"DEN Networks Limited Q1 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the DEN Networks Limited Q1 FY2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on believes, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sharma - CEO, DEN Networks Limited. Thank you and over to you Sir!

S.N. Sharma: Thank you so much. Welcome to all the analysts on the call and thanks for being part of Q1 FY2018 results earning call for DEN Networks. During the quarter, DAS ¾ subscriber additions has been encouraging wherein we seeded close to approximately 3 lakh boxes taking our digital subscriber base to 10.7 million with strong presence of 5.7 million boxes in phase 3 and 4 markets.

With the strong focus on consumer first DEN after launching OTT and gaming services has taken another initiative to enable it HD box with broadband connectivity by using a WiFi, USB, Dongle. This will convert any normal TV to a smart TV and can be connected with any WiFi enabled broadband connection.

The consumers will be able to use their mobile handsets as a remote control for the TV means not just for apps even for your existing programming, the existing content that is coming to our cable can be controlled through your cellphone. DEN is working on a pipeline of technology initiatives and that will be announced during the course the years as we progress during the year. DEN has been making continuous efforts to improve its subscription collections from the LCOs through a combination of increased consumer ARPUs and then increasing its share in the overall pie.

As a result of this cable subscription revenues registered a growth of 34% in Q1 2017-2018 as compared to the same quarter in the previous financial year. Cable revenues during the quarter were at Rs.181 Crores versus Rs.135 Crores in the same quarter in the previous year. ARPU including taxes for DAS-I, II, and III market stood at Rs.127, Rs.104 and Rs.68 per box per month respectively versus Rs.108, Rs.84, and Rs.46 for Q1 of the previous year. Here I take a pause, ladies and gentlemen to look at the fact that today the phase 2 figure is at its situation where phase 1 used to be earlier around a year back and phase 3 figures are slightly lower than phase 2 figures which used to be there, this is just a food for thought for you people.

Phase 3 ARPU has grown almost 46% to Rs.68 from Rs.46 in Q1 last year, which has resulted, and significant improvement in monetization of phase 3 investments. Please note that ARPUs are average for the quarter inclusive of taxes on box per month basis and includes the impact of associates.

Broadband business during the quarter subscription revenue was Rs.21 Crores compared to Rs.18 Crores a year ago, ARPU and subscriber additions are under pressure due to intense competition from Telco players. Broadband business has been able to maintain positive EBITDA of Rs.1 Crores for Q1. The broadband subscriber base at the end of Q1 2018 was Rs.193000. We have been primarily focused on customer retention by encouraging longer duration plans and by successfully tieing up with large content providers to enhance customer experience.

Broadband Data consumption has experienced a significant increase in the last one year whereby the Tata consumption on per month, per home basis has gone up from approximately 40-45GB to 75GB. Our strategy to expand wide Internet service in smaller towns stays on course and we have given some details about our strategy in our presentation. At this time I would like to hand you over to Manish to walk us through some of the important financial numbers. Over to you Manish!

Manish Dawar: Thank you. Good afternoon ladies and gentlemen. We have already circulated the presentation on Q1 FY2017-2018 performance. Just to summarize the quarter. Q1 financial year results summary, which I am about to share with you, is on the basis of business overview that is I-GAAP number. The Ind-AS numbers are also included in the presentation.

We have been presenting the I-GAAP numbers for a year now in addition to the Ind-AS number and hence going forward from next quarter we will stay with Ind-AS disclosures only.

DEN started the new financial year on a strong note by recording a turnaround at the PBT level on a consolidated basis. The company reported a consolidated profit before tax of Rs.6 Crores versus a loss of Rs.35 Crores in the previous quarter and a loss of Rs.38 Crores in the same quarter of the previous financial year. We have been able to restructure our debt by repaying certain facilities, because of certain unfavorable returns. You will be pleased to note that leading private banks have shown confidence in our company and have granted as a new facility. The existing bankers have also granted certain additional facilities. This exercise was completed in July 2017 and you will see the effects coming in the subsequent quarters.

Our net debt has dropped to Rs.134 Crores as of June 2017 compared to Rs.181 Crores as of March 2017. Group consolidated revenues pre-activation for Q1 FY2017-2018 were up at Rs.320 Crores from Rs.256 Crores in Q1 FY2016-2017.

