"DEN Networks Limited Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to DEN Networks Limited Q2 FY2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, 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 would now like to hand the conference over to Mr. S.N. Sharma, CEO. Thank you and over to you Sir!

S.N. Sharma: Good afternoon ladies and gentlemen, thanks for sparing time for us. Q2 has been as strong quarter for DEN with strong growth at EBITDA level. Consolidated EBITDA for the quarter stood at Rs.82 Crores versus Rs.61 Crores quarter ago and Rs.27 Crores a year ago. This was possible as a result of continuous growth in subscription income and cost optimization measures taken by us. Consolidated EBITDA of Rs.82 Crores does not include 13 Crores pertaining to entities, which are not being consolidated because of Ind-AS. On an overall basis, the consolidated EBITDA for the quarter is Rs.95 Crores. Phase three and four subscriber base has been steadily growing and we seeded approximately 2.5 lakhs boxes during this quarter. With this our digital subscriber base now stands at 11 million with strong presence of 5.9 million boxes in DAS-III and DAS-IV markets. DEN has been able to accelerate its revenues particularly in Phase 3 and Phase 4 markets with collection efficiency keeping pace.

ARPU including taxes for quarter for DAS-I, II, III, IV markets stood at Rs.138, Rs.106, Rs.72, and Rs.50 per box versus Rs.129, Rs.102, Rs.66 and Rs.47 per box respectively in the previous quarter. Phase 3 witnessed a robust growth on quarter-on-quarter basis. You will be pleased to note that we have already started collecting Rs.100 plus in at least 10 Phase 3 towns and these 10 towns are scattered all across the country. Please note that the ARPUs are average for the quarter inclusive of taxes on per box per month basis. You would have also noticed that initiative taken by DEN is now getting replicated by all the major players in the industry and the ARPUs for all players are moving in the right directions.

Cable subscription revenues registered a growth of 24% in Q2 2017-18 as compared to the same quarter in the previous financial year. Consistent with our constant endeavour to serve DENs customers in every possible way DEN has partnered with BARC India for measuring TV viewership using Return Path Data via our setup boxes. As part of this partnership, BARC will fetch data from STBs. This data will act as an excellent data analytical tool to understand the subscriber viewing patterns, which will help us to serve our customer in an effective way and enabling us to offer personalized services. This will open up new revenue schemes with respect to packaging, opportunity and will drive advertisement revenue on our in-house channels also.

Broadband business in Delhi has been impacted due to acute competition and drop in rates by major telecoms. As a result ARPU for DEN during the quarter dropped to Rs.664 in Q2 financial year 2018. Broadband data consumption has experienced a significant increase in last one year where by the data consumption on per month and per home basis has gone up from 51GB to 78GB. We are also focused on converting subscribers to medium to long-term plans instead of monthly plans to have more stickiness. As part of our near term strategy, we have started rolling out the network in 10 small towns and we expect to complete the rollout in the next three months. With this I would like to hand over to Mr. Manish to walk us through some of the important financial numbers. Thank you.

Manish Dawar: Good afternoon ladies and gentlemen. We have already circulated the presentation on Q2 financial year 2017-18 performance. Q2 financial year results summary, which I am about to share with you is based on the reported Ind-AS numbers and our like-to-like comparisons that is excluding the discontinued businesses. As you know, we have exited TV shopping and football completely and therefore we are giving the comparative numbers only on the basis of continued businesses.

As informed in the previous call, we have also discontinued the reporting of I-GAAP numbers as was being presented on this Q1 and therefore again you would notice that the revenue per box is on the basis of Ind-AS numbers and the phase wise profitability is also on the basis of Ind-AS numbers.

Coming to the main results as part of our profit simplification programs we have filed two schemes primarily to consolidate 23 subsidiaries and demerge broadband business from DEN to a fully-owned subsidiary that was DEN Broadband Private Limited respectively. Both the schemes are approved by NCLT during the quarter and the accounting impact has been suitably taken in the results and net assets of the respective companies as per the directions of the scheme as approved by NCLT. The net debt has significantly reduced to Rs.133 Crores as of September 2017 compared to Rs.335 Crores in September 2016. Also compared to previous quarter it has gone up marginally.

Consolidated revenues for Q2 financial year 2018 were up at Rs.328 Crores from Rs.264 Crores in the corresponding quarter of the previous year. That gives us a growth of 24%. Cable subscription revenue at Rs.164 Crores during the quarter witnessed a growth of 24% versus the previous year corresponding numbers. The cable ARPUs net of taxes and their share for the quarter stood at 117, 90, 61, and 46 per box respectively for DAS-I, II, III and IV areas. The cable subscription collection efficiency during the quarter continues at 93%. As a result of the above, consolidated EBITDA jumps to Rs.82 Crores during the quarter compared to Rs.27 Crores in the same quarter a year ago, which signifies a growth of almost 200% as far as the EBITDA is concerned. With this the total cable EBITDA margin stands at 27%.

