



“DEN Networks Limited
Q1 FY2019 Earnings Conference Call”

August 07, 2018



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Moderator: Ladies and gentlemen good day and welcome to DEN Networks Limited Q1 FY2019 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 Q1 FY2019 earning call for DEN Networks. Driven by strong broadband demand across our cable presence market and the excellent relationship we enjoy with the local business partners coupled with speedy execution of project, the company was able to successfully rollout fixed line broadband services in 28 cities by end of Q1 FY2019 as part of 100 cities plan.

Telecom Regulatory Authority of India has notified tariff order with effect from July 3, 2018, expected to be implemented by December 30, 2018. Content cost should become a pass-through once the order gets implanted. In otherwise, the entire content cost of 150 Crores per quarter will become variable cost. The implementation of order is expected to be game changer for the industry. The cable subscription efficiency for the quarter stood at 86% and it dropped predominantly due to ongoing issue with a major broadcaster, which got resolved during the mid of the quarter. In the later months, the subscriptions have improved to the benchmark levels and further increases have been announced in the month of July 2018 to offset the impact of increased content cost.

Investing in high definition boxes remain our key focus area and along with the launch of new generation 4K android boxes. These technology initiatives are going to be the next growth driver for the company coupled with subscription rate increased already announced. As a result, we are confident at winning back the profitability levels and further increasing the same in coming quarters. Cable subscription ARPU including taxes for DAS 1, 2, 3, 4 markets stood at 144, 110, 80, and 64 per box in Q1FY19 vis-à-vis 129, 103, 67 and 40 per box respectively in Q1 of FY2018. Please note that ARPUs are average for the quarter inclusive of taxes on per box per month basis. Cable subscription revenue has increased to Rs.170 Crores for the quarter compared to Rs.150 Crores during Q1 of FY2018.



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There is a growth of 11% in subscription revenue during the quarter compared to Q1 of FY2018. Phase 3 witnessed a robust growth of 19% during the quarter compared to Q1 of FY2018. Overall ARPU has improved by 15% year-on-year from Rs.81 during Q1 FY2018 to Rs.93 during the quarter. Broadband business continues to be stable despite drop in revenue due to competition in our core Delhi NCR market. EBITDA have marginally reduced from Rs.1 Crores profit during Q1FY18 to Rs.1 Crores loss during Q1 FY2019.

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 Q1 financial results for financial year 2018-2019. Consolidated revenues for the quarter stood at Rs.314 Crores versus to Rs.313 Crores last year. Along with the associates, which are not getting consolidated at the moment, the EBITDA for the quarter is Rs.57 Crores. If I exclude the associates, the consolidated EBITDA as per Ind-AS stood at Rs.47 Crores for the quarter compared to Rs.61 Crores for a year ago and Rs.59 crores in the last quarter. PAT was little lower as the content cost increased already while the ARPUs were relatively flat across market. We have already announced price increase from July 2018 onwards and we should be able to come back strongly from the next quarter, which is Q2 of the financial year 2018-2019. The efforts to rationalize the cost is a continuous process which during the past year has yielded positive results. This has brought down the personnel cost by 25%, which is 8 Crores reduction over the last year.

With this, the total cable EBITDA margin stands at 16%. Revenues for the broadband business stood at Rs.16 Crores during the quarter compared to Rs.21 Crores during the previous year. Drop in revenue has been primarily offset by the cost optimization initiatives. Broadband EBITDA for the quarter is loss of Rs.1 Crores. The net debt for the company stood at Rs.190 Crores as of June 30, 2018.

To summarize we remain focussed at restoring the numbers seeing profitability in the ensuing quarters. With that I would like to open the floor for Q&A.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

Ishpreet Kaur:

If you look at the numbers on a quarter-on-quarter basis, there seems to be quite disappointment, a few parameters to maybe talk about, so the paying subscribers have come down from 7.5 to 7.2, the ARPUs in phase 3 and phase 4 on a quarter-on-quarter basis have not seen any kind of an increment impact, in Phase 2 or Phase 3 there is probably Rs.1 or Rs.3 decrease that you have seen in this quarter and also on the cost front, the bad debt



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provisioning that have increased about Rs.4 from Rs.7 to Rs.11 Crores, if you could just elaborate on these points?

S.N. Sharma:

I will touch base broadly on the above issue. Please appreciate that our showdown with a major broadcaster lasted till 20th of MAY that is practically two-third of the quarter was affected because of that. And therefore we went in overdrive of our collections, overdrive of recovery of our dues because major part of content was denied. So definitely there was issues with the ground wherein ground was expecting some reduction, which we refused to pass on legitimately so following the regulations to whatsoever reasons are there in the regulation, the substitute, the content, other content and that is how we pushed for our revenues higher and higher. The result, there was excessive dunning done in the month of June due to which you have seen hit on the count of the boxes from 7.4 it has dropped to 7.2, you are very right in noting it out, but that is a temporary phenomenon in our anxiety to ensure that we recover all the dues whatsoever we have taken a hit of this kind and we have already seen the results coming in as we are in Q2, running Q2, the collections are started going up. All the dues majority of it has started coming back. Though it will take sometime, it is bit early to state that everything has been restored or everything has been brought back, but the trend is definitely there. On top of it, I am here to tell you that in the month of July we have passed on the content hike that has come and affected us. So the content hike that started impacting us from April was delayed because of it was delayed in passing to the ground because of this issue with the broadcaster and our dunning processes that we aggressively pressed into action that all got delayed but in Q2 onwards the hike of 15% has been passed on to the ground legitimately and results on that front have also started coming in. I am already seeing that after all the push some areas of our territories have started giving back the hike prices to us. So I am confident of not only restoring the volumes back to where it was, going forward we will be increasing the numbers definitely very aggressively and going forward the hike in revenue the dips whatsoever you have seen will be restored, not just that let me also highlight that we have indicated a collection efficiency of 86%, then we just clarify that since the money got stuck with the LCO, now it is our duty to bring it back, all the same that extra provision of 4 Crores what you have highlighted is provided as a caution, because we have strong auditing mechanism and whatsoever I have any gaps or issues, we definitely cover the investors by taking suitable measures. But all said in term things are back on track and as we progress in the financial year, I am confident of giving that the same kind of revenues and results and performance as we have been giving you for the last two years.

Ishpreet Kaur:

So Sir could we see the ARPU increment happening from the Q2 itself in all the phases or would it again be only in the phase 3 and phase 4?

S.N. Sharma:

No in all the phases.



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- Ishpreet Kaur:** In all the phases, okay.
- S.N. Sharma:** Though the amounts will vary, the quantum will vary but overall the ARPU increase, overall revenue increase during the year would stand at 12%-15% **Ishpreet Kaur:** 12% to 15% increase in the ARPU.
- S.N. Sharma:** In the revenues definitely it relates to ARPU only.
- Ishpreet Kaur:** ARPU because the volume increment is not going to be there, it is going to be 7.4% itself?
- S.N. Sharma:** There will be some volume increment also.
- Ishpreet Kaur:** Okay and in terms of the new android box that we are talking about, so what is the cost of this android box and what is the plan for us in terms of the distributing these boxes in terms of who is going to bear the cost of the new box?
- S.N. Sharma:** See the cost as of now is roughly around Rs.4000 plus taxes, earlier it was double the cost when we tested and so the efforts have been continuously to bring down the cost and we are successfully almost there, and these will be extended to the subscriber of broadband services and the cost has to be borne by these subscribers.
- Ishpreet Kaur:** Okay, for further existing subscribers is there any plan for this android box?
- S.N. Sharma:** As of now no specific scheme, no specific plan is there in existence. Depending upon the demand and depending upon the trend that we see after seeding few hundreds and thousands of boxes then we may decide on bringing out the appropriate plan.
- Ishpreet Kaur:** Okay. Sure. Thank you.
- S.N. Sharma:** Thank you.
- Moderator:** Thank you. We will move onto the next question that is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Moderator:** Thank you. We will move on to the next question that is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** I want to just take the confusion what you had previous caller can you specify on the quantum of price hikes that you have taken across phases that will be helpful to understand how much of price hike will come from phase IV vis-à-vis phase I and phase II? And secondly how sustainable with the price hikes be given that we have already seen a lot of



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blood bath in the MSOs industry for last two three years so can we expect some sanity to return here the sum zero gain among the top two three MSO player will stop going forward so if you can throw some light to help us to understand that?

S.N. Sharma:

Yes. See as far as price hike is concerned, ARPUs hike is concerned please look at the track record of DEN over the last two years barring in Q1 and Q4 where we had show down with the broadcaster, I think our figures and performance will speak for the ARPUs and the hike that we drove in this steam rolled in the cable industry and there upon our peers also started following us. So I am not afraid or jittery of any backlash on account of this ARPUs since we could sustain that time when we took the initiative before others moved in so I am confident that this time also we will be able to sustain it and you will see it becoming part of the life No.1.

No.2 over here I am happy to share that even peers discussed among themselves and broadly this would be you will see the same kind of indications coming from generally at large in the industry because content has increased overall with everybody so this is my personal view. I cannot speak for others but definitely I am confident of sustaining the price hikes that we are passing on. As far as the question of the quantum that we are in the process of passing on to the ground will be in the range of 12% to 15% across the phases, it may have like if you talk in terms of absolute terms it will be in the range of Rs.10 to Rs.15 wherein depending upon areas zones and phase that we are talking about. So I am confident of delivering these kind of hikes over the next nine months.

Avinash Kumar:

Okay. So you were saying 12% to 15% blended ARPU increase is what my understanding is?

S.N. Sharma:

Yes.

Avinash Kumar:

Okay and it will be throughout across all the four phases?

S.N. Sharma:

Yes.

Himanshu Jindal:

Avinash, see what would Mr. Sharma also mentioned even in the past that yes there was a content cost increase which could not be passed on for the reasons mentioned earlier. Now very clearly since the content costs has increased for everyone so there would be a price increase, which is happening in Q2 so July we have already seen a price increase and the collections have also come in so we have already had a good collection this month that is 91%. I am sure we will be able to do better. The point is the price increase that Sharma Ji said is for the full year so we will be able to obviously neutralize the cost increases which have come in already and have become a part of our universe.