Cable subscription revenues stood at Rs.181 Crores during the current quarter, which registered a growth of 34% versus previous year the same corresponding quarter. The cable ARPUs, net of taxes and net of LPO share for the quarter was 110, 91 and 59 per box respectively for DAS-1, 2 and 3 areas. The cable subscription collection efficiency during the quarters stood at 93%. We expect it to recover to our old levels in the next couple of quarters.

Consolidated EBITDA including activations stood at Rs.85 Crores during the quarter. Pre-activation EBITDA has significantly jumped to Rs.49 Crores from Rs.15 Crores in the same quarter of previous financial year. With regard to cable EBITDA margins phase 1 pre-activation EBITDA margin has been at 32% versus 28% in the previous year while phase 2 has been 21% versus 18% in the previous year.

Revenue for broadband business stood at Rs.21 Crores in Q1 full year FY2018 compared to Rs.18 Crores in the same quarter of previous financial year marking a 19% growth in the broadband revenues.

On broadband business, we have been able to achieve a positive EBITDA of Rs.1 Crores during the quarter. In line with the strategy to focus on core business of cable and broadband, we have exited the TV commerce business during the quarter. At the same time, we are also actively looking to get out of the remainder stake in non-core business as well. There is nothing outstanding in the balance sheet on account of these two businesses since we have done a complete clean up between Q4 and Q1.

During the quarter profit after tax (after minority interest) loss stood at Rs.5 Crores compared to loss of Rs.55 Crores and Rs.52 Crores in Q4 of previous financial year and Q1 of previous financial year respectively.

Cable profit after tax was positive at Rs.4 Crores compared to a loss of Rs.44 Crores and Rs.38 Crores in Q4 and Q1 of the previous financial year respectively. This significant turnover was possible due to host of measures that your company has taken in the areas of revenue collection, cost deduction and tax optimization as well.

With that we would like to open the floor for Q&A. Thanks a lot.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand S: Thank you very much for the opportunity. I have two questions. One pertains to the ARPU in the cable business. I see that in phase 1, there has been moderation there in phase 1 ARPU. Any comments on the operating environment there because some of your peers have been talking about, there being a battle for land grab in phase 1 and two areas particularly one MSO of rival of yours have spoken about DEN swapping back box in areas where they have lost so any update on the competitive environment in phase 1 and 2? That would be helpful. Secondly, could you clarify on the active subscribers that you currently have? Lastly on the content deals where are we with each of the broadcasters? Is this the fixed cost that we should assume or is there still inflation pending that those are my questions. Thanks.

Manish Dawar: Vivek, I will answer for all your questions one by one and I would request Mr. Sharma also to contribute in the ARPU drop. So let me just give you a little bit of synopsis what you are saying is correct. We are seeing the competitive activity on the ground from the competition and they have been kind of intensifying it to grab the market share back, but as then we have not lost the market shares if at all I mean if you see the small drop in ARPU, I mean on an overall network basis, we are seeing a drop of about Rs.2 per box versus Rs.76 which are there in Q4. So we are making sure that we do not lose the ground and we are fighting the competition and we are pleased to inform you that we have not lost the ground, it is only a temporary blip that we are seeing in the ARPU and we are absolutely confident that we should be able to recover this again back in the next quarter. So while the competitive activity is on, but we are not letting it go from our side and that is what our intention is going forward as well.

S.N. Sharma: Just to add on to about Manish has said, the number that I have already for July, May and June that already indicates that we are rather now better of them what we used to be. There was a blip in April and we have been able to recover the majority of it. What we failed to do in April and normally it happens after vigorous year of performance sometimes there is a bit of I would say there are multiple factors, which lead to such situation but now since we are talking after completion of July and knowledge of the figures that I already have with me and not just that to where we were it is looking better.

Manish Dawar: Vivek, coming to your next question on active subscriber base. Our inactive subscriber base is about 22%, which is more or less similar to what we reported in the last quarter. So therefore in terms of number of subscribers will be about 8.2 to 8.4 million boxes versus a digital base of 10.7. Coming to the content deal question, we have closed all the content deals as you know we reported in the last quarter that Star and Zee were concluded in fact Star and Zee we had a little longer term agreements and they have some inflation as part of those agreements which got effective in Q4 of last year. In the current quarter, we concluded the deals on Sony and IndiaCast is in process and we are going to be therefore guiding that as far as content cost is concerned. Whatever numbers we have seen in the current quarter they will more or less remain at the same level over the next two to three quarters.

