



“DEN Networks Limited
Q4 FY2018 Earnings Conference Call”

May 21, 2018



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Moderator: Ladies and gentlemen good day and welcome to DEN Networks Limited Q4 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 now hand the conference over to Mr. S.N. Sharma, CEO of DEN Networks Limited. Thank you and over to you Sir!

S.N. Sharma: Good afternoon ladies and gentlemen. Thank you so much. Welcome to all the analysts on the call and thanks for being part of Q4 FY2018 and annual results earning call for DEN Networks.

Cable subscription ARPU including taxes for DAS1, 2, 3, 4 markets stood at 144, 113, 78, and 66 per box vis-à-vis 142, 113, 76 and 66 per box respectively in the previous quarter. Please note that ARPUs are average for the quarter inclusive of taxes on per box per month basis. Cable subscription revenue has marginally improved to at Rs.175 Crores for the quarter compared to Rs.174 Crores during Q3 FY2018.

There is a growth of 12% during the quarter compared to Q4 of FY2017. Phase 3 witnessed a robust growth of 30% during FY2018 compared to FY2017. Overall ARPU has improved by 19% from Rs.74 during FY2017 to Rs.88 during FY2018. During the quarter, the company has undertaken successful field trials of new generation android boxes by providing high quality 4K services, graphic rich, interactive games, voice search using mobile app and content sharing.

In summary, ARPU of phase 3 has witnessed remarkable growth over the past two years Rs.46 in Q1 of FY2016-2017 to Rs.80 in Q4 FY2017-2018, which are fast catching up with ARPU of phase 1 and 2. As phase 3 is 50% to 55% of our universe, phase 3 market is a potential growth driver for us. Growth in phase 1 and 2 during the year was achieved by way of maximizing our share by continuing to build our relationship with LCO partners on the ground.

Technology is a great enabler for future growth, in this regards, tie-ups with BARC give us an edge over the data analytics, which will be leveraged for better consumer experience. We are currently focused on increasing HD box penetration and new generation android boxes. Broadband business continues to be stable despite drop in revenue due to competition in our



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core Delhi NCR market, EBITDA losses have reduced from Rs.9 Crores loss during FY2017 to Rs.1 Crores loss during FY2018. This is all due to focus the efforts on cost optimization primarily.

EBITDA during Q4 2018 continues to be at break even as was during Q3 of FY2018. DEN Network has got cable footprint in over 13 states across the country. DEN is in strategic advantage to tap that huge broadband market by utilizing the existing cable infrastructure which has the potential of delivering value to all the stakeholders concern including the customer who would get the final product at affordable price. In this regard, we have launched a plan to expand our broadband presence in 100 cities on a capex light model. With this I would like to hand over to Mr. Himanshu Jindal, our CFO to walk us through some of the important financial numbers. Thank you. Over to Himanshu!

Himanshu Jindal:

Thank you Sir. Good afternoon ladies and gentlemen. We have already circulated the presentation for Q4 financial results of 2017-2018. The year summary, which I am about to share with you, is based on the reported Ind-AS numbers and our like-to-like comparison excluding discontinued businesses. As you know, we have exited the TV shopping and the football completely and therefore the comparative figures are only on the basis of the continued businesses.

The net debt for the company has reduced to Rs.157 Crores as of March 31, 2018 compared to Rs.169 Crores in March 2017. Net debt EBITDA is 0.55, which means the balance sheet is pretty healthy. The credit rating has also been upgraded by ICRA in November to A from A minus. Consolidated revenues for the full year were at Rs.1287 Crores from base of Rs.1142 Crores last year that gives us a growth of 13%.

The cable subscription revenues were also up 22% at Rs.667 Crores. The cable ARPUs net of taxes for the years stood at Rs.116, Rs.92, Rs.63 and Rs.47 per box respectively. Q4 ARPU was almost flat sequentially, which is on a net of taxes basis. Consolidated EBITDA has jumped to Rs.283 Crores during the year compared to Rs.183 Crores the year ago, which is Rs.100 Crores improvement and signifies a growth of 55% as far as EBITDA is concerned. Along with the associates, which are not getting consolidated at the moment, the EBITDA figure stands at Rs.326 Crores versus Rs.220 Crores last year.

With this, the total cable EBITDA margin stands at 22%. Revenues for the broadband business stood at Rs.75 Crores during the quarter compared to Rs.82 Crores during the previous year. Drop in revenue has been offset by the cost optimization initiatives and as a result broadband EBITDA loss has reduced from Rs.9 Crores to Rs.1 Crore during the current financial year.



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The company as a whole has reported a consolidated PAT loss of Rs.17 Crores during the year versus a loss of Rs.183 Crores in the previous year and Rs.-433 Crores on a continued business basis in the previous to previous year. During the quarter PAT loss is reported at Rs.10 Crores compared to PAT of Rs.2 Crores during the Q3 primarily due to reduction in the activation revenue by Rs.12 Crores.