Phase 1 pre-activation EBITDA margin has been at 30% versus 25% in the previous quarter while Phase 2 has been at 28%, please note that the phase wise profitability is on the basis of pre-activation and Ind-AS numbers. Revenues for broadband business stood at Rs.20 Crores in Q2 of current financial year compared to Rs.21 Crores in the previous year. On broadband business EBITDA loss was Rs.1 Crore during the quarter compared to EBITDA loss of 2 Crores during the corresponding quarters in the previous year. The EBITDA loss for the current quarter is mainly on account of the initiatives that we have taken to open 10 small towns as communicated by Mr. Sharma earlier.

The company reported a consolidated profit before tax of Rs.10 Crores during the quarter versus a loss of Rs.5 Crores in the previous quarter and a loss of Rs.43 Crores in Q2 of 2016-17. During the quarter PAT was positive at Rs.1 Crore compared to a loss of Rs.10 Crores and Rs.42 Crores in Q1 of the current financial year and Q2 of the previous financial year respectively. Cable profit after tax stood at Rs.10 Crores compared to a loss of Rs.2 Crores and Rs.33 Crores on the basis of Q-on-Q and Y-on-Y respectively. As indicated in the previous call we have sold up the major stake in football business during the quarter. As you know during the previous quarter we had exited the TV commerce business. This is consistent with our strategy to stay focused on four business of cable in broadband and we are happy to state that we have completed the exit out of all our non-core businesses now. With that I would like to open the floor for questions and answers. Thanks a lot.

Moderator: Thank you very much Sir! Ladies and gentlemen we will now begin with the question and answer session. We 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 cost structure, so thanks for highlighting the changes and the initiatives that you have taken on the cost structure front, so this quarter we have seen that the cable business non-content costs have declined, so you are highlighting that the fixed overheads have fallen to around 93 Crores from 100 Crores, so where can this number go and how or what are the specific cost traction realization initiatives that you are taking, I guess the other cable companies are also outlining reduction in employees and so on, so where does this go and secondly on the cost side, the content cost on a net basis that seems to be ballooning or rather growing at a fairly fast pace because I see that the net content cost minus carriage is up around 50% in the first half and around 38% in 2Q, so how should we look at it, I mean despite deal closures with broadcasters are they coming back to the table because of the actions that they have taken particularly Star IPL that is one, secondly the receivable side I think we saw a good deal of cleanup in the fourth quarter of last fiscal, but we are back to those days where the receivables seem to be going up in tandem with the increase in revenue, I mean how should we look at it?

Manish Dawar: Let me answer your first question first, which is the cost structure. As communicated earlier we initiated the cost restructuring exercise couple of quarters ago and we started to see the benefits now. We think it is sustainable and therefore the cost will kind of continue at a lower level. We are not giving any guidance in terms of what is the number we are targeting, but as far as we are concerned it is a continuous exercise and we will continue to have box under control, so on a longer term basis we think that any inflation that kind of comes about on the cost side will get nullified by the cost inflation and therefore you can pretty much expect the cost numbers to remain stable if at all constant as we continue to grow the revenue and the topline.

Vivekanand S: I appreciate that Manish. Could you elaborate on the initiatives that you have taken that have resulted in the cost coming down?

Manish Dawar: Look you know the big cost items are basically the people cost, so we have taken some initiatives on that side because we know that now the networks are almost rolled out completely and therefore we can do rationalization on the field staff and the rollout staff and all of that stuff. At the same time the other large cost items are these lines and we are trying to find out, renegotiate and redesign the network on the line side also and therefore we are expecting some more benefits to come from that as well.

S.N. Sharma: All this was started few months back, now you are seeing the results coming out of those initiatives, so these are the major two initiatives that we have taken.

Manish Dawar: Vivek your second question was on the content versus the placement, if you see I mean placement is pretty much flat compared to let us say where we were first half of last year versus where we are now. If it all there is a marginal improvement for staff of last year it was 176 Crores and now it is 177 Crores. As far as the content is concerned first half of last year was 230 Crores, which moved to 263 Crores because as we guided earlier that even though we had longer term fees, which are negotiated on fixed basis, but there was an annual inflation weakness, which was there on the expiry of every anniversary, so that is the inflation, which we have taken. As we stand today the Star and Zee will be coming up for renegotiation at the end of the current quarter and we are trying to make sure that the content cost remain flat, but albeit inflation. It is also dependent on the new TRAI order as you are aware, which is currently sitting in Chennai High Court, so depending on that order content cost could actually remain flat to some savings as well, so let see what happens to that order and then only we will be able to find the guidance properly on a longer term basis on content.

