in. I guess we don't have to wait for the next earning call. In between itself, we will hear many more plans around how we are focusing around high data usage consumers and how we are delighting them.

Vivekanand Subramanian: Right, right. So this is very helpful. So this 7 crore reduction that you outlined in HCDL itself, that you are saying is a recurring P&L charge which you have saved due to the various optimisations is it?

Rajan Gupta: So Vivek let me put it this way that 7 crore may not be recurring. So for example around 2 crores out of 7 crores is the one which is there because the bandwidth saving because of seasonality. Balance 5 crores you can assume that is recurring. But that itself is an impact of 20 crores.

Vivekanand Subramanian: Yeah, right, right. And just one small follow-up on the bundling side, so here are you responsible for the delivery? So the home surveillance system is it like if something goes wrong there in terms of the hardware malfunctioning or something like that then is it your liability there to replace the home surveillance equipment? How does that work?

Rajan Gupta: Vivek what we have done is we have developed a lot of capability in the last one year. We have in fact mastered the equipment. We are confident now we can offer this as a service in which consumer is not responsible for equipment. The equipment is our responsibility as well as we maintain the whole thing. Finally, consumer is going to get service.

Vivekanand Subramanian: Right, Okay understood. I will come back with more. Thanks.

Moderator: Thank you. Before we take the next question we request participants to restrict their questions to 2 at a time. We have a question from Mr. Shivam Saxena from ICICI Bank. Please go ahead sir.

Shivam Saxena: Thanks for the opportunity. Just one question on the ARPU front. The ARPU is declined. However you are saying that we have not revised any plans. So I am not able to get how you are getting that.

Rajan Gupta: So Shivam let me explain you. I didn't say we didn't revise any plan. We said we didn't revise MRP of any of the plans. Let me give you an example that will help us understand better. So in Bombay we used to have a plan in Rs. 700 around 30 GB. Okay? And a 100 GB plan is Rs. 1000. Okay?

Shivam Saxena: Okay.

Rajan Gupta: Around 6 months back we have openly told all of you, we are adding 200 GB monthly data limit to all our consumers; minimum 200. Some have even taken 500 some have even taken 1000 GB. So essentially because of this promotion, the Rs. 700 price point also has 230 GB. And Rs. 1000 price point has 300 GB. So if I am a consumer whose usage is definitely not going to exceed 230 and I am a deal seeking consumer, then paying online I can definitely choose 700 instead of 1000. I hope this is making it clear.

Shivam Saxena: Basically you are saying that higher you use – you are getting revenue of Rs. 1000 now you are getting revenue of Rs. 700 from that customer if he is using 250 GB right?

Rajan Gupta: No, no, whatever is his usage is a separate thing. What I am essentially saying is earlier we were offering 30 GB at 700 and 100 GB at 1000. Let's take that as one example. Now since we added 200 GB to all consumers minimum, so Rs. 700 also customer is getting 230 GB. Now it's up to the choice of the individual customers. Most of them are still not downgrading. They are still recharging at Rs. 1000. But many of them are also. So they end up taking Rs. 700 price points.

Shivam Saxena: But going forward they will also recharge at Rs. 700. That is putting pressure? The Rs. 1000 customer would also come down right?

Rajan Gupta: Shivam if you see already last few quarters we have been dropping ARPU in the range of 2 to 3%. That's because of consumer behaviour. But in spite of that we maintained our EBITDA levels. So it's not first time we dropped ARPU. I guess 3 quarters back ARPU was 740 which has reached now 690. So we have been dropping ARPU 2-3% quarter on quarter. But in spite of that we have been maintaining our EBITDA margins.

Shivam Saxena: I got it. Thank you sir, thank you.

Moderator: Thank you. We have our next question from Sanjay Chawla from JM Financials. Please go ahead sir.