A little bit on the quarterly numbers as well, on the cable front revenue was Rs.299 Crores, the content cost was Rs.142 Crores and the other opex Rs.98 Crores and EBITDA Rs.59 Crores is what we achieved. On the broadband side the income was Rs.17 Crores, EBITDA was flat, the PAT was Rs.-8 Crores, and broadband ARPU for the quarter was Rs.565 versus the Q4 last year, which was Rs.733. With that I would like to open the floor for question and answer. Thanks a lot.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Utsav Shah from Cap Grow Capital. Please go ahead.

Utsav Shah: I wonder what are you doing to take the Reliance as a competitor and to battle that because Reliance network is growing fast and the data connectivity is the main source of data in Mumbai right now.

S.N. Sharma: Can you repeat the question I am not able to understand the question.

Utsav Shah: I was wondering how are we trying to fight this threat of Jio as data competitor for you all?

S.N. Sharma: You are absolutely right that Jio has mega plans to rollout broadband business and we all have been hearing this and are in know of this for last two to three years when, how, what they do only time will tell. I am nobody to comment on others business. We have also seen a lot of stress in the fixed line broadband ARPUs of all the major metros be it Bombay, Delhi, Bangalore, Kolkata also or rather I would say the top 10 towns of the country even in City of Delhi ourselves so far as whatsoever broadband business we have done has been done in City of Delhi only and we have seen huge slide in the ARPUs because of tough war or the tariff war amongst the telcos that is still intended to wireless business, but definitely it has impacted on the overall business. That is why the realizing the effect that they telcos are yet to wire up are yet to reach the homes they are all wireless, they are still far away from laying fiber optic, reaching the homes and we for video business already have infrastructure, our network combined with network of last mile of cable operator. Our fiber is just 100 meters away from each of the subscriber that is being served by us. So in view of the whole thing, we have planned out instead of just focusing in Delhi, Bombay, Chennai and all these places where already there in stress on broadband tariff structure. Why not



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cover the rest of the country where it is also virgin area and demand is equally good. So in this year we will be covering 10 states of the country overall DEN is present in 13 states, we have year marked 10 states and out of those 10 states we have earmarked 100 cities wherein we will be rolling out broadband. The process has already got started from April onwards and as we move forward as we start enabling different towns, we will be sharing the details with you. Over there our ARPUs as of now as per our plan are in the range of Rs.550 a month which I believe is quite competitive in view of the fact that we will be giving 20 MB speed on an average, and then definitely there will be different packaging. Telcos today are operating with the speed of 5, 6MB and max-max they talk of 9MB being delivered any telcos overall that is what TRAI data says and even in terms of data, monthly data is not more than 45GB that they are delivering and in our case data will be sort of unlimited to ensure the subscriber is stuck to our network.

Utsav Shah: Thank you.

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

Naval Seth: Sir couple of questions on cable first of all if you can share the collection efficiency for the quarter?

S.N. Sharma: Collection efficiency for Q4 is 91%.

Naval Seth: Sir any specific reasons why the same has fallen both on Y-on-Y and Q-o-Q basis?

S.N. Sharma: Definitely, I will be happy to share the effect and it is for a simple reason you all must be knowing that lot of content was denied to the subscriber during Q4 that was due to some issues with leading most broadcaster that is Zee Network wherein there was issue related to hike that already annual hike that was being asked and what we were willing to pay. That issue is now solved and settled. Instead of giving any discount, we simply followed procedure wherein instead of discount, we deferred the collections to an extent possible and I am pretty sure that very soon this money that has got struck after all Zee procurement primarily select of 50 plus channels so denying the content and then asking and ensuring the same kind of numbers is slightly difficult, but going forward that money will be taken out by us from the ground to the maximum possible and as and when it happens, it will be reflected upcoming quarters.

Naval Seth: And the same can reach to 95%, 96% level what we have seen in the past?

S.N. Sharma: In the range of 94%, 95%.



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Naval Seth: Second on the subscription growth so going forward your ARPU improvement strategy is working well till when we can expect double-digit subscription growth coming in from ARPU increase or there is also strategy to further increase or focus on the subscriber market share and drive with the balance of both volume and value growth?

S.N. Sharma: As far as volume is concerned, we are no hurry to increase the volumes without ensuring that proper subscription will be paid by the subscriber to us or the LCO collects and gives us fair share of the revenue that he collects otherwise we are not going to go for expansion just for sake of expanding and extending any subsidy that has been the principle we have been following for the last two years and we are going to stick to that. Yes definitely there will be increase in the subscription rate. I have been already from so many quarters been telling and highlighting that phase III, IV revenues also have to go up to the level of phase II and III sequentially over a period of time step by step and I am quite confident that whatsoever hike that has come to us, that has hit from broadcasters will be passed on to the subscriber, not just high including some inflationary increase in the overall opex is that whatsoever to cover all the aspects suitable hikes will be taken out expected from the ground going forward.

Naval Seth: Sir on competition as the competitor intensity reduced or as competitions now aligned with us on the ARPU increase any comments on that?

S.N. Sharma: Yes initially we all know that competition was not getting alive but I am happy to share that after a lot of tough war and whatsoever they were wanting to do, things have started changing. There are two national players who are in competition to us. I would at this stage say that one of them has got aligned and is just three to four months behind us. The other one has also I am hearing good updates but I am yet to see but I am sure that they would also not be in Q2 onwards, they would not be much away from us, but I am quite confident even the other peer of mine will also start following the same course.