Vivekanand S: Right, just one small followup on the content side, should we look at the net content cost at all as a percentage of subscription revenue, how should we see this or just?

Manish Dawar: Net content cost Vivek because you have to look at the subparts of carriage and content, the bulk of the content goes to two large broadcasters, which are on net basis and therefore there is no placement income coming from them whereas there is a long list of placement broadcast, which do not contribute to any of the content payments, so it has to be looked at independently and that is the way to look at it.

Vivekanand S: Understood. My second one on the balance sheet?

Manish Dawar: On the debtor side basically as you know typically you have noticed that on the creditor side also the numbers are going up. As far as the subscription debtors are concerned they are under control. We are at about two months subscription that is outstanding and the placement as you know it is a kind of moving in swing with the content so during the quarter the content creditors have also gone up and the placement that have also gone up. Specifically we tend to see that this kind of goes up in the first half and then it again comes down in the second half with March end kind of status being the lowest on both the content payables as well as the placement fees.

Vivekanand S: Thanks for this explanation. All the best.

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

Amit Naval: Thanks a lot for the opportunity Sir! Couple of questions, one if I recollect right last quarter you had mentioned that the competitive intensity had increased; however, you also mentioned it would decelerate in this quarter, so some sense on that and on the current scenario say 3Q how competition is reacting and is that it has sustained, is that continuing trend now?

S.N. Sharma: Yes Naval, it is not just last quarter, it has been the case for last many quarters and if you remember a year ago we took the chance of leadership, it was only compulsion that somebody asked from the audience that I forcefully, emphatically said that those are some frustrated minds I cannot help it and that has been the case where we have maintained our tempo loud and clear, we are marching ahead irrespective of this small time hoopla and the results and performance quarter-on-quarter basis for last so many five to six quarters if you see speak for volume for what we have done. I am happy to note that as per the inputs coming around that my peers have also started falling in line and they are in the process of taking up their ARPUs level and the things for the trade overall looks quite interesting.

Manish Dawar: I think competition is good for the industry, so not only kind of put pressure to perform and kind of think of your pay, but at the same time from overall perspective as you know I mean couple of quarters most of the analysts used to say that why is DEN standing as a unique identity that your ARPUs are going up and the industry ARPUs are not going up, so I think that was the reverse competition from our side and you would see now and you have been probably we are the last one to kind of come up with the Q2 results that across the industry the ARPUs have improved people are started to talk about the collection efficiency and therefore the ARPUs are getting cash back, so I think that is good for the industry and all of us should benefit from that.

Amit Naval: Second question Sir, you mentioned that some of the Phase 3 towns you have collected around 100 odd rupees, so can you throw some light that across the phases what would be the peak you would have collected on per subscriber basis and is there a scope for that to improve going forward as such?

Manish Dawar: On overall basis we disclosed our phase wise revenues and we also disclosed the collection efficiencies and what has happened is basically just to kind of give a little bit of futuristic outlook and that is why Mr. Sharma mentioned that in Phase 3 we are targeting to reach Rs.100 over the next couple of quarters and to demonstrate that in some towns we have already started collecting more than Rs.100, so that was the real rationale behind that performance.

Amit Naval: My only thought about here is to what extent your Phase one realizations can go up from Rs.117 now, you mentioned about for Phase 2 also what is the scope of improvement from current level?

Manish Dawar: Naval, we are not giving any guidance on the future, but needless to say on the overall subscription growth side and I am talking about both revenue as well as the collections. You can easily expect about 5% to 6% growth.

Amit Naval: Lastly on collection efficiency, it has kind of stabilized at 93%, now when you will see that it will average out to say 95% to 96% going forward so is it a long-term target or we will be able to achieve in a near to medium term where we can see couple of percentage point improvement?

Manish Dawar: No, you can see the improvement in the coming quarters and you have noticed that in the last year also the improvement took place in Q3 with significant improvement in Q4, so that is a kind of come of outset definitely not a long-term goal and then we will expect to stabilize in the next year also in the same level and also note that what Mr. Sharma talked about in Phase 3, which was Rs.100 that was including that, so just keep that in mind, so it is not linked to revenue, he was talking about the gross collection.

Amit Naval: My last question is on broadband as you have rolled out in 10 cities or started the process of rolling out, so now what is the plan going forward after this gets sold out in next three months, so how many more towns we can expect in the next six to nine months where we would be doing expansion?

S.N. Sharma: Very recently in the past Naval, we mentioned that instead of burning our resources and energy in Phase 1 towns, we have strategically decided to remove the smaller towns and in these nine months or so we will be rolling out 20 odd cities, so the journey has begun, the rollout has started in 10 towns and another 10 towns are in the pipeline, these are already decided by us and in the next couple of quarters we will be sharing with you those additional 10 towns the work has also started and the results will start pouring in Q1 of FY2019.