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Avinash Kumar: Right I am getting your point. So I mean this is a very happy point as Sharma Ji mentioned that we can expect some sanity to come into the MSO industry and that will be very good for overall health of the industry so that is a very happy news coming from him. Moving on to my second question, I mean some views from the management on the tariff order I mean we understand that Star has moved to Supreme Court and they have filed a SLP so if you can just management help us what is your view on the tariff order will get ability that they have the light by January 2019 and how well prepared is then at the backend to implement this TRAI order?

S.N. Sharma: See I am very positive person and as far as today general update from the environment is we are on the right track. We have started taking actions to hit the goalpost. Here one of the actionable was scheduled for August 3 wherein MSOs were to give the target market details, the next schedule is September 3, wherein majority I mean all the content providers broadcasters are supposed to list their prices and give details and whatsoever given on to declare as MRP. So to best of my knowledge already MSOs have started discussing the strategies of how to handle this. Generally, the trade is working together there have been continuous meetings and consultation how we collectively move and step into this new era. Now when it comes to court case and other things one of the date on which the initial hearing and obstacle was expected by all that has already gone and the next date is August 28, but let us see I would not like to make any statement as the subjudice matter is concerned but as of now the clock is ticking and everybody is supposed to follow that there is no obstruction or road block on the path on which we are working.

Avinash Kumar: So I mean then the company is ready at the backend to implement the order from day 1?

S.N. Sharma: Yes.

Avinash Kumar: Thank you so much. I will join the queue for more questions.

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

Sanjay Chawla: Good afternoon. Thank you for the opportunity. Sir my first question relates to the subscription revenue trend that we have seen this quarter now you have mentioned that you could not pass on the content cost increase effective April for some reasons but what does actually seen, we have seen a decline in the monetization level, in phase II and phase IV so why exactly did the monetization dip in this quarter and even though we had some disputes in the broadcaster why did not reflect in lower content pass?



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S.N. Sharma: Yes, Mr. Chawla see you are referring to a dip in the realization in phase II or phase IV they were actually hardly of a rupee of one or two in terms of statistics but fact of the matter is as I have elaborated earlier the revenues or the subscription got struck with the LCOs due to the prolonging issue with the broadcaster and as the excessive dunning happened we had to switch off the boxes. These boxes are now in the process of reactivation since we follow very strict discipline in reporting the numbers in terms of cut-off date and so the reports are tabled now as of schedule that we are supposed to follow in reporting the numbers, otherwise things are quite coming back to normal and I absolutely can assure everybody there is no dips as far as ARPUs level that we have been achieving over the quarters. It is flat definitely and first hike that has happened in our life it could not be pass on but it has been forcefully effectively being passed on in July and results have started coming in. Rest, I will leave it for closure of Q2 when I meet you all together in-between also we can keep one sharing whatsoever details are worth sharing, but trend of now is quite positive.

Sanjay Chawla: That is very helpful on the monetization side, on the content cost side do you think the cost is lower because of that dispute and maybe we will see a content cost coming back in the Q2 in a much more stronger way?

S.N. Sharma: Now the content cost is going to be same, whatsoever you are seeing there is not going to be any change in content prices.

Sanjay Chawla: Okay Sir on a full year basis you are referring to the 15% hike for the fiscal year?

Himanshu Jindal: Sanjay, you know Rs. 150crores for this quarter that we have reported on the content cost you can actually keep it constant for the next two quarters, there is not going to be any material change.

Sanjay Chawla: So but on the full year?

Himanshu Jindal: January again there would be one contract which will come up for renewal which will have to see but barring that particular contract everything else remains intact till December for sure.

Sanjay Chawla: Sure, that is quite helpful. And the second question is the house keeping question you know what was the number of set-top-box seeded as of June and both including the associate company and without the associate companies?

Himanshu Jindal: We seeded roughly around 80,000 to 100,000 boxes but these are more like bill instant boxes, the revenue which is going to flow only in Q2 and Q3 so you will find that effect coming in the next quarters.



- Sanjay Chawla:** What is the total set-top-box number in the sense that you have seeded overall cumulative number?
- Himanshu Jindal:** So roughly 1 lakhs boxes.
- Sanjay Chawla:** At the end of period June end the set-top-box base?
- Himanshu Jindal:** It is not part of the billed boxes that we are showing in the presentation so it is not part of the 7.2mn.
- S.N. Sharma:** 7.2mn is without the seeded boxes.
- Sanjay Chawla:** Okay. Moving then on the operating cost your other expenses obviously has gone up because of the bad debt increase, provisioning increase but we do not see any impact of the broadband rollout that has progressed to 28 towns as you mentioned in your operating cost is it being capitalized?
- S.N. Sharma:** Yes.
- Sanjay Chawla:** So you are saying some of the rollout costs are being capitalized?
- Himanshu Jindal:** These are capitalized for sure Sanjay, those cities are just entered into, .Very little amount has actually spent on these markets till now.
- Sanjay Chawla:** Sure. And what was the capex in this quarter?
- Himanshu Jindal:** The capex for the quarter was 19 Crores, Sanjay.
- Sanjay Chawla:** Okay on a full year basis what kind of capex you expect?
- Himanshu Jindal:** See there are no longer subsidies allowed on boxes. So on a net capex basis (that is excluding collections against seeding of boxes) I do not think we will be doing more than Rs. 50 Crores.. **Sanjay Chawla:** Okay so this is the net capex net of activation you are saying?
- S.N. Sharma:** Net of activation, whatever we receive.
- Sanjay Chawla:** Okay so this is primarily broadband in that case right?
- S.N. Sharma:** Broadband and a little bit on the cable also but the capex which we have to incur which does not come back from the customer.