Sanjay Chawla: Thank you for the opportunity. My first question is can you explain how we go from the gross ads? What are the gross ads and how do we get to the net ads after adjusting for the voluntary churn as well as involuntary force churn? Can you just take me through the numbers here? And the second question is how many customers were consuming well below 300 GB because you have a plan now of Rs. 700 giving 230 GB. So there is obviously room for downgrading and some of that has already happened. How much more to go we are trying to assess here? So how many more

customers you think potentially could move from the Rs. 1000 plan to 700 who don't have very heavy data requirements? That is the second question.

Rajan Gupta: Sanjay let's go through the first question. I think that will give a lot of clarity. So the gross ads for the quarter were around 70000.

Sanjay Chawla: Okay.

Rajan Gupta: Okay?

Sanjay Chawla: Yeah.

Rajan Gupta: And net ads we declared 30K negative. Which means voluntary plus involuntary churn put together it was 100K. Out of which 57K is consumers we had to drop because we wanted them not to utilise capex. We wanted them not to block data centres and CMTS hubs because that is the space we want to utilise for high speed and high data usage consumers. And balance 43K is the regular churn. Now if you see in the past I have been saying the monthly churn is in the range of 1.5% to 2% based on seasonality. A good quarter it is 1.5%. In a bad seasonal quarter it is 2%. So 43K means a monthly churn of around 14K which is exactly it becomes it's in the range of 1.5 to 2%.

Sanjay Chawla: Okay.

Rajan Gupta: So that's the mathematics.

Sanjay Chawla: Just a related question is you also mentioned the number of incremental subs going inactive. Inactive in the sense....

Rajan Gupta: So I will tell you our churn policy.

Sanjay Chawla: Yeah, yeah.

Rajan Gutpa: Our churn policy is D+30. Every organisation has a different churn policy. Like I see some of my peers in DTH have D+60. They used to have D+180 then they changed to D+60. So different companies have different churn policy. We have been maintaining this policy consistent for quite some time which is D+30. Within 30 days a consumer doesn't pay we churn the consumer. So when the consumer is in the D+30 bucket the consumer hasn't paid but the consumer is still active. Now in a bad seasonal quarter, that bucket increases. And in a good seasonal quarter the bucket comes down. So that's the kind of trend we have seen – I mean this has been there for quite some

time but again since this time we were giving much more data we just thought let's talk about this also openly.

Sanjay Chawla: Right. So you mentioned 27K customers went inactive. But they were not paying. But they will still be recognised as a customer that's why the ARPU is down also as one of the factors.

Rajan Gupta: So Sanjay I am very clear to you. I mean I told you what I told you. Our churn policy is D+30. Only after 30 days a consumer stops paying we churn the consumer. So that is how the policy is getting implemented. I also told you industry practice varies from 2 months, 3 months, various telcos have different policies. Our policy is D+30.

Sanjay Chawla: Sure understood. So you expect some of these customers to basically come back because of...

Rajan Gupta: That's what that is a regular trend Sanjay. In any telecom prepaid system or post-paid system that's a regular process. People get into the bucket, and then 70-80%, 90% come back. Then some other people get into the bucket. That is what happens in any DTH or telecom revenue planning bucket.

Sanjay Chawla: And what is the ARPU of the customers who you said on an average were using 12 GB a month, the customers who were churned off by you, 57K. What would be the typical ARPU? And I presume lot of them would be remaining inactive for a fairly long period of time while still paying customers within those buckets.

Rajan Gupta: Sanjay look ARPU varies from circle to circle. So we have minimum ARPU of Rs. 500 in Hyderabad circle. And other circles ARPU is typical like 700-800. So actually there is no direct correlation just not because they are low usage, they were low paying. But now the behaviour for last 6 months, because obviously there is always a lag effect, behaviour started from February-March and finally in April-May, June real result of that came. So ARPU for these consumers will be anything from 500 to 700 because we don't have a plan below 500.

Sanjay Chawla: So I am trying to understand the rationale here. If you are getting a good ARPU and if the customer is using less that should be more profitable customer. Because the capex is any way most of it is sunk cost and...