Amit Naval: Thanks a lot and all the best Sir!

Moderator: Thank you. We take the next question from the line of Abhinav Bansal from Yes Bank. Please go ahead.

Abhinav Bansal: Sir, thank you for the opportunity. My question is regarding the capital requirement, what was the capital requirement of the company for the cable and broadband business?

Manish Dawar: We are generating in terms of cash flows and we are well capitalized, so therefore given the fact that overall digitization on the cable side is almost complete or it is virtually complete we do expect any further capital requirements.

Abhinav Bansal: For the broadband business as well?

Manish Dawar: Yes, broadband is very nominal investment because small towns we have developed new technology, we have worked on the new technology, so we will be able to fund it through our internal accruals.

S.N. Sharma: Basically they appreciate the small towns already have the backbone structure and our majority market share is already there so that helps us rolling out at a very low cost.

Abhinav Bansal: Thank you.

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

Ishpreet Kaur: If you could help us with the paying subscriber numbers?

Manish Dawar: Ishpreet it continues to about 77% to 78% of the overall period base that we have.

Ishpreet Kaur: Somewhere around 8.5%?

Manish Dawar: Yes.

Ishpreet Kaur: It was similar last quarter also and Q4 also, are we seeing this going up?

Manish Dawar: It is going up in fact last quarter if you remember we have talked about a number of 8.1, 8.2.

Ishpreet Kaur: If you could help us with the breakup of this 8.5 phase wise?

Manish Dawar: We will start to disclose that from the next quarter Ishpreet because I know that this was asked earlier also, so we will start to put that in the presentation by phase ales from next one.

Ishpreet Kaur: In terms of accelerated depreciation again do we have anything in this quarter?

Manish Dawar: No, we have completed the accelerated depreciation now and what you see is, is the normal depreciation.

Ishpreet Kaur: Thank you.

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

Rohit Dokania: Thank you for the opportunity Sir! Two to three questions, one was if you can talk about how the GST transition has been especially with respect to the fact that in the few markets where there was a lot of confusion whether the LCO will pay the e-tax and whether you would pay it and all the GST has come in, how is it exactly playing out essentially and what happens to the tax arrears if any?

Manish Dawar: Rohit, as you know entertainment tax got subsumed in the GST and the mechanism for the GST is that whatever are billing on the LCOs we are suppose to pay GST on that and then we are suppose to in term file the returns with the respective department, so we started that we migrated to new GST, and stabilized for us and therefore there are no issues, but let us say the past entertainment tax will continue to be governed by the old authority and therefore wherever less figure there are some minor issues or wherever whether it is LCO or us tracking the in lines with what was there in the past, so as of effective July 1, 2017 it has got subsumed in the GST, but the old issues remain outstanding, but I am happy to say that in our case I mean the only old issue was the early entertainment tax whereby there was a dispute whether the responsibility and the liability falls on the MSO or the LCO, but as you know Delhi High Court had given that judgment last year, which was in the favour of MSO, although the LCOs have challenged that in Supreme Court, but it is sub judice and therefore let us see where it goes.

Rohit Dokania: Just one followup on this, if I note from till last quarter you are probably paying service tax and all the realizations and now you have started paying 18%, so there is almost a 3% impact despite that your cable subscription revenue has gone up by 6.5%, which is the size sort of add back that 3% could potentially be up 10% on a sequential basis so is that the right way to look at it?

Manish Dawar: You are right Rohit, that is the right way to look at it.

Rohit Dokania: Thank you for that. The other thing related to GST again, I mean on the cost side are there any GST benefits, so I appreciate the cost optimization that you have been doing, but is there any sort of benefit that is coming through from GST as well, obviously I understand would be sustainable, but just to get some sense.

Manish Dawar: Rohit, on overall value chain basis including the entertainment tax of course GST was beneficial, but as you know most of the states the entertainment tax was the responsibility of the LCO, so as far as if you were to look at DEN as an entity, overall GST was neutral for us. So it could have been a gain of about 0.5% to 1% because there are some additional inputs credits available largely it was neutral from the bottom line perspective.

Rohit Dokania: If you can talk about sequentially the activation revenue appears to have gone up dramatically, if I understand right under Ind-AS it is not supposed to be sort of so volatile and in terms of net additions also this quarter is probably more or less somewhere like the last quarter, so could you please explain what is going on out there?

Manish Dawar: Rohit as you know this gets amortized over eight years and as we kind of cross the anniversary of those eight years for every year, so it depends, so let us say if you were to look at that corresponding period earlier there was higher seeding of boxes and that is what has come about because as you know now it is on the basis of Ind-AS accounting and we think to some extent this will continue and again it will kind of come down and then whenever there is anniversary of digitization happening again it will go up, so we have to follow the accounting guidelines we cannot do much about it.