Naval Seth: And my last question is on box seeding in Q4 and capex guidance for FY2019?

S.N. Sharma: Box numbers that was you want to number of boxes seeded in Q4?

Naval Seth: Yes.

S.N. Sharma: That is Rs.75000 boxes. Primarily the number got dropped for another reason of lower content being offered to the subscribers. So one major bouquet was off, so definitely naturally any subscriber would like to have the entire thing and that is why we did not bother and I am not guiding anything that yes, if that is the price, we did not give enough focus on this number till things are settled because no point in absorbing or taking the cost



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and just go on expanding, expanding without any meaningful business. What is the other question you asked?

Naval Seth: Capex guidance for FY2019?

S.N. Sharma: For 2017-2018?

Naval Seth: For 2019?

Himanshu Jindal: On the capex for the last year may be I should start from there that is Rs.138 Crores, of which a very meagre amount was spent on broadband, which was around Rs.12 to 14 Crores. Coming to the next year see a lot of it would depend on what we intent to do which is basically we are trying to focus more on HD seeding now. This is going to have to play. Obviously the moment we spend money on HD boxes we recover it also simultaneously from the customer. On a broader basis we will have some gain but that would obviously have a play without getting into numbers this time for the next year.

Naval Seth: Thank you and all the best Sir.

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

Sanjay Chawla: Thank you for the opportunity. First few questions and housekeeping questions related to the cable business. You said that seeded 75000 boxes, but have not seen any increase in the net digital customers, which remains at 7.4 million, so is the entire thing number of churn customers?

Himanshu Jindal: Sanjay Ji, sometimes the box is a conversion from SD to HD, okay, so that is also happening. The other bit is if you look at it from a broader basis, 7.2 million has gone up to 7.4 million. There are boxes that we purchased during the year, I am saying for the full year. So we purchased boxes, there are certain boxes, which are still under scheme, there are boxes, which are inactive, and there could be multiple reasons that play examinations, festivals, etc. So certain things, so you see here the number is not really so if you try and combine our numbers quarter-on-quarter, it may or may not happen that the total number of boxes add up at a particular point of time in a year. But yes, these boxes are there and they will start giving us the subscription revenue that we so desire in the coming years.

S.N. Sharma: And just to add it to Himanshu, in the past, we have been saying that we have so much seeded boxes, and these are the active boxes. So there used to be queries that what is the bill



boxes number, and the ARPU is not matching. Henceforth, we have decided consciously that we will be giving you the actual build boxes to take off any confusion in life.

Sanjay Chawla: Yes, I know that is very good. Quite appreciate that. And my second question is the activation income collected as per I-GAAP in the fourth quarter and on a full year basis also, FY2018?

Himanshu Jindal: So activation number in that was 24 Crores this quarter, which was slightly lower than the last quarter, which was 36 Crores. So you see a drop of 10 Crores there, but that is on a broader level basis.

Sanjay Chawla: Sir, my question was on in the Indian GAAP basis, I-GAAP basis, in terms of actual collections?

Himanshu Jindal: 8 Crores you say roughly.

Sanjay Chawla: 8 Crores in the fourth quarter?

S.N. Sharma: Are you asking for the whole year?

Sanjay Chawla: Both.

Himanshu Jindal: Sanjay, we have seeded 75000 boxes like I said there is no subsidy anymore so Rs.1000 box that broadly the number, which comes in the sits in the P&L.

Sanjay Chawla: So, that for the last quarter almost 8 Crores as you said?

Himanshu Jindal: Yes.

Sanjay Chawla: And amount for the full year?

Himanshu Jindal: For the full year 117 Crores activation.

Sanjay Chawla: 117 Crores as per Indian GAAP?

Himanshu Jindal: Sanjay, it should be broadly the same.

Sanjay Chawla: Fine, what is the STB inventory, which is reflecting in your capital work-in-progress?

Himanshu Jindal: Can you repeat the question please?



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Sanjay Chawla: Yes, in a set top box inventory in terms of 100,000s of boxes, which is reflecting in your balance sheet currently?

Himanshu Jindal: 100,000 STPs roughly, Sanjay.

Sanjay Chawla: Finally, can you update us on the content deals that you have signed so far for the coming calendar and the fiscal year some kind of increase in your content cost that one should expect in terms of gross basis?

S.N. Sharma: As of now whatsoever has been done is all settled for next 12 months, but for Star, Star gets renewed after nine months that in January and rest of the deals are all settled till April 2019.

Sanjay Chawla: And all these deals have been signed up?

S.N. Sharma: All these deals have been signed up and are firmly in the place.

Sanjay Chawla: And what kind of increase broadly we should expected in our content cost for the coming fiscal year?

S.N. Sharma: It is in the range of less than 15%.

Sanjay Chawla: Less than 15%?

S.N. Sharma: Yes.

Sanjay Chawla: My question is you have reported a 14% increase in your content cost in the last fiscal FY2018 right and we expecting the similar kind of increase next year so given the fact that you are not seeding too many boxes in terms of going after new territories, new areas one would have expected a lower increase in the content cost, but that does not seem to be case, what would be your thoughts on that?