Rajan Gupta: No Sanjay I was very clear. No Sanjay I was very clear in my speech itself. If a customer is Rs. 700 and continuing with Rs. 700, there is obviously no reason for churn. I clearly mentioned in my opening remark itself. Most of the consumers after

introduction of mobility post-paid plans were asking for pricing more in the range of Rs. 200 to Rs. 300. Now at that price point it is obviously not viable to maintain this customer. For example, now we can offer all consumers 1000 GB because I have that much space. Otherwise we had to add for example additional 40 CMTS which is additional capex of around 50 crores. So there is no point in putting capex behind low usage consumers who either now itself are going on a network because of low pricing or in future will go out. Better to take up that clean-up and better to avoid putting more capex.

Sanjay Chawla: Yes understood, that's very clear. On the second question if you can give some guidance?

Rajan Gupta: I'm so sorry Sanjay.

Sanjay Chawla: Do you want me to repeat the question?

Rajan Gupta: Yeah please that would help.

Sanjay Chawla: You mentioned about this impact of down trading because when you increase the data allowance of customers moving from 1,000 to 700, that has already happened, which obviously has impacted this quarter's number.

Rajan Gupta: I understood Sanjay. So Sanjay, it's very difficult to give that in this call. Frankly, it's a very complex excel sheet. But essentially what I can say is, we should keep on having 2-3% or 1-3% kind of impact because of this behaviour, for the next few quarters.

Sanjay Chawla: 1-3% impact on the revenue number.

Rajan Gupta: 1-3% drop in ARPU because of this behaviour of customers.

Sanjay Chawla: Okay. This is for the coming 2-3 quarters?

Rajan Gupta: Yeah. Sanjay, that is what we can see best as on today.

Sanjay Chawla: Sure. That is very helpful. Thank you so much.

Moderator: Next in queue is Mr. Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, thanks for the opportunity. My first question is, you have increased the GB significantly, and been very proactive regarding the new competition. My

question is, in the cable business, are you seeing churn increase because of this. That's because Netflix, Zee5 and many other apps are also marketing and advertising a lot. So customers will feel that so much GB is there, why not shift to the apps and surrender the cable? Is that happening?

Rajan Gupta: Abneesh, that's a very good question. Currently if you see, there is a publicly available data also that the average numbers of TV viewing hours are 3.45 hours per day, etc. But leave aside that, even when we meet our consumers, when we see our internal numbers, when we do market research, it's very clear that because of low monthly pricing, the consumer is still sticking to cable and DTH. The sports definitely are 100% on linear, and lot of consumers still want to see on large screen. Having said that, over a period, I think **OTT** and cable or DTH will more and more start complimenting each other. The users of **OTT** will definitely increase. And when I said we are doing lot of things for our high usage customers, in another couple of months you will start hearing from us more and more. How we can become a company which is integrating **OTT** and cable? We don't believe these are two very separate spaces. We believe our expertise is the last mile. We have access to consumers. Now if consumers want broadband, we are pretty much there. If consumers want **OTT**, we will be there. And if consumers want linear TV, which again, is not showing any sign of drop, we are already there.

Abneesh Roy: Sir, these new services that you mentioned, these will be largely to give more value to customers, or are you also expecting reasonable ARPU from this?

Rajan Gupta: As of now, only to give value to high usage customers.

Abneesh Roy: Right sir. And my second question in on the seasonality you mentioned in your opening remarks, is this largely because of holidays only? And what was this number last year, this 27K?

Rajan Gupta: No, that's a regular every year trend. I don't have the exact number in front of me, but that's every year trend.

Abneesh Roy: So that's related to the holidays?

Rajan Gupta: So that's typically cable and broadband both; more broadband than cable. Q1 is the worst quarter in terms of seasonality, and Q3, Q4 are the best quarters. I guess a lot of players have similar kind of seasonality.