Rohit Dokania: So basically this is whenever the digitization was in full swing when you were adding higher substitute that is now coming and sort of reflecting on Ind-AS I understand.

Manish Dawar: Exactly. Correct because it is now kind of get split over 8 years, so let us say for example bulk of the Phase 3 digitization has happened in a particular quarter at the anniversary of that eight year it will kind of spike up.

Rohit Dokania: I understand. Just sorry one more last question I forgot to ask. Sir Nawal also alluded to this the 117 numbers pretty commendable in Phase 1, I was just wondering just specific to Phase 1 is there more scope to increase that or do you think we could be sort of peaking out in terms of net realizations on Phase 1?

S. N. Sharma: Yes definitely there is sufficient headroom over there. I visualized that if one should touch Rs.150 in the next nine months or so, so if that is going to be Rs.150, so Phase 2, Phase 3, and Phase 4 definitely we have demonstrated we will follow the path. So all the phases definitely have the headrooms and we are taking lot of initiatives to improve the services and standards with the consumers, so there is on the basic service itself despite the fact that we mentioned about BARC and other such things, which will be additional revenue stream. Basic subscription itself is likely to grow and major potential is now there in Phase 2 and 3.

Manish Dawar: Rohit please remember Rs.150 number, so all of Mr. Sharma's ARPU numbers are including taxes.

Rohit Dokania: I just wanted to sort of check on that.

Manish Dawar: I know that next question will be that, so that is the reason.

Rohit Dokania: One just quick followup on this, so this is in terms of higher sort of share from LC or it is a combination of higher ARPU and higher share?

S. N. Sharma: It is a mix of both. Actually, you see as we are increasing our shares if I am started collecting 100 definitely those terms our operator has also increased its ARPU collection level. Now that is the fact to apply while phase 3 and phase 4 are taking a bit of more time because actually the overall subscription level in those terms were lower, but since regulator has come out very clearly there is no distinction as far as regulator and broadcaster services are concerned, so we are free to charge the same, so message is loud and clear and cable operator has absorbed it, so if he keeps on increasing his price suitably from the subscriber. So process has started, journey has started and hopefully it should reach where we all want it to go.

Rohit Dokania: Sure great. Thank you very much gentlemen and congratulations on the great efforts on the turnaround.

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

Sanjay Chawla: Thank you for the opportunity and congratulations on a strong set of results. My first question is on the activation fee what was the collection as per Indian GAAP in this quarter and secondly as per Ind-AS this number is quite strong sequentially even though the number of box seeded was only 250000 and Sir I remember there is no DAS-related surge, which seeding, which happened eight years ago, which would lead to this kind of change, so can you just explain that also?

Manish Dawar: It is not DAS-related seeding only. As I explained to Rohit that whatever boxes you were seeding earlier, so whenever there is anniversary because we had started to seed the digital boxes much ahead of the digital deadline, so if you see the sale and look at the past earning score for the past data, we have by the time I think the digitization started we were already sitting at I think about 3 million to 4 million boxes, so I have to check this number, but that is where you will be able to kind of correlate that.

Sanjay Chawla: What was the activation fee as per Indian GAAP?

Manish Dawar: So we continue to charge about Rs.1000 to Rs.1100 per box, which is what we have kind of indicated in the past, so we continue with that.

Sanjay Chawla: This is inclusive of taxes I believe right?

Manish Dawar: Excluding taxes.

Sanjay Chawla: Sorry come again excluding?

Manish Dawar: Excluding taxes.

Sanjay Chawla: Second question is can you help me reconcile your subscription revenues of roughly Rs.164 Crores because I am using your paying customer of 8.4 million and Rs.74 ARPU that you have shared, but I am getting a revenue number much higher using these?

Moderator: Excuse me this is the operator. Mr. Chawla your voice is not audible.

Sanjay Chawla: I will repeat the question. Sir I was just trying to reconcile the subscription revenues using the paying customer data of 8.4 million and Rs.74 ARPU I am not getting the revenue number that you have reported?

Manish Dawar: Are you getting a higher number?

Sanjay Chawla: Yes I am getting a higher number of Rs.185 Crores to Rs.186 Crores.

Manish Dawar: That should be good for us right.

Sanjay Chawla: But you reported much lower number right?

Manish Dawar: So the 8.4 number Sanjay is basically the overall system numbers whereas the 164 revenue numbers is only the Ind-AS number, so as you know we do not consolidate fee entity and that is where that gap is.

Sanjay Chawla: So can you be sure paying customer base, which is relevant to you from an Ind-AS point of view?