S.N. Sharma: The forecast area has been for last two years, I have been repeating: monetization, monetization, monetization. Phase 3 ARPUs are still at a very low-level in comparison to forget Phase 1, even vis-à-vis Phase 2. The ARPUs have to be taken up to do many meaningful business. When we do the deals with the broadcaster, as per regulation, regulator does not distinguish the content cost between Phase 1, 2, 3 and 4. Analog times are different, today is different. Today, the content cost happens to be the same across countries. So even if you go in for expansion mode and you do not recover the content cost does not make sense to us, at least to us, others I cannot say. So we are, as of now, focusing on increasing the ARPUs majorly in Phase 3 and 4, which happens to be 50% of our base.



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And some incidental increases will also be taken from Phase 1 and 2 also although Phase 1 is at a level of Rs.144. But I will be able to stretch so far these results further in Phase 1. Phase 2, considerable hike will be taken, and so is the case in 3 and 4. Besides that, we have a plan, I have been telling you in the past also, going forward, to convert 10% of our SD base into HD. And if I am able to do it, which I am quite confident, whatsoever we have been claiming and telling in the past that surely has happened in reality also. So that will bring in extra mollah to me because that does not drive any extra cost or any extra content burden on us. So these are the two areas. That is how we are going to not cover the hike in the content, but we'll be getting additional revenue generated in that city.

Sanjay Chawla:

Mr. Sharma, Sir, the only issue in this industry has been that I mean, the MSOs have tended to lock at a certain level of content cost increase whereas, there is obviously less certainty about the increase in monetization. I am not saying monetization will not grow, it will happen. But, obviously, you are still locking in a certain level of content costs and that becomes the base for the next year increase. So I am just wondering, 15% just seems too high to me that is why I thought well, anyway, I guess we will have to wait for monetization to progress.

S.N. Sharma:

Chawla Ji, all I can say is just see our trend record of that or track record of last six quarters that gives you answer that query and nothing more I can share in it. All I can say is you would have you can see a growth of vis-à-vis financial year 2017 with subscription in cable has got increased by 22%. So that also itself speaks about what we have already delivered. I will not speak more than that.

Sanjay Chawla:

Sure, what is the number of, HD boxes in terms of HD paying customers that you have on your network as of March end?

S.N. Sharma:

As of now, it is close to 1 lakh only, 1 lakh plus something. It is not whatsoever you people keep are asking me. I have already said that let us start talking it from Q3 onwards. The boxes are being seeded aggressively under different schemes. As the volumes build up, then it will be worthwhile to mention the subscription levels of HD. And we will be very happily to share it because that is going to add to the revenue thinking of mine. After all, I also have internal AOP on which I am functioning based on KPIs I am supposed to deliver also. So I am quite confident I will be able to do justice to that.

Sanjay Chawla:

Realistically, over what timeframe do you expect 10% of the SD base?

S.N. Sharma:

Over the next 12 months I had been saying.

Sanjay Chawla:

Next 12 months, so March 2019 we should expect that?



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- S.N. Sharma:** Yes, March, April something like that.
- Sanjay Chawla:** Sure, sure. This is good. Just a last question, a housekeeping one. Again, on your balance sheet that you have shared for the year-end, there is pretty a large amount on account of deferred revenue of Rs.472 Crores. So what are the sources of this and can you share the breakup also of this, please?
- Himanshu Jindal:** Sanjay, this is basically the activation that you have seen. So you know we will receive it and we will park it there so that we can amortize it over a period of 8 years as is the life cycle of the set-top boxes.
- Sanjay Chawla:** Okay. So this entirety belongs to unamortized unrecognized activation revenue?
- Himanshu Jindal:** 100%.
- Sanjay Chawla:** This is great. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.
- Gautami Desai:** Yes, I just wanted to recheck the net of taxes ARPUs and all the three phases per month. It's 92, 63 and 47. Am I right?
- Himanshu Jindal:** So I will repeat the net of taxes ARPUs for you, Gautami. So the cable ARPUs net of taxes for the year were 116, 92, 63 and 47 per box versus 100, 76, 49 and 33.
- Gautami Desai:** Sir, these are full year you are right?
- Himanshu Jindal:** Yes, this for the full year.
- Gautami Desai:** So, can you tell me for Q4 how these numbers stand?
- Himanshu Jindal:** Sure I can give you that as well, so Q4 numbers for phase 1 was 122, phase 2 was 96, phase 3 was 68, Q4 53, so all in all flat over Q3.
- Gautami Desai:** These on Q4, so basically I would be right if I just remove 18% from your bill right that is the only adjustment I have to put?
- Himanshu Jindal:** Sorry, I missed your last part.
- Gautami Desai:** To get at the net of taxes figure, I just have to remove 18%, right?