Abneesh Roy: Sir one small follow up on Jio. Now registration has started. You have done great proactive work in terms of more GB. But seeing what telecom sectors say in

terms or dropping ARPU, there, will you be aggressive to defend market share, or will you be more focused on profitable business rather than market share?

Rajan Gupta: Abneesh, we'll take the question little differently. So, I think the focus which we have, which is very clearly defined, we'll do whatever to retain and grow consumers which are more than 80 GB monthly usage, which we believe over a period will become 200 GB. Because that is the reason while line broadband consumer base, which is very healthy, which is not a deal seeking consumer, which is a consumer who wants to binge watch a Netflix maybe 20 hours a week, 10 hours a week, and this is a consumer who is not sick of ARPU. They are more looking for an enhanced customer service experience. So that's a consumer segment, and for that consumer, both in short term and long term, we believe in the long term it's going to be all about services, whether it's IOT, whether it's connected boxes, whether it's hybrid boxes, whether it's home surveillance, enhanced Wi-Fi solutions. So long term, whatever is required to be done, we will do it. In the short term we are obviously aggressively reducing our OPEX. Rs. 50 crores was last year's reduction; Rs. 40 crores were this year's reduction. There are cities in which we are running already Rs. 500 ARPU plan, but still making 35% EBITDA. So essentially for these consumers, both in short and long term, whatever is required to retain and grow them, we'll do that.

Abneesh Roy: Okay, that's very helpful. Thank you sir.

Moderator: Thank you. We have a question from Vikash Mantri from ICICI Securities. Please go ahead sir.

Vikash Mantri: Thank you for the opportunity. Just wanted to understand the funds being infused into the company. What do we see as the utility, largely for Capex on the broadband side?

Rajan Gupta: There is no plan to increase broadband Capex. In fact, earlier we have been sharing that the Capex is going to be self-funded. In fact, looking at now that we have lot of space within the 5.5 million home pass which we have, as I mentioned in the earning call, we are not further expanding in home pass for the balance of the year. Our broadband Capex guidance for the year will be more like a Rs. 160-170 crore debt from earlier Rs.210-220 crores, because we don't require additional home pass as of now. We want to focus more on modernizing current home passes. So whatever funds additionally coming from promoters; over a period that will be used for repaying the debt. And more than repaying that; that promoter's stamp on the J curve growth strategy, which I just rolled out.

Vikash Mantri: Okay thanks, that's all.

Moderator: Thank you. We have a question from Ritvik Sheth from Deep Finance. Please go ahead.

Ritvik Sheth: Good evening everyone. Just a couple of questions Sir. Why are we look to stop the home pass expansion for the rest of the year?

Rajan Gupta: Ritvik, I just mentioned, because of this strategy of delighting our high usage customers and acquiring more and more of them, we have churned out this low usage customers, so we obviously have lot more scope in our current home pass network itself to monetize. But in the next 5 months, our focus will be on getting more and more customers from current home pass. Having said that, we are piloting another model which is a low cost, low ARPU model. Already in one city in south of India, this model has been rolled out in 76K home passes. It looks like it will take some more time to fine tune the model, and then decide whether to roll out in the next level in 25 towns or not. But currently we believe, for the balance of the year, the focus has to be on high usage customers and within the current network.

Ritvik Sheth: Okay. So in this low cost model, what is the kind of ARPU that we're targeting?

Rajan Gupta: No, currently for example, we have cities where we have Rs. 500 ARPU, and our profitability as I mentioned, is still about 35%. So this new model is more like a Rs. 400 ARPU, and still aiming for 35% EBITDA.

Ritvik Sheth: Okay fine. Thank you sir.

Moderator: Thank you. We have a question from Mr. Vatsal Gupta from Baroda Brokers. Please go ahead sir.