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Sanjay Chawla: Right, of course that is great. So Sir last question from my side, the average data consumption has fallen quite dramatically in this quarter sequential basis now down to 64 GB whereas this kind of trend we are seeing is exactly the opposite for the other MSOs so exactly explains this?

S.N. Sharma: This is basically for the full year only Sanjay. This is now for the existing markets of Delhi, Delhi we are seeing in line with whatever you have been witnessing what we are hearing from other markets also these are primarily tier 3 tier 4 cities where the consumption is not yet in line with the metros.

Sanjay Chawla: Okay Sir, this number you are sharing now for x-Delhi?

S.N. Sharma: Not only x-Delhi, for the project of 100 cities.

Sanjay Chawla: Got it. Okay, thank you so much I will come back later if I got more questions.

Moderator: Thank you. The next question is from the line of Vivekanand Subramaniam from Ambit Capital. Please go ahead.

Vivekanand S: Thank you for the opportunity. I have two questions, one on the content side, so this quarter when we look at the net content cost minus the placement fee that you have received that seems to have increased at a very sharp base on a Y-o-Y basis although on a Q-o-Q basis it is not very much higher so your guidance in the past has been consistent that you will see a 14%-15% in content cost but on a net basis content cost is inflating at a very high pace so how should we think about the FY2019 net content cost for you and as a percentage of subscription revenue where do you see this number going and then could you extent this to your discussion on the regulatory change and the discussions that you are having with the broadcast industry? That is question one. Second the broadcast industry body of audience measurement they are talking about set-top-boxes having return path data so and I believe that you are also partner or a party to that so any update to share on that front? Thank you.

Himanshu Jindal: On the content and the placement I think Vivek, we need to look at both of these line items separately and the reason why I said so there are broadcasters who are doing these on net basis and there are broadcasters who are doing these on gross basis separately and there are FTA's where we get carriage or placement so we cannot really look at both the figures combined. I think we should look at it separately content like we explained also has gone up by certain percentage like I said 150 Crores is the run rate that we have seen this quarter and we should presume the same number to continue for the next two quarters for sure. The other piece is placement, placement is reported 345 Crores in the year and 85 Crores reported now in this quarter so you know plus or minus a little bit here or there this should



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be broadly the picture, so I am not giving you any guidance but broadly this is where the story is. In terms of TRAI committee and in terms of tariff order getting implemented content will definitely become a pass through so it will become a variable cost, today with the volumes going down if I sell to 7.2 million customers this cost is a fixed cost which is still hurting me, had this been variable my costs would have been lower so this is the very clear upside which will come in the moment tariff order comes in, apart from the other pieces in the TRAI order, which are obviously advantage to the MSO and the cable industry. May be in the return path data I could pass it on to Sharma Ji.

S.N. Sharma: As far as return path is concerned that very much we are party to the whole plan and initial trials have been successfully done and run and the agency is quite happy with that and they have now asked us to increase the availability of the boxes which in any case has already been seeded and they will be doing pick and choose and they will be starting on a bigger base post trials runs whatsoever they wanted to do so things are quite positive and it is working effectively as far as the agency is concerned on this data related to box and whatsoever statistics they want to gather, that is I am happy to share this much and not more than that I would not be able to share with those of the contractual obligations we have then you need to check with the agencies they will be in a better position to elaborate further on that.

Vivekanand S: Right. Sir just a couple of follow ups so this happy situation that you outline on the TV viewership improving which is evidenced by the BARC survey is that not having any bearing on your basement income because if you are able to offer a greater reach I mean as a platform should you not be able to get more carriage from the FTA broadcasters, while your content cost goes up, how should we think about that?

S.N. Sharma: Too early to speak about that, it is very early days let us not speculate something it is a long way to go let us see. Why we would limit our thoughts to carriage and placement fee there are lot of avenues that get opened up in terms of once you have the viewership pattern in place then we have our own in-house channels and lot of revenues, which are yet to be exploited as far as VAS is concerned as far as advertisements on our local channels are concerned all these are yet to be exploited so all that we will come up to bring in more mulla to the whole setup but let us not pre-gauge or make any sort of commitment or any sort of forecast on that front.