S.N. Sharma: Just to add on to Manish we have taken certain initiatives of correcting our outflow with certain broadcasters, you will be seeing it happening as we move forward.

Vivekanand S: Thanks. Just a couple of followups, which was the phase 1 market where we saw this competitive activity spike, I mean among the three Mumbai, Delhi and Kolkata where is this activity intense? Is it just Delhi or is it also other two cities? That is one. Secondly on the content side, you mentioned you have consistently held that the new tariff order is going to be very, very positive for the distribution platforms and cable MSOs in particular. Any reason why you have signed long term content is with Star and Zee given that you could sign these for six months to one year and then transition to the new tariff order?

Manish Dawar: Vivek, Sharma Ji will answer the question on the competitive activity in the cities and all, but on content side let me quickly address for Star and Zee deals that we are talking about for the old deals. It is not that we have signed them now. If you remember we signed these deals almost about year-and-a-half back and these deals are valid until this year, which is December of 2017. So we are not new to deal the only inflation, which has kicked in as per the old deal agreement that was signed which also included the phase 4-digitalisation happening. So therefore there is no way that we are going to be kind of extending the deals.

S.N. Sharma: As far as my understanding goes, if the current regulation comes into place all the existing deals will become null and void, irrespective of the period that we have signed it for because that new regulation everybody is suppose to follow, you cannot go to regulator and that we are still living in old regime and we will come into new regime after our suitable time. We all have to follow the standards fixed by the regulators. Number two, as far as competition is that our part of life. Cable has been facing the competition ever since I am there in cable business, these are now frustrated elements who are not able to perform diligently on the collection efficiency, they are not able to demonstrate their collection efficiency, they are not able to demonstrate better revenues and collection and realization and so are the people, I am least concerned and bother, I am finding my way forward and that is how I am confident that I am able to garner the collections that used to be part of it. It is just simply accurate by itself otherwise it is back to normal and rather I am foreseeing an upside also or amongst this all storms and all kind of obstacles have been created in my path that is not going to stop the process of taking up the revenues and subsequent balance.

Vivekanand S: This was helpful. One small question I have should I come back, I will come back. Thanks.

Moderator: Thank you. We take the next question from the line of Ishpreet Kaur from Karma Capital Advisors. Please go ahead.

Ishpreet Kaur: Sir just to get further clarity on the content cost, so does this include the phase IV for subscribers who also that we are seeding?

Manish Dawar: It does.

Ishpreet Kaur: Okay, so is it fair to assume around 15%, 16% for the full year YOY kind of a growth for content?

Manish Dawar: You can assume 10% to 12% on an overall basis including phase IV.

Ishpreet Kaur: On an overall basis okay and as per last call so we were at an active sub of around 8.5 million sub, which now is around 8.3 plus we valid a few subscriber so this has reduced on a quarter-on-quarter basis?

Manish Dawar: Some quarter, I can check the numbers again, but I think we have talked about 8.1, 8.2 million subscribers active. It was not 8.5.

Ishpreet Kaur: If you could throw some light on the depreciation as it has dropped sequentially?

Manish Dawar: Depreciation as you know we have talked about in the past that we were charging accelerated depreciation to clear off the inactive boxes from our books and that activity has got completed and therefore the accelerated depreciation has gone away and now the depreciation numbers that you see are the normal depreciation numbers.

Ishpreet Kaur: So if you could quantify the number that was there in FY2017 has accelerated depreciations?

Manish Dawar: I will come back to you on that.

Ishpreet Kaur: If you could also throw some light on the drop in capex per home pass that you mentioned in the presentation?

Manish Dawar: So this is basically a combination of the new technology that we are evaluating and as a result of that the capex for home pass has come down and this is what we are going to deploying in phase II towns as a strategy to rollout broadband in smaller towns.

Ishpreet Kaur: Because the drop seen quite substantial?

Manish Dawar: It is absolutely that is what we been working on all along and that is the reason we were not expanding much because we wanted to stabilize the technology, we wanted to work on the cost and you will see the results happening in phase II because as you know the phase II paying capacity is lower, although BSNL is still charging a higher ARPU in those towns, but we are well geared that in case there is a competition we should be able to withstand that.

Ishpreet Kaur: Lastly just to understand the sequential drop in the ARPU is it purely on competitive basis or was there anything else to it, the drop sequentially in the ARPU?

Manish Dawar: No, there is nothing else.

Ishpreet Kaur: Thank you.