Vatsal Gupta: Hi Sir. Based on the slide, we can clearly see that we are targeting customers who use more than 60 GB per month. So, following up on one of your comments on the earlier quarters, are we still aiming for 20% penetration of the home pass? And the second question would be, as you just mentioned, we are not looking to increase home pass, so when we are not trying to increase home pass, we are trying to increase customers in the current home pass. Do we see our customer acquisition cost going up? Can you just elaborate more on that? Thank you.

Rajan Gupta: So 20% penetration target, that still remains the same. In fact, we are not doing additional home pass, and focusing on current home pass, is a strong indicator of that. Now, on your point of increasing the cost of customer acquisition, obviously, there

shouldn't be any increase. But we are doing lot of additional things as well. We are going for lot more underground fibre, wherever we feel we need to give further comfort to customers on increasing service levels. We are further revamping lot of things on our backend. And now lot of CMTS are free because of this 57K customers. So there are areas where we don't have to put additional Capex to give more and more GBs to these consumers, but there are service areas in which we need to improve service further by spending Capex. Underground fibre is one such example I just gave you. So whatever Capex we have, what I just told you, which is around Rs. 160-170 crores, is going to be spent only within the current home passes for the balance of the year. But whatever 300K has already happened, that's already happened.

Vatsal Gupta: Yeah, that is very helpful sir. There's one more follow up if I could? The bundling of the cable services that you're talking about, is this also a part of the sensing or high consumption customers that we're talking about?

Rajan Gupta: We believe in the current model. That will just be doing what is already there. It requires a much more innovative model, in which we bundle IOT, cable with current pay TV, **OTT**, and lot more services. So I think the game is becoming much bigger. We believe we have those kind of solutions in work in progress, and very soon we'll be announcing those.

Vatsal Gupta: Okay. Thank you so much sir and good luck.

Moderator: Thank you. We have a question from Gautami Desai from Chanakya Capital Services Pvt. Ltd. Please go ahead.

Gautami Desai: Yeah. Rajan, actually I missed your first 5 minutes of the speech. That is why I'm not getting this so clear. You said that for low paying customers who were churned out, did Hathway go to those customers and say that either you pay up a higher amount of you leave? How did it happen?

Rajan Gupta: So Gautami, I explained two times already in the call. I'll attempt it the third time.

Gautami Desai: I'm really sorry for this.

Rajan Gupta: I'm not worried about my time, but the time of the 100 people on the call. But I'll try to explain one more time. So we have these 57K customers who were using 12 GB data on an average, who were in the 0 to 20 GB bucket. Now for these people, after January-February, we had a big announcement of low price post-paid plans. Our customer behaviour is more like post-paid. While they are prepaid with us, but out

prepaid is more like a post-paid. We give a proper bill, we even collect the money from a customer's house if they want that, 70% of our payment is online. Now these customers, which were anyway not using the network, which I've been seeing for the last few quarters, now suddenly they are getting the same 12-20 GB for Rs. 200, even on post-paid, even with the reputed No. 1 and No. 2 players. So these people from January-February started asking for more and more deals. So we had two options. We could have given them deals and maintained them at a Rs. 300 ARPU. But then I'm blocking my Capex, my CMTS, my network hubs, my data centre, which will prevent me from giving that sort of quality service to all my high data users, or I have to put much more Capex. We didn't want either of the scenarios. We thought it's a good to do, one time clean up so that that non-productive base is out of our bucket, and we start focusing on high usage customers. So that's exactly what we did.

Gautami Desai: Okay, so you don't expect this kind of thing repeating, now that you have very few low usage customers? Is that what you're saying?

Rajan Gupta: So that's another thing which I mentioned. So we still have 6% in the base. We don't see this going so easily now, because these are the people that could've gone out already. But over a period of time, maybe say in the next one year, 0 to 20 I don't see any user remaining. Either they'll upgrade, lot of them are upgrading as well. It's not that they are only going out, lot of them are upgrading as well. So either people will upgrade...for e.g. From 23% to 6%, balance 17% all didn't go out. Lot of them upgraded as well. So time will tell over one year, how much out of 6% upgrade. We are obviously giving them lot of data free, lot of content free to help them upgrade.