Vivekanand S: Right, if I may slip in one last question you also outlined that you are taking a lot of cost initiatives, scaling down on unnecessary expenditure but if I look at the cable business overheads I mean they seem to be moving backup now what is the thinking on the cost structure needed to service these 7.2 million customers and how much cost optimization can we bring in FY2019? Thanks.



Himanshu Jindal: So for that we need to understand there are two things involved one the base itself which is moving up with inflation. Inflation is also high in our country unfortunately so whatever initiatives we are taking are getting neutralized in a way by the inflation, This time the opex was little higher like Sharma Ji also mentioned earlier the collection efficiency drop for which we took an additional provision in terms of doubtful debts so we must have been increased the provisions by 4 Crores so these are primarily the points that I wanted to highlight. Cost improvement is a continuous process and this is something that we will continue to explore, but the major line items very clearly are manpower, bandwidth cost, , power and O&M costs where we have continued to focus. t Lot of initiatives have been taken during the last two years e on all these particular line items including realizing synergies between cable and broadband. **S.N. Sharma:** The statistics of the last two years we will further solidify the words that Himanshu just now spelled out.

Vivekanand S: Right thanks and all the best.

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 questions from my side, so one is can you talk about if there is been any clarity on the 15% cap issue that was mentioned in the tariff order with the Madras High Court called it arbitrarily?

S.N. Sharma: Yes. As far as this 15% thing is concerned this according to the understanding that we have got from TRAI it does not impact us at all and at the most the impacted party would be the consumer on the downside otherwise as business partners the broadcaster is supposed to declare the MRP then whatsoever is the discounted price that he decides to offer, he is forced to make it transparently open to everybody and he is supposed to give the details to TRAI so that makes the life simple and easy, supposing that particular broadcaster wants to offer on bouquet discount of 40% or 50% then he is supposed to make it very open publicly and he is supposed to let it be known to all the MSOs and then of course there will be some reasons and logics behind that so as far as business is concerned as far as MSOs are concerned we do not get impacted because of this giving away of 15% coming.

Rohit Dokania: So Sir just to sort of summarize what you said basically 15% discount cap has been done away with but whatever the discount broadcaster applies that has been non-discriminatory?

S.N. Sharma: Yes.

Rohit Dokania: Okay perfect Sir. Sir in this scenario I mean would it be like that bulk of these subscribers would rather go for bouquets than ala carte chosen of channels, what would your sense be given your experience in this space.



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S.N. Sharma: See it all depends on the prices that these broadcasters declare and we are also eagerly waiting for the D day when they are supposed to make the formal announcements and we are in process of even creating a special bouquet wherein if a consumer is given an option of pick and choose and he fairly decides to go in for ala carte basis that facility is definitely available in our setup already in any case when there was a slow down with the broadcaster at that period that was quite a long period the subscribers and LCOs were given an option of selecting a particular channel on ala carte basis so let us not speculate on what kind of trend are in store or what really is going to happen let these broadcasters make the mind public, let them declare the MRP then we debate it out then we discuss it out and deliberate that would be a better situation.

Rohit Dokania: Understood Sir. Thanks a lot for that. The other question that I had Sir and your comments would be very helpful is that if I am not wrong Jio in its analyst meet mentioned that they would be working with LCOs as well in terms of sort of launching the broadband operations so are you sort of hearing anything on the ground in terms of US discussion with LCOs and our LCOs coming back with you and sort of are there stance changing as far as business partners with Jio is concerned?

S.N. Sharma: Rohit, see as far as our associates, partners, distributors, cable partner LCOs last mile controllers, I am yet to hear anything of that kind all this is speculated news so but definitely I appreciate a big giant telco has stepped into this kind of business. That speaks for the strength and potential that this business holds that has also shaken up all of us and everybody has started moving out that in fact has helped us in these rollout plan of our 100 cities that we made already before these announcement we had already started sharing with you. In fact I am happy to tell you that as of now these 28 towns that we have rolled out caters to roughly one million set-top-boxes universe that I am talking off so each town practically is now enabled for me. You can easily say that I have enabled broadband services in one million subscriber base of set-top-boxes now it is for the LCO to register the demand from the subscriber once the demand comes, he is supposed to connect them and will start providing the services based on the guidelines that we have given to him and over a period of time, the numbers are likely to build up on this. When we are talking to you on 28 cities we have also signed up the agreement with 48 cities and other for rest of the cities the discussions are already in place and things are happening and our cable partners are investing equally well with the same kind of enthusiasm and there is hardly any impact that I see on them but announcement of the Telco has further brought in standards you see that has helped us in regularizing this tenders and qualities to be followed by the gentlemen that is our cable partners and that is helping the entire business environment per se so in fact the same Telco is responsible for building up a data wave, if we see the last three years environment all of a sudden data consumption patterns have gone up. So that all has played



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out well in growth of the business so as I said India is a huge market and hardly 6.7% of the penetration level has been achieved so as of now there are no negative under current as far as cable operators are concerned.