Manish Dawar: That is what I told the split that we will start to put that in our presentation from next time onwards, so that you are able to reconcile the numbers.

Sanjay Chawla: What is the second quarter capex number?

Manish Dawar: It should be about I think Rs.40 Crores to Rs.45 Crores, but let me just reconfirm it.

Sanjay Chawla: So we are very close to the full year guidance in that case what you say?

Manish Dawar: Yes.

Sanjay Chawla: Just a last question can you share the contours of your broadband growth strategy in terms of the smaller towns that you are going to, how are the towns selected, or is the state of competition there, what technology you are using, what is the capex per customer, and ARPUs, can you just share the broad thoughts and views on that?

S. N. Sharma: There are a number of criteria that we selectively and very rationally go after a town after considering various features and characteristics of the consumer behavior and the requirements after detailed survey. The prime two reasons I can say is depending upon the strong strength that we have in that particular town, the strong presence and the kind of infra we have already built up in that town is number one driver for that and number two driver is minimum competition, so that you start making money at the fastest pace at lowest cost. These are the two major criteria that make us select the towns besides other typical factors of paying capacity and requirement, what kind of hunger is there, what kind of subscriber base is there, what is the ARPU level of that time plus there are variety of features and data points that we go after.

Sanjay Chawla: Out of these 10 towns that you have gone into are there any major competitors like any of the Telco's, which are present there or is it basically you are mostly dealing with probably BSNL and some LCOs who are providing broadband?

Manish Dawar: Look as far as the Telco players are concerned, the 4G network is now virtually almost everywhere, so those people are there, but in terms of let us say the wire line network there is not much.

Sanjay Chawla: What about the technology selection capex for customer profile and ARPUs that you expect?

Manish Dawar: We are not disclosing that at this stage Sanjay.

Sanjay Chawla: But technology at least can you share?

Manish Dawar: No because as far as the consumer is concerned they are only interested on the reliability of the network, the speed they are getting, and they are able to consume the data, so we are making sure that they are able to get the adequate speed and the reliability of the network.

Sanjay Chawla: Thank you. All the best.

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

Mayur Gathani: Thank you Sir! Just reiterating the phase 1 ARPU 117 and phase 2 ARPU 90, this is including the GST?

Manish Dawar: No. The revenue that we disclosed in our presentation, which is 117 and 90 excluding the GST.

Mayur Gathani: It is excluding the GST?

Manish Dawar: Yes.

Mayur Gathani: What is the LCO / MSOhared today, how it has moved Sir 55:45 is where we take it or it is still better?

S. N. Sharma: As far as phase 1 towns are concerned it is in the range of 55 to LCO and 45 to us, phase 1 and phase 2. Phase 3, we are close to 50:50 and phase 2 again it is 50:40 I would say. So the regulator allows us to get 55% that is why I am confident of reaching that 55%. Even if on an average we achieve 50% it is pretty good. Three years and four years back, we were not getting even 2% of the whole subscription revenue and the journey really took off in the last 12 months, which has given us the major turnaround that you all are able to see now.

Mayur Gathani: On the collection basis, can you throw some light how are the LCO sharing their revenues with you and how easy it is to collect money or is it prepaid, is there software that you have to control things or are things moved over the last?

Manish Dawar: The system has overtaken the human intervention. Absolutely, there is no personal intervention over there. Like in any service provider like in case of DTH or Telco's as the computer takes over human beings and whatsoever is the data is being followed by the machine and whether it is prepaid or whether it is postpaid majority of it today is still postpaid, but irrespective of the fact that whether it is pre or post we are clocking the collections that is what we all want. After all in prepaid you are suppose to give some discounts also and there are a variety of other things also. We are sticking to our guns and left it to the machine to handle the situation.

Mayur Gathani: Is there software that you have developed and share it with the LCOs?

Manish Dawar: You would appreciate that a database of 11 million subscribers and that kind of cannot be manually done it has to be a software base, it has to be system driven and for that portal is also there obviously. You cannot run that kind of data base without the system.

S. N. Sharma: LCO it is a transparent system. LCO has the total access to the subscriber and they can also switch on and switch off. We have given all those facility to their end for their respective subscribers.

Mayur Gathani: On the broadband side Sir your 205000 subscribers, so where are they mostly based, are they based in Delhi only primarily or there are other cities as well you are going to 10 new cities right now?

Manish Dawar: Delhi being the dominant one. There is a small presence in Kanpur and now as Mr. Sharma said we are rolling out 10 more small towns and therefore it will become more broad based.

Mayur Gathani: Delhi market share wise how would you be placed in the broadband?

Manish Dawar: Look we were late starters obviously the market share is low, but let us say if you were to look at the gross head, our share of the gross head, which is happening every month, we are sitting at a good healthy contribution there.