Gautami Desai: Okay. And this forex loss of Rs. 8.4 crores, that would be MTM, right?

Rajan Gupta: So, I'm giving this to Sitendu.

Sitendu Nagchaudhuri: If you look at the forex loss number, basically this is a combination of MTM loss plus transactional loss. The forex loss which is a part of other expenses & explained by way of a note, is Rs.8.38 crores. This apart, we've got a forex loss that's currently residing in finance cost, of Rs. 4.68 crores. Out of the total Rs. 13 crores of forex loss, approx. Rs. 11 crores is MTM, and the balance is transactional.

Gautami Desai: Okay, so can you give us some clarity going forward? If the rupee depreciates further, what is the kind of impact that we can see?

Sitendu Nagchaudhuri: Ma'am, it's very difficult to forecast this in terms of the rupee movement.

Gautami Desai: Like with every rupee you lose this much, or something like that.

Rajan Gupta: I dont think we have that calculation ready at this moment.

Sitendu Nagchaudhuri: And anyway, we have a consistent approach in terms of looking at our forex covers.

Gautami Desai: But, do you hedge? No, right? Are you looking to hedge now?

Sitendu Nagchaudhuri: We take a call on a case by case basis as advised by the Finance Committee.

Gautami Desai: Okay. And can you give us some clarity about how much debt? With these Rs. 250 crores, when you said that your promoters might get in, with that, how would your debt levels look like over the next 2-3 years? If nothing, what do you expect should happen as per your plan?

Rajan Gupta: Gautami, we already released a press release on that. I'll just repeat the same thing again. The plan is over March 2020, we plan to reduce debt by Rs. 500 crores. So that's the plan which we already shared. That's a mix of fund infusion by promoters. Out of that, Rs. 200 crores is happening by August end. Rs. 100 crores has already happened in one form, and Rs. 100 crores will happen in August through another form, which also my Company Secretary took the whole group through. So Rs. 500 crores overall plan, mix of fund infusion of promoters, and whatever internal cash accrues, we can do.

Gautami Desai: Okay fine. Thank you so much.

Moderator: Thank you. We have a question from Manish Oswal from Nirmal Bang Securities. Please go ahead.

Manish Oswal: Thank you for the opportunity. I have a question on your comment about the high value customer. You also broke it down in your presentation in terms of GB usage. So my question is, of our high value customers, what is the contribution to the revenue of Rs. 29.8 crores, which you reported for the quarter?

Rajan Gupta: We don't have that figure in front of us.

Manish Oswal: Okay. And secondly, in terms of high value customers to the blended average ARPU, what is the delta difference in terms of percentage?

Rajan Gupta: Look, most of our customers are in a price range which is from Rs. 700 to around Rs. 850. 80% of the customers are in that price range. There are some outliers in markets like Hyderabad which are around Rs. 500; there are some outliers in Bangalore and Mumbai markets which may be in the range of Rs. 1,200. But most of our customers are in the range of Rs. 700 to Rs. 850.

Manish Oswal: Okay. And last question is on the bit of competition. What we had seen in telecom post the new players; there's a sharp fall in the ARPU. I know this is a different business and there will be different types of competition. But what is your assessment of the overall ARPU in the next 2 years perspective in the industry ahead, and Hathway Cable in particular?