Rohit Dokania: Understood Sir. That is very helpful. Just one question so in terms of your new model of this broadband sort of launch, are you sort of facing any difficulty in terms of LCOs probably sort of not being very eager to invest given the fact that they would also be aware that you JIO is talking of 1100 city kind of a plan in terms of launching broadband obviously over a period of time I understand that but is there an averseness from their side that if they do the capex today at the last mile in terms of connecting the home and then over the next two three years the Jio wave might come in sort of strike them or something of that Sir?

S.N. Sharma: As of now there are no negative indication as I elaborated rather people are coming forward. I am also surprised a kind of a enthusiasm that I am coming across and very soon we will be signing up with another 40-50-odd partners and then followed by LCOs and in Q2 we are supposed to deliver another 20 cities and I am quite confident that my team will given overdo whatsoever assigned to them but that will be it is better that we talk at the end of Q2. As of now I am happy to share that there are no negative thoughts there are no negative impact as far as investments by partners on the ground are concerned.

Rohit Dokania: Great Sir. This is very helpful, thanks a lot and all the best.

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

Dipesh Mehta: Thanks for the opportunity. Just continuing on the broadband part can you help us understand about progress made on this 28 cities, initially it seem the subscriber base is lower but if you can help us understand how you are expect that trajectory of growth to be there in this 28 cities, which will help us to understand how the trajectory of growth would be once we let us say 800 cities kind of, if you can help us in this and how you expect addition to play out?

S.N. Sharma: Yes, you see this when I mentioned just now I gave a broad elaboration please note down that the penetration level today is 6% as far as wireline broadband concerned and to the best of the best people whosoever is the operator today in wireline broadband even if he is in existence for 15 years or so the penetration level is not more than 17% to 18%, that too when we pickup the top five or ten cosmopolitan towns. So when a town is opened the LCO becomes partner and they start approaching the subscriber, subscriber shows the interest and he is wired off. This whole is quite a lengthy process it takes time for a subscriber to get



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registered with his requirement and accordingly the LCO extends the wire to that fellow so it is a gradual buildup. In our initial forecast, we had said that by March 19 we will be delivering close to 40000 to 50000 subscribers and in Q1 of next year by the end of Q1 of next year we will be touching close to 70000 subscriber; however, when it comes to year two, when the buildup is happened when all these towns have been enabled when closed to a subscriber base of roughly 5 million subscriber base of set-top-boxes as been enabled at that time you will see the penetration level picking up. I would not like to make any forward-looking statement but we see the ramp up happening at year two and year three.

Dipesh Mehta:

Okay so broadly what you are indicating is our phase of addition because right now we are roughly around 1 lakh kind of subscriber base so even if let us say one or two year, broadly we are expecting it to be relatively lower kind of subscriber base number for us because .2 million in overall scheme of thing is not that material kind of number?

S.N. Sharma:

No Sir you did not get me properly. I said that in financial year 2019 we will be adding net roughly in the range of 50,000 subscribers including whatsoever we have done as far as this 100 cities is concerned. Year two will be a ramped growth that is financial year 2020 there will be a ramped growth. It would not be in the range and region the numbers that we are talking that will be in the range of 10% penetration level of those towns so that will grow very fast and year three will be still faster than what you see in year two so year one is no indicative because all these towns there were hardly any players there were hardly the people who are starved out. They are very keen and eager that is helping the whole process because explosion in data space has happened. The awareness has already come in their life by using wireless devices. Now the beauty and utility of wireline devices are now been seen and felt and experienced by the subscriber that is going to spread very fast in year two. So the numbers of year one are no indication for year two. Himanshu also wants to add something.

Himanshu Jindal:

See Dipesh what we needs to understand like what Sharma Ji also mentioned see one is a ramp up period so this is a ramp up period. This is a rollout period that we have defined for ourselves for this particular financial year. So we have already rolled out the broadband in 28 cities. We are adding 20 more this quarter. We are doing contract with the channel partner with the trade partners let me say that way, distributors or LCO, and are opening up the pops. In the 28 new cities we have actually enabled one million home passes which are already there with us on the cable front so we are already reaching there but how many of those would actually get converted would depend on the interest levels. The moment the interest level comes in we obviously hook them up. We have already hooked up 8500 customers till now so we should be able to ramp it up in the way that Sharma Ji mentioned which is around 45000 by the end of this financial year. **Dipesh Mehta:** Yes, so can you help me 100 cities which we have identified what would be our set-top-box install be?