S.N. Sharma: Just to clarify, I would like to repeat again it is just one-month drop that is there and it has already been recouped, you will see in Q2 of this financial year.

Manish Dawar: Typically, again if you want to look at the past trend also I mean Q4 always is high versus the entire financial year and there is always some correction which takes place in Q1 and that forms the higher base and then we climb from there again, the same trend is here this time also although the drop is much, much less compared to what we have seen in the past.

S.N. Sharma: If you see the figures of May and June monthly collections are there in the presentation, if not there then we will be sharing it separately those indicate that they are better off than January and February collections.

Ishpreet Kaur: Sir the receivables have also increased by Rs.40 Crores sequentially?

Manish Dawar: This is on account of placement, the subscription receivables are in control because we were in the process of concluding the deals with Sony and IndiaCast is in process, so therefore the debtors that you are seeing increasing in the placement there is a similar increase on the content side also that you would have seen.

Ishpreet Kaur: So it is not on account of subscription income right?

Manish Dawar: No.

Ishpreet Kaur: Thank you.

Moderator: Thank you. We will take the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good evening. Thank you for the opportunity. I have few questions, one is can you talk about where one should look at the net realizations from a full year perspective on an average or the closing of the year, whichever you are comfortable with?

S.N. Sharma: It has increased by another 10% to 15%.

Rohit Dokania: That is from FY2017 base?

S.N. Sharma: Yes.

Rohit Dokania: That is helpful Sir. Sorry the content cost question has been asked before, but just to clarify so Manish you mentioned 10% to 12% increase where you are talking about net of carriage content cost or that was the gross number that you are referring to?

S.N. Sharma: Gross number Rohit.

Manish Dawar: Gross number on content compared to full year 2017 number.

Rohit Dokania: If I am not wrong I think sometime in the previous calls once you had mentioned that about net of content cost Ind-AS about Rs.120 Crores in FY2017 could move up to Rs.170 Crores, Rs.180 Crores in FY2018 is that the number that stays even today?

Manish Dawar: We will be better than that number.

Rohit Dokania: Okay great, sure, so the other thing was can you talk about what could be the impact of GST be especially because you were just paying service tax of 15% and now I understand that would have increased to 18% from July 1, 2017 so will that also impact a net realizations to that extent or will we be able to get higher from the sort of local cable operator and our revenues, net of tax should not get impacted because of GST?

Manish Dawar: Our revenues will not get impacted because we are increasing the billing from the LCOs at the same time we will have some additional input credits also available, so therefore from a bottomline perspective will get netted off. If you were look at Rohit from industry perspective because the entertainment tax gets subsumed so entertainment tax and service tax put together it is beneficial to the industry, the only difference is that entertainment tax most of the states responsibility lies with the LCOs and therefore it is not appearing in our books.

Rohit Dokania: Sure I understand that and also the broadband business obviously you have spoken about is under pressure because of competition on the wireless side, so I was just wondering, Jio has not even sort of launched its wire line broadband business and without that just because of the wireless side and we all know that on a like-to-like basis wireless does not complete with wire line because of the heavy usage on wire line, so once Jio launches the wire line sort of operations do you see that it could be further sort of impact especially when we are seeing the kind of pricing that they kept on the wireless side and now on the feature phone side as well?

S.N. Sharma: Rohit, just imagine that how many millions of homes need the wire to be connected, without naming any telco let us analyze where the wire is – it is 10 kms away from each of the home whereas the cable players wire is already in the home, so it will take sometime and that time cannot be weeks or months or simply a year, it has to be a normal period before those home passes or homes receive any telco's wire pipe. If you see, go in the history that is where all the telcos have been operating is only on wireless, they failed to reach the home pass, it is not that easy, after all we also learnt our lesson this time being a wire line player by doing and executing and rolling out broadband we also realize that a lot of factors come into play and it is not so easy and viable to connect so many home on wires, so accordingly the technology, the selection of hardware everything has to be modified and now we have taken certain smart decisions and we would be rolling out 20 odd towns where we are well entrenched in as far as our video business is concerned and we will be simply loading our broadband on top of it and will be able to service the subscriber as per the package they ask for, so as of now I do not foresee a threat from telcos in the next 12 to 24 months.

Rohit Dokania: Sure Sir and just one last question rather if you could give your comments whether you foresee sort of any impact from the Jio phone, the feature phone that is being launched and the cable wire that has spoken about in the phase III, phase IV areas, not from your subscriber base I am just talking from an overall industry perspective if there could be any impact on the TV subscriber base?