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

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

Naval Seth: Thanks a lot for the followup Sir! Can you give some kind of outlook on collaboration with BARC as you stated there is some revenue accretion, which will happen in the longer term, so any number to put over here?

S. N. Sharma: As of now, I would not like to make any statement on the numbers and all, but definitely with the return path opening from our boxes and the data some X number of boxes will be used. Data from some X number of boxes will be used by BARC and balance of the data, we can always do the analysis and use it for various other revenue scheme or calls to take care of the consumer habits and also share it with different advertisers who can accordingly get the advertising agencies placing their advertisement on our video channels. As of now, this much I can share, but it is too early to speak on the numbers.

Naval Seth: Any timeline you want to put from when revenue accretion would start?

S. N. Sharma: Going further after two quarters or so, we will start sharing the numbers also.

Naval Seth: Thank you so much Sir!

Moderator: Thank you. We take the next question from the line of Vivekananda S from Ambit Capital. Please go ahead.

Vivekananda S: Thanks for the followup. The reported ARPU that you have mentioned phase wise is including taxes right, so if I remove the GST from say the 117 number then that would work out to around Rs.96, but some of your peers are already reporting like Rs.105 ARPU as one net of tax, so is that understanding mistaken or should we compare the phase wise ARPU across the MSO industry?

Manish Dawar: Vivek I think I mentioned earlier. The numbers that we have stated are excluding the GST, so they are not including GST, so you cannot. So that is the number to be compared. So Rs.117 and Rs.90 respectively for phase 1 and phase 2 is we have taken out the effect of GST already.

Vivekananda S: Sure then you are saying next quarter onwards I will be able to derive the revenue phase wise because you will be giving that split of paying subscribers is that correct?

Manish Dawar: That is right yes.

Vivekananda S: The other question that I had was on the content cost, so right now are all of your deals fixed fee or is there an element of variability with respect to the subscribers you had and also with respect to the active subscriber account, how should we see the cost inactivity?

Manish Dawar: There are no variable deals with it.

Vivekananda S: Alright Sir! Thanks.

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

Kaustav Bubna: Sorry I just got onto the call, so I missed everything that happened. Just wanted to know on the broadband side we have now gone to 10 new cities as per your presentation, so what is the lag over there, what is the ground situation and when do we see revenues accreting from these 10 cities could you give a timeline and your strategy now, just basically on your your strategy in broadband?

Manish Dawar: Kaustav we have covered this, but let me just summarize it for you, so we started the rollout in 10 new towns already and we are expecting it will take about three to four months to complete the rollout and thereafter we will start to sell and that is where the revenue will start to increase, but to get to a meaningful penetration level whereby you are able to see the good numbers I think that is like almost about six months to a year away because the penetration level and you kind of achieve those penetration levels month after month and once we completed the rollout in these 10 towns we have already lined up the next list of 10 towns where the work is already in progress and we will start to execute the rollout post the completion of the current ones.

Kaustav Bubna: Great and was there any date given on new technologies, which like the open box and the progress of the HD boxing seeded?

S. N. Sharma: The trials are in place as committed to you. As of now, I am quite confident of making the announcement within Q3 and as I said the trial run of the same box that we are supposed to offer to the subscriber is happening when we are talking now.

Kaustav Bubna: Great. Congrats on the results. Hope you continue this performance. Thank you.

Moderator: Thank you. We take the next question from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: Just one question from my side. As you are the last to report amongst the MSO industry if I see as a phase 1 ARPU, you are saying 117 net of taxes, which I see a big jump around 7% QoQ and where I am coming from is most of your peers have reported a flattish season ARPU, which will be mostly in the range of 105 range to be just to give you a sense, so to part the question why you are seeing a high absolute numbers compared to your peers in phase 1 105 and 117 is a good difference in phase 1 where the penetration is already high and secondly you are saying you will again see a jump in your phase 1 ARPU, so given the 7% you have already grown where from the additional growth will come from, so these two from my side? Thank you.

Manish Dawar: We expect the growth to happen across all phases, so we still see that there is an upside, which is there in phase 1, phase 2 as well and we see a higher upside in phase 3 and phase 4. Coming to your first question in terms of why is that in your case the growth is higher than the peer group, you would notice that we started this journey in terms of increasing the ARPU and the collections from the LCOs almost about four to five quarters back and the competition lag and typically the questions used to be that why is DEN only able to do it and the others are not able to do it. If you see the others have also started moving in the same direction they have also improved and I am sure they will also catch up on where we are and they have demonstrated a higher jump in phase 3 versus let us say where we are on phase 1 and phase 2 I am sure they will catch up, so obviously we can talk about our strategy what we are doing. You would have seen the numbers that the other players are also catching up.