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- Himanshu Jindal:** 5 million.
- Dipesh Mehta:** And in year three you expect that penetration to be at least double-digit kind of thing post roll-out?
- Himanshu Jindal:** Yes, like I said, we enable the homes already where the cable fibre is already there. Then it is just about connecting to a particular customer as an when we receive his interest
- S.N. Sharma:** Please appreciate that when we are talking about the set-top-box universe to be honest with you the universe involved is bigger than this set-top-box universe because all the subscriber that are hooked up to competition or to DTH are also available to be hooked and wired up for broadband, if they want. So the game will be different when it comes to year two and year three after opening up of all the 100 cities.
- Dipesh Mehta:** Can you help us understand about the paying subscriber base of 7.2 million what we have across phases?
- S.N. Sharma:** We normally give our details of that total base that we have. We do not provide this phase wise box count. If you really want to have it you can contact us offline.
- Dipesh Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bhaskar Choudhary from Entrust. Please go ahead.
- Bhaskar Choudhary:** Mr. Sharma what do you anticipate the tariff will look like post entry of a very large players like Jio in the home broadband space?
- S.N. Sharma:** As far as Telco and large Telco entering in the home space we are yet to hear about the pricing model and we are yet to hear about the schemes that they have to offer. So it would not be appropriate for me to make any comment on that front. As far as DEN is concerned on this 100 cities, our model clearly is based on Rs.500 to Rs.550 ARPU as of now while we have opened up 28 cities where we are capturing an ARPU of Rs.562 from these towns so going forward let us see how it unfolds. Our business model is quite strengthened and we can face it till Rs.500 very easily and in any case whatsoever are the indications from the market that so far the telecom player has done the whatsoever wireline connections have been provided are falling in the range that I am talking about, the pricing that we see is in the range that I am talking about.



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Bhaskar Choudhary: Sir but you know given that the company is already at Rs.550-odd ARPU and you said the business model seems to be dispensable to Rs.500 ARPU so there is not lot of leg room in that case and you know I mean just going by the experience of Jio in the telecom space ARPUs dropped quite dramatically so how are you internally preparing for this?

S.N. Sharma: See please bare with me to understand that there are two parts of our business one is our existing business that has been in place wherein the ARPU was just two years back the ARPU was in the range of Rs.900 and is been falling, falling, falling because of wireless business tariff war among the telcos and various other factors that you are also seeing happening in the business environment. Now our 100 city model clearly is based on Rs.500 ARPU range only and whatsoever LCOs are investing they are quite confident of ensuring that the subscriber is happy, today the scene is wherein the subscriber is deprived off the broadband services at all, there was hunger there was desire but there was no service provider imagine the situation, we in city of Delhi, Mumbai we are already experiencing 100MB speed there the speed being demanded is 5MB, 20MB, 50MB and that is what there is also not available to them and they are happy to pay the price for x so I do not see any implication as far as ARPU of Rs.500 or Rs.550 is concerned so now let us wait for them to announce their scheme, let us wait for them to do the proper announcement of what all they do, let them also clearly spell out in these areas, which area, what price, what kind of services they are to offer, let us not correlate it with what happened in Telecom. Telecom also if you see if you go into elaboration of telecom today every telecom players is giving you 1GB data consumption a day for a speed of 5MB to 10MB that is what the speed range you people are all the subscriber across India, may be some cities might not be getting even that speed depending on the infra of that particular telco in that particular zone but generally overall you are getting Rs.150 you are getting all these facilities, 1GB data a day and speed of 5MB, so in any case the ARPU of Rs.500 where you are delivering 50MB speed and unlimited data is not a very conservative figure, I would say it is a very aggressive ARPU that we have put across and we should be able to justify it as things unfold, as times will come in front of us, we will handle the situation. In any case the LCO partner is quite confident and they are coming forward and investing to that also as the positivity with us.

Bhaskar Choudhary: Okay and Sir you said the growth rate will increase substantially in year two and year three of rollout so what kind of capex plan do you have for those years? Year One you told in the call you mentioned 50 Crores for both businesses excluding the amounts which will not be charged back to the customer so year two year three what would be the capex plans for broadband?

S.N. Sharma: Year two for these 100 cities, there is hardly any capex, year one will deploying in for these 100 cities close to Rs.30 Crores of capex that is the current year. I am talking about, the business model, if you have heard me earlier when I made the announcement of 100 cities



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plan I clearly said that our plan is very low capex based plan and all the money will be ensured through internal accruals only and I am seeing now that I have opened up 28 cities that whatsoever we are doing is in line with the statement that I am repeating today again that the overall capex requirement would be in the range of 30 Crores in year one for these 100 cities, there would not be any extra capex needed unless we utilize more than expected rush of this subscriber base then here and there some minor changes in the network to strengthen the further delivery of higher requirements then that can always be enabled that would not be much of a headache and nuisance and if all goes well if we have started opening another 100 cities 200 cities equivalent amount of capex would be needed extra over and above what I have just now outlined.

Bhaskar Choudhary: Thanks.

Moderator: The next question is from the line of Mahima Maheswari from CRISIL Limited. Please go ahead.

Mahima Maheswari: My questions are around the television business only so firstly with the new tariff order we see DTH players are benefiting so with improved margin profiles, do you expect these guys to be more aggressive going forward especially in phase 3 and phase 4? And my next question is that you know over the longer-term what are the growth avenues that we see in the television business especially for MSOs the sort of ARPUs stabilize in phase 1 and phase 2 what would be the growth avenues once the penetration levels are high, the ARPUs have stabilized so over the longer term say five to eight years and the last one is sort of book-keeping question the 7.2 million subscriber that you mentioned are all digital is it?