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- Himanshu Jindal:** Yes, remove the 18%, absolutely.
- Gautami Desai:** Fine and all your reported content cost and everything is after GST, right?
- Himanshu Jindal:** Correct.
- Gautami Desai:** Thanks a lot.
- S.N. Sharma:** I would like Himanshu to clarify again on GST part.
- Himanshu Jindal:** So, you know anything which going into the P&L is without GST, so excluding GST it is landed cost or landed revenue to me.
- Gautami Desai:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora:** Thanks Sir. I wanted to get a sense on high-definition boxes and like how you are doing aggressively without offering subsidies? Should we take it as a given that going forward you will not be offering any subsidies?
- S.N. Sharma:** Subsidy is my out of my syllabus, Sir. My board does not allow me to even spell the words. I have forgotten the spellings of subsidy, Sir. I have been very upfront and forthright.. Our HD box offerings are pretty strong. That is the strongest box that is being offered. It has an external memory device feature. You add our specific, what do you call it, Dongle kind of device to it. That will enable lot of apps from your handset to be displayed on the TV. A normal old-time TV set can be converted into Smart TV, not HDTV. But the old-time, even those, if you remember, box kind of TVs that used to exist in our lives, even 80% of our country still has those boxes. If that subscriber goes in for our HD box, his old-time TV can be used as smart TV. And all these apps, not all, but plenty of the apps that will be controlled by us from the back end will be enabled on the TV. Not just that, the controlling of the TV that is the remote can also be loaded on your smartphone that is being used in every household. Every household nowadays, practically has a smartphone in the home. So that TV can be controlled using a smartphone, which is a very user-friendly kind of arrangement. So with these kinds of features, the offering is great. The box is being offered at Rs.1500 to Rs.1600 depending on various schemes and numbers that are being asked by the operators. This includes three months free subscription for HD. So basically, I do not see any reason that for the HD box the subscriber is willing and the boxes have started going out also. So I am quite confident that we will be able to and this is for the first time



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we have deviated from the past wherein we used to do a deal with these LCO and never bothered to explain our schemes to the subscriber. This time, we have gone to the subscriber end, and we have openly transparently displayed our hardware prices so that there is no jugglery and misguiding to the subscriber. Of course, it led to a situation there was some resistance in initial days, but those days are over and operator has realized that this is the way forward, and we have all the reasons and logics to tell the subscriber the end price of our product.

Kunal Vora: Sure. But like still convincing a customer who is not even willing to move from CRT to panel television the additional Rs.1500, Rs.1600. Like how are you doing it and like would you be confident that? Yes, yes. So what gives you confidence that the customers will do it? Because like if it was your portion, if you are giving subsidy and like the price for upgrade was very small, it would have been easier. But with the Rs.1500 additional amount, which the customer has to shell out, how are you convincing them?

S.N. Sharma: Sir, a lot of marketing efforts are going into play. Broadcasters have also aligned with us. A lot of workshops are being conducted, lot of training sessions are being conducted across the country. Below the line activities are being undertaken by us and whole lot of system is put into place to enable this conversion, and I am not talking about 30%, 40% conversion of my HD box. I am talking of the top 10%. So it is not that the subscribers of cable TV are not willing to pay for the quality product. Definitely, they are willing to pay for a quality service provided the service is enabled. Till now, we ignored on this since we were busy in correcting our SD subscription model where there was roadblock. You are right, earlier it was not possible to even collect Rs.30, Rs.40 on the LCO, but today the same LCO is paying me Rs.144 in Phase 1. And this is just in two years' time it has happened. So the beauty of cable is it took us four years of Phase 1 going to Rs.144. For Phase 3 to go to Rs.90, it has taken us less than one year. And very soon, it will be inching towards the same level. So I am 100% convinced that there is a demand. The subscriber definitely is looking for HD services. The price also that we have given. In earlier days, we were offering HD box at a very high price. The hardware prices have also fallen down. That time it was being offered for Rs.4000 or Rs.5000 where we felt lot of resistance. Today Rs.1500, Rs.1600 is not a big number as far as HD mechanism is concerned.

Kunal Vora: Sure. And what are you doing with the old boxes
S.N. Sharma: Those are being used to replenish some boxes that go out of warranty that go dead and in some nominal expansion in some far-off places of Phase 4 where the ARPU levels are pretty low. That is what is being done to the boxes specifically.

Kunal Vora: Sure. That leads me to the second question actually. So with content cost similar for Phase 2, Phase 3, Phase 4 customers and the ARPU being so different like Rs.50 versus Rs.100. Is



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it profitable to add customers in Phase 4 markets? Especially if you do not think those customers have an ability or potential to pay a lot more compared to what they're paying specifically content costs are similar, sorry.

S.N. Sharma:

I am not talking of volumes. In this session only, there were questions on expansion that was the reason Phase 1 and 2 is all saturated market. Phase 3 also, in terms of seeding, majority of it has been done. Now how do you go and do further seeding is naturally if somebody subsidizes. And subsidizing is out of syllabus of DEN Networks I can definitely and upfront tell you. Phase 4 is the only place where 20% to 30% of market is yet to be seeded wherein you gradually and I am not very keen in expanding to the place where my delivery cost of content is also more than the content cost. You are talking of content cost, I am talking of delivery of content is also becoming abnormal. So in that area, we better do not go. We only go Phase 3 and 4 are sort of over midst, there are entrenched boundaries between 3 and 4, so whenever there is a market for Phase 3, surrounding villages which are there, where the operators will come and take the boxes and we get dues the way we want, after all they are also going to increase their channels from 50 what they are watching today to 300 meaningful channels. So the life changes and gradually they are forced to increase the subscription. What you are asking is a valid question, but imagine two years back it used to be a different perspective altogether. The industry was not able to collect Even if the operator was collecting, we were not able to deal with the operator and bring out our fair share of money, but that has happened. So going forward, I am quite confident that we will be able to recover more and more subscription.