S.N. Sharma: We firstly have not seen that phone so far so it would be not correct on my part to fully explain or comment on the features. Definitely telco has announced that there is a feature phone wherein there will be enabling content and now in your earlier question you have also answered to this query because to consume so much of video the data consumption and data availability has to be enabled, they have tetrabyte or I do not know I will fail in explaining the units that in what capacity or range you will be needing be done of, to delivery this kind of service. Had it been possible then I think USA and other countries would have already done it. Nevertheless but some innovations has come into our life. All the same, I would like to explain to you all that our HD box that we have recently introduced is also broadband connected, is WiFi connected and there is a Dongle, this set top box comes at a cost of just Rs.1600. You are talking of a feature phone at 1500, my box, which will be delivering you HD generates for video will also enable the connectivity for the apps on the TV, so the TV viewer who normally has, majority of TV viewers still have non-smart TVs in their homes, old time TV sets are still in parlance because smart TVs came into our life in just two, three years back, so non-smart TV will get converted to firstly a smart TV by using this HD box and with the Dongle attached to it that will cost them Rs.200 extra. They will be able to see the content that they recorded on their handsets on the TV, like family photographs today it may not be that easy and simple to watch the same photographs on non-smart TV, but tomorrow by using our box, you will be enabling that, not just that even the YouTube, even the other international weather reports, lot of other apps will also get enabled on the same TV set that you have been using since heritage by using our HD box. So as far as DEN is concerned we are marching along with the technology. We are bringing in the gadgets very shortly. In coming two, three months there will be further announcements and I stated earlier also by Q3 end we will be introducing an open box architect based on this Android Operating System that also is on the way, so as far as DEN is concerned we are very well entrenched and we will be keeping pace with the technology and requirement of the consumers, we are ensuring that we do not fail anyway.

Rohit Dokania: That is great Sir. Thank you so much for your comments and wish you all the best.

Moderator: Thank you. We take the next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Thank you for the opportunity, just wanted you to repeat the phase I, phase II collections including tax Sir?

Manish Dawar: Excluding tax you said?

Mayur Gathani: Including tax Sir?

Manish Dawar: Including tax rates, it is phase II is Rs.104 and phase III is Rs.68, phase I is Rs.127.

Mayur Gathani: What are the broadband additions for this quarter?

Manish Dawar: About 16000 subscribers.

Mayur Gathani: Sir any outlook that you could give for the additions for this FY2018 on the cable side?

Manish Dawar: No we are not giving any outlook.

Mayur Gathani: So we are looking at, we continue to do additions on phase IV right for this year onwards?

Manish Dawar: Yes phase IV we are expecting we will get completed by December.

S.N. Sharma: As of now we are adding close to Rs.1 lakh subscriber a month, but this will definitely as of now when we are talking it is likely to drop down as we move forward. It is very difficult to pronounce any number for phase IV because there are a lot of bottlenecks as far as phase IV is concerned certain places delivery cost is stupendously high and it becomes unviable to deliver and many places do not have even electricity and other facilities also bandwidth, back haul, a lot of challenges are there, so it is a gradual process and it is going to take sometime, so the real picture can only be pronounced once we are close to somewhere around September, October.

Mayur Gathani: But phase III more or less we have done with?

S.N. Sharma: Yes phase III is all done that is how we are able to realize this figure of Rs.68 per month and we are already in the process of taking it further up and up.

Mayur Gathani: What is your selling price for the setup box in phase IV Sir?

S.N. Sharma: Similar about Rs.1200 to Rs.1300 on standard definition box.

Mayur Gathani: Do you see competition from this free dish?

Manish Dawar: Free dish subscribers are different. There is of course the competition and a lot of DTH subscribers are moving towards free dish, on cable we have not seen that so far.

S.N. Sharma: As far as there is another perception when it comes to free dish and DTH versus cable, I would like to highlight the BARC figures that is the unit being followed everywhere across the country. Today there are close to 84 million cable homes, which are considered as part of the urban homes. Urban homes are the places where you have a population of 5000 and above. Now all of this 84 million, the BARC figures indicates 17% belong to DTH and 3% belongs to free dish and rest of it that is close to 80% belongs to cable, so all the meaningful towns, all the good paying capacity towns there is a 5%-odd between DTH and free dish and of late if I see the DTH numbers on the TRAI site, I see them going down and down, there is a negative addition every month. So as far as cable is concerned I am not seeing any challenge from DTH or free dish.