S.N. Sharma: Yes, rather the exact base is 8.2 since because of entire industry is reporting 7.2 one million base is not being reported the three associates of ours have not taken in books that we look for the contractual reasons and other things. But all these are built on the ARPUs that we are declaring otherwise I have a extra boxes seeded, but those are under different schemes, which we do not announce here because just three quarters back there were some questions about how this reverse number is not matching so we have put a deliberate attempt to ensure that everything is crystal clear whatsoever numbers we report matchup with all the figures. So as far as your first two questions, first one was on this DTH, how the DTH business would gain over cable? Madam please appreciate if you have covering cable business, the ARPUs of cable have been lower than DTH since day one and the biggest DTH there have increased its ARPU to the highest level because of business reasons, at lower level of ARPU it is otherwise it becomes difficult for DTH players to manage the show the kind of overheads that they have. The beauty of cable business is the pipes, the capacity of the pipe and the quantum of traffic it can carry, there you are talking of transponders and the limitation fixed with the transponder in terms of capacity where you



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are talking off the pipe, which has unlimited spectrum, unlimited capacity to carry unlimited number of channels irrespective of format be it 4K format, be it HD Ultra HD super HD you define any format in the world the cable pipe is capable of taking it. Let us not speculate anything let the broadcaster define out their MRP, let them declare their bouquets, let the process start calling out, I am confident as video player, as cable line player that our business is going to gain a lot and you will see a reverse trend that we will be bringing that subscribers from DTH players also that is part one. Part two, what are the potentials that are yet to be exploited, the hidden potential? The foremost is cable is yet to explore as far as HD is concerned. So immediate one to two years the immediate gain for the cables come from HD exclusive then as we move we path on HD VAS is yet to explode or one to start on cable platform. Lot of value added services even if we have started giving gaining for last one to two years there is not much of monetization that has happened on that front at all. So all these avenues plus many other kind of channels being brought into subscriber in a niche category and the kind of format I spelt out that all will bring in gains over the next three to five year's time, very easily. On top of it as we talk off HD super HD 4K or on top of it VAS, then the other platform, which we have been discussing in our call also there is lot of questions that I have answered on broadband front that broadband itself is a huge upside that DTH cannot enable. DTH is one way traffic so here you have two-way traffic through the fiber optic network that we have already in place across the country so that is the top most benefit that all the MSOs are going to have as far as cable business is concerned. I hope I have summed up the questions systematically.

Mahima Maheswari:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju:

My question is on the fiber to the home broadband. Of late we are seeing some alternate technology in place of fiber like you know you have this lower satellite orbits and so on and they all claim that it is as good as fiber performance a speed of 500MBPS and so on with very low net NP, my question is have we thought about it and instead of thinking about it if we keep investing in the fiber assets will it be a risk any detailed color on that?

S.N. Sharma:

Sir the question that you just now mentioned if you go back three years in the history that time also broadband business was being talked and was being elaborated. The other Telco players apart from Jio there were been two three other Telco players across the country still they could not do wireline broadband business because of despite the fact they also had fiber optic grid across the country laid and spotting the telecom they were into data business also but there was no explosion because of the reasons of the costs involved in the last mile because of reasons related to FTTA kind of hardware that was anti-electronics. So



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technology cannot be stopped technology is over evolving. It keeps on evolving even if we are talking today, tomorrow there may be new technology so all said and done. As far as penetration level of the broadband facility is concerned in India is quite low. Imagine I am talking of the towns where you do not get 2MB speed where people are at 6% penetration level, they are literally practically deprived off wireline business with data explosion per se telecom players through wireless business, now the demand has started picking up, we are seeing the smaller cities can you imagine now Barailly, Muzaffarpur all these towns are coming forward and looking for a speed of 10MB and 20MB. The subscriber over there is happy to pay you Rs.700 for 10MB kind of speed. So all this is going to take quite a bit of time as the ARPU levels stabilize, as the ARPU level gets fixed up with the subscriber in the general business environment suitable hardware will be brought in and today I enable a subscriber with home pass at Rs.10000, and in one year time when I would not even brought back the money invested to him there is a technical upgrade, it does not make sense for me to invest Rs.10000 today. I rather make Rs.1000 investment, bring back this Rs.1000 and then think of investing another Rs.2000 on the same subscriber for an upgradation of the service and part of the investment will be borne by the subscriber itself. So all these questions definitely are being valued, cost value benefits are taken into account when we unfold and select the technology to deliver those services. Please appreciate that cable MSOs, video MSOs over a period of time has fibrized their network nationwide. So we are leveraging the investments. DEN has done a investment of Rs.2500 Crores in digital infrastructure so all that is all fibrized. Now that is DEN that has done. Now my cable partner has there and they have also fibrized 50%-60% of their network. So we are talking to service provider who is already fibrized, it is only the question of last 100 meter 50 meter then depending upon the payback from the consumer the suitable technology is used making some business sense to the business that is what we are working upon, that is the business model we are following, nothing more, nothing less.

Vetri Raju: Thank you very much. All the best.

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

S.N. Sharma: Thank you very much. Thanks everybody for joining us and it was really very exciting to hear such a series of questions that were quite thought provoking and I really appreciate the interest taken by all the people involved. Thank you very much.

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