Kunal Vora:

Sure. And my last question. How has the response been to your new broadband offering? You are doing broadband business? How has the initial interaction been with the LCOs and any launches, which you have already done?

S.N. Sharma:

Yes, it's pretty good. We are moving very swiftly in that front. We have a plan to enable 15 towns in the first quarter. Overall, 100 towns have to be enabled, and you will be surprised that LCOs themselves are approaching us, besides our team approaching because we already have the infrastructure in place. Our local offices have been put into action. They are signing our LCO. Please understand that from signing to enabling a town, it is a two to three months' gap that is involved because you got to tie up with telco for delivery of bandwidth. You got to put up some nominal electronic. There is a lot of things open now, so a lot of logistics are involved so whatsoever 15 towns we sign up, rollout, really impact the results that will be shown to you or shared with you will be the work of Q1 will start delivering in Q2 onwards. And then this is generally from one subscriber to 100, to 1000 or 2000 or the way it increases, we will keep on sharing. So every quarter, there is a milestone on which we are working. And these 15 towns vary from different states to states. It is not just we are focusing in Uttarakhand or UP. We are going to Bihar also. We are going to



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Rajasthan also. We are going to Madhya Pradesh also. So a whole lot of variety of states is being planned out given on Q1.

Kunal Vora: Great. Thank you Sir. That is it from side.

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

Rohit Dokania: Good afternoon gentlemen. Thank you for the opportunity. Just two to three questions from my side. I actually joined the call later. Sir apologies if that is a repeat. One is if you can talk about I believe sort of net ARPU in this quarter was probably flattish on a sequential basis across phases. So could you please explain the reason why?

S.N. Sharma: Rohit, the basic reason as I explained earlier there was a shortage of content being offered to rather short delivery of content not shortage. There was an issue with Zee networks. And the content of Zee network that means roughly around 50-odd channels. But now there is a split. 300 channels have moved out so the number is reduced during this issue that prevailed between us and Zee related to hype being demanded and being offered that we could absorb. That issue is now settled. But since there was a short delivery of content of the Zee Network instead of passing on any rebate, we just deferred our collections and the suitable hype henceforth, we will start enabling the hype. All that hype that has come in the shape of content will be passed on to the ground, to the cable operator. We are very clear about it.

Rohit Dokania: Sure, understood. Okay. Clear. I do not know if you have any sort of guidance a small guidance, at least broad indication of where one should look at in terms of phase-wise ARPU towards the end of this year. So if I am not wrong, for example, let us say if we close the year at Rs.122 in Phase 1, how should we look at Rs.122 towards the end of FY2019 and if you can give some indication?

S.N. Sharma: On this platform, all I can say is please look at my past track record, and I will ensure that I keep on delivering on the same level in the same manner, and I request you to kindly wish me the same on this. But I am afraid we would not like to make any future guidance on that front. I have never been doing so. All I have been saying and whatsoever I have indicated, the track record says that we have delivered that.

Rohit Dokania: Yes. Yes. Absolutely, the last six quarters has been great in terms of the metrics; just one last question also in terms of the length of content deals. I mean I remember earlier there was an issue of our content deals probably 1 year long whereas DTH was able to sign 2- to 3-year long deals. So what would be the average sort of length of the deals that we are able to sign with broadcasters currently?



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S.N. Sharma: Sir, the deal with Sony and I. Cast were two years' deal. Star and Zee begun into a trend that they are now signing only one-year deals so as of now our content deals are all frozen till March and April next year. So that is the length. And then all of them become due for renewal. So as and when it happens, whatsoever is the process, we will follow that process. Because you see the broadcaster is also now getting confused as the time passes by as these updates on upcoming tariff order also come into our life. So nobody is willing to sign up for a long-term deal, and that is where we stand today.

Rohit Dokania: Understood Sir. Thank you very much and wish you all the best.

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

Dipesh Mehta: Thanks for the opportunity. Sir, just two data related question, can you help me with digital subscriber base which we have at the end of year?

S.N. Sharma: 7.4 billed customers plus 1 million for the associates. So total billed customers, Dipesh, would be 8.4 million.

Dipesh Mehta: Total setup box seeders so earlier let us say last quarter digital sub-base was around 11.2 million, what would be that number now?

Himanshu Jindal: So that is the universe, Dipesh. So what we are billing now, I think that here has been a request in the past that you want to know how much is the billed customers. And this is what Sharma Ji also mentioned earlier. This is what we have indicated in our releases as well.

S.N. Sharma: The box that does not produce any revenue is of no use to you, to me, for any kind of analysis. So let us talk of the pure money that is being received by us. That is why we are avoiding those numbers.