Mayur Gathani: Great Sir and on the phase IV side do we see some improvement with LCOs negotiations agreements like how we had initially faced in phase I, phase II of course things are better because your numbers look much better now?

S.N. Sharma: There the discipline is there from day one and we are giving the service only after signing up the agreements. We are following the regulation in totality. There is no change, no lapse, no scope to deviate from the regulations that I have been stating for the last three, four quarters, I am very clear in my mind, my organization we follow the regulation on the right hand side.

Mayur Gathani: But how well are the LCOs taking the regulations Sir?

S.N. Sharma: They are following, all those who are connected with us they definitely are following the regulation, their analogue signal has gone off.

Mayur Gathani: This sharing currently would be in the range of 50:50 or will be, would you be able to share that number?

Manish Dawar: Sorry can you repeat the question.

Mayur Gathani: How is the sharing between the LCOs and you?

Manish Dawar: We will be currently at about close to 40% and we are expecting that we will be able to go up to 45% to 50%.

Mayur Gathani: So this we can…

Manish Dawar: Let us say these numbers are only estimated numbers because we do not have the actual data available, so this is based on our market reports, survey reports and all of that.

Mayur Gathani: Thank you and all the very best Sir.

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

Sanjay Chawla: Good evening. Thank you for the opportunity. My question is on the broadband business; you have almost 200000, 193000-subscriber base? Can you just share what is the technology mix over here in terms of DOCSIS, GPON, AOC, EPON, and related question is you mentioned the cost for home pass is going down in some of the new cities it does seem a bit counter institutive to me because can you just explain what exactly the driving bill cost reduction over here and how do you define the home passes with respect to the broadband?

Manish Dawar: Okay so we are predominantly currently prevent in Delhi, Sanjay and Delhi we have DOCSIS 3.0 technology and there let us say for example when we started to rollout the home pass process it was close to Rs.1800. Today on the DOCSIS 3.0 technology we are under Rs.1800, the new numbers that we are talking about is obviously not DOCSIS 3.0 technology because that is not suitable for small towns. We are looking at a combination of metro Ethernet and EPON and GPON. So EPON and metro Ethernet basis that is the number that we are talking about from Phase II perspective and again when we talk about the home pass it basically means that our network is available at that curve when a consumer request is there, we pull in the wire in the home do the last mile wiring inside the home, put the last mile whatever your CP, and the broadband connection gets enabled.

Sanjay Chawla: Sir this network available till the curve what is the approximate distance Sir from the household to the tap of the point let us say?

S.N. Sharma: Roughly around 200 meters away not more than that I mean you can presume depending upon the geography of long it boundary wall which will be inside, it may be anywhere from 30 meters to 50 meters.

Sanjay Chawla: Right and is this the same definition you have in Delhi also where you have DOCSIS 3.0 deployed?

S.N. Sharma: Wherever we have upgraded we are following the same. If we say home pass is that is connectivity just within the boundary wall of that particular work.

Manish Dawar: When we say lane of homes that lane will have the broadband network available and we will pull the wire inside when consumers requests and really let say if it is multi-storied building that building will be enabled and individual apartments and flats will pull in whenever the request is there so that is how we define home pass.

Sanjay Chawla: So how should we look at the drop cable aspect here, because you are saying that has to be trunk link or common link from the tap of to the building and then within building you distribute so if I have to just look at the overall capex based on the sudden penetration rate then how do you look at this overall costing with respect to home partner more that you mentioned?

Manish Dawar: Sanjay if you are talking about smaller towns, the multi-storied buildings are relatively not there so these are pretty flat structured and therefore this particular question may not be relevant from because we are talking about smaller towns.

Sanjay Chawla: Okay may be I will take it offline. Thank you very much and all the best.

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

Naval Seth: Thanks a lot for the opportunity Sir. My question is on EBITDA margins across the phases so if you can highlight what can be the peak margins we can achieve in phase I and can other phases be also can reach do a level of one let say 30%-32% in next two to three years?

Manish Dawar: Naval, as I said currently we are at 32% on phase I and this is on pre-activation basis because I mean DTH they declare the numbers on force activation basis and they are pretty similar so we think on phase I there could be small opportunity but largely we have been able to tap whatever was possible. Again we are not kind of discounting here whatever the new TRAI order will say. This is on a current basis and you are right. We do think that in the next two to three years' time the entire business will gravitate to 30%-32% kind of EBITDA margins. So phase II we are already about 20% plus and phase III currently we are at 5% and we are moving in the direction of 30%.