Rajan Gupta: Look, I definitely can't tell you the industry ARPU. There's no way I can do crystal ball gazing on that. We have shared earlier what Hathway has done in terms of getting ready for the next phase of growth, which also involves a large player coming in and opening up the market. Currently, out of 17 million, wire and broadband base, only 5 million is high speed broadband. I'm saying this at the country level for all players put together. Balance 12 million is slow speed. I'm defining 40 mbps as high speed for this. And the market is simply not growing. With the entry of large players, we see much more awareness about fibre to him, much more awareness about taking a high speed broadband at home, coming in, because of the kind of PR and marketing efforts that are happening. So eventually, this 5 million will become 17 million. Now obviously, in any market, we've never seen only one player having 100% share. We want to make sure, in every market we operate, we have the best of solutions; either the ability to give even 1,000 GB to a consumer at a very low price, or ability to give speed of 200-300 mbps, or give various solutions. On ARPU, I have already told, we'll see 2-3% reduction on ARPU every quarter. And in parallel, we are working on lot of OPEX optimization. I've already shared Rs. 40 crores OPEX reduction plan for this year. So these are the things we are doing, to make sure, at the lowest possible price band to our consumers, we can keep on giving highest quality of service.

Manish Oswal: Thank you very much sir.

Moderator: Thank you. We have a question from Dipesh Mehta from SBI Securities. Please go ahead.

Dipesh Mehta: Just on home pass, I think we have now planned to not incur any further home passes for the rest of the year. But the Capex data which you indicated, I think still we are looking at Rs. 110-120 crores kind of Capex to be incurred on broadband. So can you help us in this and what plan we have there? Or is it largely a customer centric or modem kind of Capex which we are looking at there? The second thing is about the

cable ARPU. I think you indicated that we have taken some price hike in the middle for our quarter for phase 3 and phase 4, and for phase 1 and 2, it is likely to happen on 1st August. Can you quantify those things, and what you expect the exit ARPU to be? And the last is related to content cost. How do you expect content cost to play out over the year? Thank you.

Rajan Gupta: Let's start from the last question on content cost. I think I have been consistently saying for the last Q4 call, the Q3 call and now the Q1 call, this year our content cost at net level, and we should see content cost only at net level. It is going to be around Rs. 40 crores. And we don't see any change at all in that. All the agreements were already done and signed in the month of April. Two large broadcasters. We don't have any increase for the next two years; there is in fact a small reduction. Balance 3 dues have been closed. Most of the dues, the price increase has already happened in Q1. For one particular broadcaster, the price increase will happen in Q2, but even that is there in the Rs. 40 crore plan. This is the lowest ever increase happening in the history of Hathway. And even from an industry standard, this is a good low increase. Obviously, this is subject to the new tariff order. We are all awaiting implementation of that. But keeping aside that, that's under sub judice as of now, we see this is the kind of content cost.

On cable ARPU, I think I have been very clear on the call, phase 3 and phase 4, we do plan to increase ARPU by about 15%, out of which around 6% already has come in Q1 because the prices were implemented in May-June. So part effect has already come in Q1. Balance effect for phase 3 and phase 4 will come in Q2. So whatever Q4 ARPU levels were there, we should see 15% increase in Q3 and Q4, when we go for a Q2 earning call. That's obviously the endeavour and looks like we've been able to implement it across the markets; but finally, we have to see how other players behave, etc. On phase 1 and phase 2, there's a plan to increase ARPU by around 7%. All the price changes have been implemented from the month of August. We hope to stabilize it by September, and we should see partly the result in Q2, and full effect in Q3. On broadband Capex, if you see monthly, we have been doing a gross adds of around 20K-25K based on the month, and Q2, Q3, Q4 are the better quarters in terms of seasonality. So we have planned on an average gross adds in the range of 25K-28K for these months. So for 9 months, in case we do gross adds, which is around 2 lakhs, no, little higher than that, maybe 230K to 240K, then there will be Capex there, which will be Rs. 3,000 per consumer. That's the last mile Capex. Then as I mentioned, we are also doing lot of other Capex on doing underground fibre to increase the service to customers, we are changing few things in our data centre, we also have this whole DOCSIS with GPON additional Rs. 3,000 per consumer Capex, wherein we are increasing speeds of our consumers from 50 mbps, going up to 200 and 300 mbps. So Capex is obviously a mix of...then there is IT Capex. But majority of this Rs. 110-120 crores, at least Rs. 70-80 crores out of that, will be last mile Capex.