Dipesh Mehta: Sure, sure. And can you help me with the broadband subscriber base? Because it seems to decline substantially while revenue remain more or less same. So if you can help me understand Q4 performance?

S.N. Sharma: Broadband subscriber base.

Dipesh Mehta: Yes.



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Himanshu Jindal: So, Dipesh that is 107000. This is the same figure, which goes to TRAI. I think, in the past we have been showing home passes. We have been showing total subscriber base as more than 200000. But this time, considering that we want to bring in more transparency to the entire team, we are showing you what we bill today how many customers we bill today.

Dipesh Mehta: So, can you help me with quarter-on-quarter kind of movement, how we change?

Himanshu Jindal: The number has been more or less stagnant. If you see Q3 and Q4 it is being more or flattish.

Dipesh Mehta: Okay, and do you believe now the ARPU pressure?

S.N. Sharma: This is just for your understanding. Otherwise, we have done a close to 9 lakh home passes upgradation wherein we are receiving money from the numbers that Himanshu just mentioned. Yes, please carry on with the next query.

Dipesh Mehta: So I have two related queries. I am not very clear about the difference between 200K plus number what earlier we used to report because that was separate from home pass numbers. Now we are saying 100000, which is only paying versus modem kind of number or how one should look at it?

Himanshu Jindal: So the right way to look at it would be that you know these 200000 odd customers are the customers that we did business with at some point in time. Today, the business that we are doing is 107000. This is how we should look at the numbers. So 11 million like the same logic, 11 million versus 8.4. This is the same logic coming here as well.

Dipesh Mehta: This is active paying kind of number?

Himanshu Jindal: This is the active base kind of a number, yes.

Dipesh Mehta: Okay. And second question is about broadband strategy kind of whether we have put some numbers, how much subscriber base we would like to have because now we have changed our business model to franchise model. So are we putting some numbers or internal target, which we have set for ourselves? And can you say those things so we can monitor how we are tracking things.

S.N. Sharma: In one year that we will be enabling 100 odd towns. Definitely, we are working on a target, and there are numbers going to be achieved. But this year, it will be primarily enabling and putting the things into place. So as I explained any town that I want to go in from the town that I plan to go in, there is a lot of activity that is involved from date of signing, then



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trading, then giving them all the details, then explaining them the quality standards that they are supposed to follow. This is unlike cable TV. Cable TV, we inherited the business that was being managed by cable operators, the ground level things were setup by cable operators. Herein, we will be ensuring from day 1 that he follows the quality standards being prescribed by us. He goes in for hardware that we allow him to go so that 100% delivery of specification and quality is ensured. In view of this, the numbers are not going to be very high. In first year we are targeting for 1-lakh subscribers. Going forward in year two and year three, the real growth will come in. I would not like to give you the numbers at this stage, that is part of the annual plan that we have given to our board. But I am quite confident you all will feel happy since it is a very capex light kind of model. It is not going to bring in much stress on us.

Dipesh Mehta: Sure. And the last question is about content related. How one should look net content carry cost kind of thing? Because if I look from Rs.10 odd in FY2017, now we are at around Rs.15 for the full year and 2017 on exit basis. How one should build this number?

Himanshu Jindal: See, Dipesh. I think, we should not look at content minus placement. These two are separate things. For a few broadcasters there is a deal done on a net basis, but more importantly, there are others also with whom we are dealing on a gross basis and there are free to air channels also where we are getting carriage. So I think these two are separate elements and should be considered accordingly.

Dipesh Mehta: Okay, so you do not expect because broadly, what you are indicating is your subscription revenue growth to be better than your content cost growth. So in a way you are indicating their number should not increase further?

Himanshu Jindal: What should not increase further, what you said? We are not been able to understand the question can you repeat the question in totality?

Dipesh Mehta: So, when I say net carry cost is content minus placement, now you are indicating you should look both separately, if I look both separately you are indicating your subscription revenue growth should out pace your content cost inflation, which is roughly 15% you are indicating, so in a way you are indicating your net if one would like to look at it, it should not have further dent kind of thing on our profitability?

Himanshu Jindal: See, Dipesh. I think you should try and appreciate that you know like Sharma Ji also mentioned ARPUs have to move across all phases. Alternatively it is about convergence and further move up. So whatever costs come in and in terms of input cost would have to be passed on to the market one way or another. The other elements, which will help us to be able to pass on the entire thing and maybe earn something more, is the HD monetization. So



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there are levers in place, which should help us realize what we need ultimately on an operational front.

Dipesh Mehta: May be if can take it offline, but last thing HD I think Sharma Ji mentioned your content cost will not increase even it is converted into HD, whether we have signed such deal with the broadcaster , Sir?

S.N. Sharma: Yes. It is all in place. What I am speaking here, I am 100% sure of. I am not going to give you any surprise till the date deal is signed. And I have just given the dates for duration for which deals are already in place.

Dipesh Mehta: No, my question was SD subscriber base and HD subscriber we pay same amount to broadcaster?

Himanshu Jindal: Yes, HD is the part of the package.

S.N. Sharma: It is a consolidated deal. The amount that is being paid to them is meant for both SD and HD services.

Dipesh Mehta: Irrespective of the mix kind of thing at least for the near future?