Naval Seth: Second question is on the broadband so any loss number which we have in our mind for the second round of expansion which would happen in 15 to 20 cities so that is one and second what will happen to net debt reduction will that halt as we will now start pending on the broadband which was kind of going slower in FY2017?

Manish Dawar: Naval, if you were to look at capex for smaller town is not larger, it is about Crores to 1.5 Crores before town gets activated. It takes about five to six months to rollout the network there and from there because now the capex costs are lower and the ARPUs are again not very different. We are looking at breakeven in smaller towns in about 12 months' time from the time the rollout gets completed. So depending on the number of towns we are doing the exact planning so it could be let us say I mean we are not guiding him on what the loss figures could be. As far as the net debt is concerned, I think we are at a good level and we are not expecting any reduction so if it all the way I look it we are currently at about 135 Crores so we will be around that level so it could be let us say 135 Crores or it could be 150 Crores to 175 Crores, I mean it is not a huge impact even the kind of EBITDA that we can rate and the overall price of the business.

Naval Seth: Thanks a lot Sir.

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

Kaustav Bubna: Congratulations on results just wanted to talk you about the HD boxes that you have started seeding out with WiFi enability, it is kind of shocking and correct me if I am wrong, may be I am misunderstanding this because Hathway HD box goes for Rs.5000 and your HD box with WiFi you are saying Rs.1600 so where am I wrong over here and also I wanted to understand since this is Rs.1600 your strategy I am assuming will not only be the target this to phase I but also to the target this to phase II areas so subscriber base to which you are trying to switch normal boxes to HD boxes will actually increase so what I am going to understand is can you explain to me that the quantum of how EBITDA accretive this switch from normal box to HD boxes?

S.N. Sharma: I would say that around a year back even our box was also in that same range and we were selling it at Rs.3500 and the take off was hardly there. Now in the last one and half months I am able to seed one lakh plus boxes whereas earlier there was no efforts and this is the first time that we are approaching the subscriber directly across the network, across the country we have announced our prices and such schemes and there is hardly any subsidy as far as box type of Rs.1600 is concerned. All I can do is I can demonstrate my box. Now speaking about the competition’s box and their pricing and I do not know whether it includes the yearly subscription, it includes FD SD, it includes what all facilities I would not like to make any comment about them but I am very clear my box price is for Rs.1600 definitely HD subscription is extra and HD subscription already the subscriber is paying extra, he will keep paying the HD subscription separately, of course there are different variety of schemes. There are lots of marketing activities that are going on. As of now we have four schemes giving different kind of vendors to the subscriber but definitely there is no hit as far as the hardware is concerned.

Kaustav Bubna: What do you do with the boxes because from what I understand is basically only two-year existing subscriber base you are converting digital to HD so what you do with those old digital boxes?

S.N. Sharma: Old digital boxes are being used as replacement of the defective boxes or as a backup to the remote areas or in some areas if some viewers want it at second-hand box we have open to give him after refurbishing the box withdrawn from the field. It is the beginning you see and it is not that we are replacing the old boxes with the new box and giving them discounts over there, it is nothing like that, the hardware price is so very low that consumers whosoever wants HD and all these apps to be viewed on the TV is happily booking out Rs.1600 is nothing not a big challenge as far as he is concerned.

Kaustav Bubna: What is your target market is your target market phase I and phase II and phase III?

S.N. Sharma: Yes.

Kaustav Bubna: So that could lead to good increase in EBITDA margins?

S.N. Sharma: Definitely, there will be further addition to our subscription earnings and that is thought process on which we have already started implementing now.

Kaustav Bubna: Mr. Dawar what I am trying to understand it is how incrementally positive can this lead to EBITDA margins if everything goes as planned?

Manish Dawar: Kaustav, if you look at our current deals, our current deals are including the HD content also and on the subscription side we are expecting every HD box will give us at least Rs.60-Rs.70, but this effect will start to coming from 2018-2019 financial year onwards.

Kaustav Bubna: Rs.60-Rs.70?

Manish Dawar: Yes per box.

Kaustav Bubna: Okay and to go on to the TRAI order any update or any indication of when we can expect this?