Dipesh Mehta: Okay, understood. Thank you.

Moderator: Thank you. We have a question from Kunal Vohra from BNP Paribas. Please go ahead sir.

Kunal Vohra: Hi, this is Kunal Vohra. I wanted to understand, with deteriorating mobile networks, are you seeing customers coming to fixed broadband, and some kind of customers who might have left earlier, coming back? Any impact that you're seeing because of the deteriorating quality of mobile broadband?

Rajan Gupta: Well, I don't want to comment on that in this call on the network quality of mobility companies. But what we have seen is, it's not a matter of mobility network quality, it's a matter of usage pattern of the consumer. So there are people who get hooked on to OTT, they start coming in. Recently I met an old gentleman who used to be an auditor in one of my earlier jobs. He was around 70 years old. He told me, last Sunday, on one of the OTT platforms, he was hooked on for 7 hours. And that was the first month he started watching OTT. Now he said, my mobility data limit is obviously not sufficient. I want to now do binge watching on the large screen. He was asking me how I can see this particular OTT on the large TV. And that's where we end up installing the home broadband connection at his home. I think it's a matter of the whole demand ecosystem picking up. We definitely see signs towards that. And more and more regional, vernacular, Indian content coming on OTT, which is what we initially mentioned. While this whole mobility data sampling has created some pain for us in the short term, we feel this is an extremely healthy thing for our future growth.

Kunal Vohra: Secondly, how is the competition within the fixed broadband space? In markets like Mumbai, what proportion of households do you think already have a fixed broadband? Is there competition from unorganised? That's because what we see is, total number of high speed broadband customers are only 4-5 million, excluding BSNL. Is that the case? Are there customers with unorganised players, which make up the balance?

Rajan Gupta: No. First of all, 17 million includes everybody, because if a player is there, whether a local or a national player, they have to be on somebody's license; either direct license which TRAI gives or DoT or somebody else's license. So 17 million does include everything. And as far as the competition in markets like Mumbai is concerned, yes we have in every area 2-3 players. Typically, there are 2 large players, and there are 1-2 small players; basically the mom & pop shops. Not only in Mumbai, in fact that is the trend throughout the country. There are 1-2 large players, and 1-2 small players. But that's been there for ages. When we launched our high speed broadband 4 years back,

then itself we had all these players existing in the market. So that's not a point of concern.

Kunal Vohra: Sure, okay. Lastly, GTPL entered Mumbai market. What's the understanding with them, and why did you not acquire those customers?

Rajan Gupta: I believe GTPL team was asked this question in that call, that can you please share the Mumbai plans? And they have said currently we are not in a position to discuss, and it can be discussed separately. So I guess it's good to discuss with them. This call is definitely for Hathway. As far as we are concerned, we have been clearly saying, in markets where we are the market leader or we are No. 2, any profitable business which comes up for acquisition, we'll be there. It has to be profitable.

Kunal Vohra: Sure, understood. That's it from me sir. Thank you.

Moderator: Thank you. I would now like to hand over the floor to Mr. Rajan Gupta for closing comments. Over to you sir.

Rajan Gupta: Thanks for joining us for Q1 Earnings Call. For Q2 and balance of the year, we have a clear task in hand. Broadband business has to execute J curve growth strategy by focusing on high data usage consumers. Video business ARPU growth plans have to be executed by Q2 end. HD growth will provide renewed momentum to revenue growth in video business. Over the next 2 months, you will also hear from us towards further strategic investment in J curve growth plan, which will position us well to benefit from immense opportunities being offered by growth of digitally connected homes. So ladies and gentlemen, thank you once again for joining us for this call, and Good Day!

Moderator: Ladies and Gentlemen, this concludes your conference for today. We thank you for your participation and for using iJunction conference service. You may please disconnect your lines now. Have a great evening.