S. N. Sharma: Same question used to be asked around a year back also Why DEN alone is doing it. We have maintained strength and I am still confident and with confirmation I can say we will take up the initiative and leadership further and further and our peers will also do well. That is how the whole game is played out, so even if today they are Rs.10 lower than me, it is fine with me, so long as they have started following me very soon they will come at par with me.

Manish Dawar: So it is extraordinary together.

S. N. Sharma: I laid the pitch for them. It is easy for them to walk on the same pitch.

Avinash Kumar: I appreciate it. It is much healthier for the MSO industry per se, so just to get a little more hand, may be later on see ARPU phase 1, phase 2 basically will come from where the collections from the customer will increase or your share from the LCO collections will go up, so how will that be?

S. N. Sharma: I already mentioned that it will be mix of both and as we increase our share with LCO, LCO is smartly increasing the collection in the background from the subscribers, so it will be a mix of both. The revenue or the subscription from subscriber is going to increase as far as phase 3 and phase 4 is concerned because where there subscriber was paying a lower subscription and very soon you will see phase 3 and phase 4 the subscription level from subscriber to LCO will be catching up, will be going up very fast and of course there is sufficient room for subscriber to pay in phase 1 and phase 2 also.

Avinash Kumar: Phase 3 and phase 4 I completely understand that. Thank you so much.

Moderator: Thank you. We take the next question from the line of Chirag Siroya an Individual Investor. Please go ahead.

Chirag Siroya: Sir I just wanted to know what is the subscriber that we have added in phase wise on quarter-on-quarter basis?

Manish Dawar: Chirag we are not disclosing that as of now, but as I said we will start to give our gross numbers from the next quarter onwards by phases, so you will be able to get that number from there. Overall, in terms of the number of boxes, we have added about 2.5 lakh boxes during the quarter.

Chirag Siroya: What is the collection percentage against that billing, which are done within the six months?

Manish Dawar: 93% is the collection efficiency.

Chirag Siroya: Thank you.

Moderator: Thank you. We take the next question from the line of Shankar Shetty from Soaring Commodities. Please go ahead.

Shankar Shetty: Thank you for the opportunity. How do you see Jio as a competitor in providing cable TV with the help of their handset, do you see the Jio technology succeeding, is there any threat from Jio for the industry, these are three questions related to Jio, are we planning to have any partnership with Fastway?

S. N. Sharma: As far as Jio is concerned as of now we have not come across any plans of theirs to enter into cable. They have been talking about data. They have been talking about FPT X. Of course they are majorly 4G players and we have not seen them laying wires up to the homes anywhere in the country, but for small experiments in a couple of places. So as long as cable business and cable investments are concerned, I do not foresee any threat to that kind of business from the name that you took. Now what was your second question?

Shankar Shetty: I am not talking about the wire line, I am talking about the hand set with the help of handset they are planning to provide cable TV service?

S. N. Sharma: You see with the handset as of now it is our HD box that we recently introduced all your apps on the smart TV can be loaded on your TV set even if it is not a smart TV. Whichever STB is already a smart STB. Any client who has our HD STB just hooks up a dongle. This is not a data based dongle all it needs is a Wi-Fi connectivity with your handset and I am talking of now results. Your apps that you get on your smart phone smart device can be played on a normal TV also. So these are technological changes and technological upgradation that are going to come and we are ready to face it. In any case to convert your stream from your smart TV if you want to stream it out on the TV set the entire load the kind of spectrum that you need you yourself can imagine whether the network can handle that kind of spectrum, had that happened anywhere in the world, so far the kind of RF capacity that you need to draw to watch all these channels is huge, so practically speaking I do not see it as a threat to cable TV and as far as additional feature of sharing this content on the TV we are putting it backwards to Telco. Your apps and whatsoever your personal content on the handset is there you can play it out on a normal TV set, so all these are technical advantages and we are pretty much geared up as we mentioned and the other gentleman also asked me about this open android box that we are going to announce in Q3. The trial run is already on wherein your TV will be able to get 4K channels also. So there are a couple of announcements that we are going to make in this current quarter and absolutely as far as my business line is concerned, I am confident I am under no threat.

Shankar Shetty: Are we planning to have any strategic relationship with Fastway?

S. N. Sharma: Fastway there is understating on the ground on certain operations that is a typical case that happens from MSO to MSO on the basis of certain ground reality, but there is no strategic understanding.

Manish Dawar: Fastway it is like any other competitor for us.

Shankar Shetty: Thank you. That is it from my side.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

S. N. Sharma: Thank you very much for joining us and we really appreciate the interest shown in this Q&A hour. We look forward to seeing you very soon with more and more positive outcome. Thank you very much.

Manish Dawar: Thanks a lot ladies and gentleman.

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