Manish Dawar: As of now the status is High Court has completed the hearing and they have reserved the judgment. All the written documentation has also, submissions have already been done by all the parties and normally after reserving the order after submission of written documents and submission, it normally takes anywhere between two and three weeks for the court to pronounce judgment and we hope that within August itself we will get some good news.

Kaustav Bubna: Within August itself and could you name a few of these 10-15 cities you getting into broadband?

Manish Dawar: Yes as of now we have already started Shahjahanpur and Yamunanagar, the next in the pipeline are Udaipur, Dehradun.

Kaustav Bubna: What do you mean by partnerships with Facebook and Google and other content providers what you exactly mean by that?

Manish Dawar: Basically this means that we hosting their servers within our own networks and this kind of help us save bandwidth cost because we are able to save on the cash and memory so rather than the entire traffic kind of going and occupying the bandwidth it comes to our network it gets kind of processed there and it flows like the data.

Kaustav Bubna: I mean going back to Naval's question I actually had the same question among on the losses of the broadband when you go into the new cities, is there any indication you can give us so because based on your logic the losses should be lower than it was when we reporting the losses on your Delhi broadband business?

Manish Dawar: Yes because Delhi situation and small town situation is very different. I mean Delhi for almost about two and a half to three years kind of breakeven and post penetration levels; smaller towns we said it will take year after the rollout gets completed but we are not giving any guidance in terms of what could be the loss in smaller towns.

Kaustav Bubna: In terms of revenue growth how do you see this Rs.22 Crores or quarter moving up?

Manish Dawar: I mean Delhi we are able to maintain the momentum even though let us say if you have to look at the ARPUs are under pressure because of the telecom players and also let see how that pans out but what we started to see off late the consumers are coming back because obviously the consumption levels are very different and their experience on wireless side also deteriorating as the network is getting split up, and people are consuming more data so it is too early a situation let us see how kind of plans out over the next one or two quarters.

Kaustav Bubna: Great. Just one more question away from results and everything, on the future of the industry and some comments again in the United States there is rumours going around that Sprint is going acquire Dish Networks. Now that is in line with the belief that a telecom provider sees good value in acquiring a cable business because it fits well into their portfolio and we have seen in many cases in the US happening, but it has not happened in the India because in India you have LCO and MSO channel that you will enter in the US which is also in Germany right, and Germany we have same distribution channel if I am not mistaken, but we see again Sprint trying to acquire Dish Networks so how do we see that in India? Do we see like because we have idea in Vodafone now we have Bharti and we have Reliance, we have got three telecom players and then in cable, we have got three players forget Satellite but in Cable we have got three players, we have got Siti, Hathway and DEN so we have got three telecom, three cables so do you see any value add for them to acquire telecom players to require cable players because even part is three-three and is also value?

Manish Dawar: Whatever logic is there for the international deals and whatever synergies can be had or whatever let us say consumer experiences that can be had by combining the telecom assets with the cable assets obviously those things are logical in India also. I mean there is no difference between the fundamentals of the telecom companies and cables companies coming to ever because obviously there are lots of synergies from consumer point of view. Now having said that there is nothing, which is in the offing. There is no discussion, which is taking place. Now when will something happen, where it will happen or not happen obviously we cannot comment on that, but the fundamental logic, the fundamental synergies, the fundamental consumer benefits are there too and those are applicable in India also.

Kaustav Bubna: How much open box cost?

S.N. Sharma: I would not like to reveal it. You know India is a price sensitive market and we definitely appreciate the sentiment around and as we are surprised the HD box pricing, we will suitably price it and bring it at appropriate level without compromising on the quality.

Kaustav Bubna: Thank you for answering my questions and I hope your cable business do profitable. Good luck.

Moderator: Thank you. We take the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Thanks for the opportunity. Two things can you provide data about subscriber base phase wise and active on subscriber base wise?

Manish Dawar: We are not disclosing the active subscriber base by phases but if you were to look at the initial comment see that Mr. Sharma talk about this we said that we have about 5.6 million subscriber in phase III and phase IV. I talked about the active numbers of subscriber. You have our overall digital base so you will be able to derive that on your own very easily.

Dipesh Mehta: So even out of 10.7 we are not sharing that for the breakup kind of thing, except for phase III and IV?

Manish Dawar: Yes.

Dipesh Mehta: Thank you.

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

S. N. Sharma: Thank you very much. It has been a pleasure interacting with all of you so any of you have any further questions comments, please feel free to come back to us. Thanks for your time.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Den Networks Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.