S.N. Sharma: Yes.

Dipesh Mehta: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Ishpreet Kaur from Pharma Capital. Please go ahead.

Ishpreet Kaur: Sir, just taking cues from the previous question, like you said, so the 15% increment in the content cost. That is on an absolute basis. Does that take into account the Rs.7.4 million-subscriber base that we have or are you factoring in?

S.N. Sharma: Ishpreet, can you repeat the question? Your voice is a bit feeble. Can you be a bit little louder please?

Ishpreet Kaur: So the content deals that have happened and now that we have signed, are they on an absolute basis or a per-subscriber basis?

S.N. Sharma: No, it is a fixed use, not on per subscriber base.



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Ishpreet Kaur: So, the 15% that you have guided for that takes into an account the 7.4 million subscribers we have or are we factoring?

S.N. Sharma: 8.4, yes.

Ishpreet Kaur: 8.4, yes. So no addition to it, right? So when we take that into consideration for the Phase 1, Phase 2 ARPU is not going to increase at that kind of a pace. Of course Phase 3, Phase 4 will catch up. So our margins could probably stay at a little lower level, what we see a drop probably in Q4 a little improvement from there, but not major.

Himanshu Jindal: See everyone is catching up like I said. You know, obviously, realizations have to move up. Even if there is an increase in the content cost, which has happened, even the Phase 1, Phase 2 ARPUs to whatever extent is possible, the prices have to move up as well. So the content, like I said, you know it is fixed deal. So irrespective of the customers that we have, this is what I need to pay. Even if I seed more boxes tomorrow, all this in a way helps me build up more realizations.

S.N. Sharma: And today, when Phase 3 and 4 were paying less, we were taking care of it from the collections that were happening on the ground even including Phase 1 and 2. So look at the business in totality. Do not look at it in piecemeal basis. So there would not be any stress on the margins. In fact I am quite confident.

Himanshu Jindal: And even HD is going to have a play, so you that is something that we are very clearly focusing on.

Ishpreet Kaur: And on the Phase 1, you mentioned that we could probably see another Rs.4 to Rs.5 of an increment that could happen not holding on to such?

S.N. Sharma: Yes, please keep on wishing me all the success.

Ishpreet Kaur: Sure. And I could just get a breakup of Phase 1, Phase 2, Phase 3, 4 in terms of subscriber base?

Himanshu Jindal: So Ishpreet I think we will give it to you.

Ishpreet Kaur: Thank you.

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



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Sanjay Chawla: Two more questions. First one is what was the exit ARPU in the broadband business like fourth quarter ARPU?

Himanshu Jindal: That is 570 roughly.

Sanjay Chawla: It is 570?

Himanshu Jindal: 570 roughly, you want precise it is 565.

Sanjay Chawla: That is fine and what was the consumption that you have seen data consumption per customer on a monthly basis?

Himanshu Jindal: 85 to 95GBs per subscriber

Sanjay Chawla: Okay, okay. Last question is there is some talk of Siti Networks entering some Phase 2 areas of your core UP market in the coming months. So what kind of realistically impact we should build in whether in terms of maybe churn or ARPUs? What would be your thoughts on that?

S.N. Sharma: With due regards, I would like to highlight we have been increasing the ARPUs for the last 1.5 years. And the same universe, the same kind of competition, the same kind of competing players has been there in my life, in our life. So irrespective of what we have been doing and what others are doing, we are not seeing any threat to our existing universe in a very significant manner. If somebody has to churn or takeaway my box, he naturally has to subsidize. If he subsidize by giving the box free of cost to a subscriber who has already paid up for the box, I do not think that will make any business sense to a man in normal sane, but if somebody wants to whimsically decide and somebody has the power and magnitude to give free of cost boxes all across the country. I am sorry then there is no business sense to do any business to anybody. Then why not them, it can happen to any other MSO also. There used to be talks in city in State of Punjab that after change in government, there will be change in the boxes. Nothing of that sort has happened. I do not see, to the best of my capacity, all that is passed, now all my competent members, my peers have also started following the process that we have established. We have laid down the pitch, now simply they have to go and start demanding more. As they demand more, that helps me to further back up my subscription revenues with the subscribers. So I am not bothered with some whimsical speculation being spread by some quarters. I have no comments to make on that.



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Sanjay Chawla: So, broadly you are saying given the state of the industry some of the irrational behavior that we may have seen in the past, you think that is very unlikely going forward given where no collection from the content cost?

S.N. Sharma: Yes, sir. There is a lot of uncertainty that has already prevailed. I am dealing with all my competing members on a daily basis in different localities, not just UP, Bihar, Jharkhand, West Bengal, all these low-paying areas, even there I am not seeing witnessing heavy churn or not heavy churn, even significant or even worth-mentioning churn. If something goes to DTH for slackness of cable operator or some nominal 5, 10 boxes moving due to XYZ reason, I don't think this is the platform I need to elaborate on that. A lot of sense has started prevailing on my peers also.

Sanjay Chawla: Sure, understood Sir. Thank you so much and all the very best.

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. Looking forward to more and more meaningful interactions with all of you in times to come. Thank you, and goodbye.

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