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Conference Call Transcript

DEN Networks

Q2FY15 Results

November 18, 2014 | 5 p.m. IST

Corporate Participants

Mr. Sameer Manchanda
Chairman and Managing Director

Mr. M G Azhar
COO

Mr. Rajesh Kaushall
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the DEN Networks Q2 FY'15 Earning Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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. Alankar Garude from Edelweiss Securities. Thank you and over to you Sir!

Alankar Garude: Thanks Shyma. Good evening and a warm welcome to all participants. We, at Edelweiss Securities, are very pleased to host DEN Networks' Q2 FY15 earnings conference call. From the management we have with us Mr. Sameer Manchanda, Chairman and Managing Director, Mr. MG Azhar, COO and Mr. Rajesh Kaushall, CFO. Thanks to the management for giving us this opportunity. Now, I would like to hand over the call to the management for the opening remarks post which we will have the Q&A session. Thank you and over to you Sir!

Sameer Manchanda: Good evening Alankar and good evening everybody. Thanks for joining in the call. I know that, I think in the last few months you would have been watching the developments in our cable sector, the most important being recently in the last week where you have seen the advertisements by the Ministry of I&B saying go digital, get your digital box because the Phase-III implementation is December 31, 2015, so I think the seriousness of implementing the Phase-III is you can see with the ads coming in. So I think that is one and then also phase IV of December 2016, so that is one. The second is you are also aware of digital India blueprints in the campaign unveiled for the Government of India and saying and which really one of the big things is that every Indian household should have a broadband connection. So really is from our side this is another big thing for the cable industry, which is changing which is really broadband being part of the cable and really cable is one of the sector which is poised to get through broadband. You have seen it in the world over; you have seen in the USA, you have seen in Korea, you have seen in Japan, you have seen in Asia, you have actually seen it in China too. So, if you look at it and say if cable broadband has not really left any part of the world and has been a very significant development everywhere else. I have been with few leaders of the industry who come in here visited, dignitaries everywhere in India and they have always said really in India few things which will actually change India is really broadband and it is actually changing information it is actually changing, content it is a big change. So I think you have to really look that these are two really big things besides the other things which are changing for our cable industry. As far as DEN Networks we are very clear that we want to be a completely different company than what we were earlier because it is a big evolution from B2B to a complete B2C. A B2C company it behaves different and so we are actually investing a lot in brand building and having all the attributes to go after a B2C company and that has been changed and that has been our transition, which you will see it carrying on from the first half of 2015. So we are very clear, we do want to be a complete cable broadband company focusing on the customers and really the key factor is the customer when the household is yours how do you really give him your value of products which is cable, broadband or whether any other products whether it is commerce, television commerce whatever it is and how do you really make the consumer sticky to your product and that is what our aim is and that is what we are looking at. So if you look at our moves in the last quarter I think the last month whether it was October DEN Snapdeal Homeshop launched on our networks it has had tremendous success in just 30 days. We now see a lot of home shop channels but really this success has been unparalleled, never seen this may be at some point in time let us say timing is right and people are more used to home shop and e-commerce and DAS has really, really taken of. So I think we have seen that change. We are doing a lot on brand building, which is below the line or through soccer and that is what we are trying whether it is Facebook, Twitter, New media and that is what the way B2C company thinks of, so even if you look at our investment of doing a 10 year deal with Wipro is completely focused on that, that your complete B2C on the backend of the cable and the broadband, which is customer management, billing estimates, link to your call centers is all managed by Wipro over a period of 10 years. So very clear that you are really changing your company and really to a new completely new modern age consumer brand company and that has what been the highlight of this. Really looking at the last three, four months which is going to carry on for next six months while we do the change, we launched broadband in a small manner in a very limited manner. I am really very happy to see the response, the speeds, 50 and 100 mbps, it has really changed the way people are utilizing content. The ARPUs have been very high on the broadband the numbers are small, but I do not see any numbers which are increasing day-by-day but I do not see them falling. The ARPUs have been in excess of 700 probably 730, 740, which is a good sign, same household suddenly become and start paying you much more and that is where the industry is at it and we are very happy to be part of the change and to be part of the industry. As far as the financial numbers I think I would just leave it to Rajesh Kaushall to walk you through the numbers and then very happy to take to any questions and if Azhar has to say something.

Rajesh Kaushall: Thanks Sameer. Thanks everyone for joining in call. The investor update already captures the broad highlights of the financials but I would just want to focus on couple of key points which are coming from there. As far as cable business is concerned the revenues excluding other incomes are at INR2862.2mn up 11% Y-on-Y from INR2380mn in Q2FY14. Subscription revenues for the quarter at INR1467.5mn is up 49.2% Y-on-Y from INR983.4mn in the comparative quarter. The subscription revenues excluding the LCO share is also 18% Y-on-Y. The EBITDA excluding other income for this quarter stands at INR541.7mn versus INR692.7mn in the comparative quarter. The decline is on account of increase in content cost, higher provisioning for doubtful debts and advances and increase in operational cost for that Phase-III areas. The next key point is as Sameer just mentioned that we are investing into broadband and brand building. We have been investing into our broadband and brand building initiatives to build B2C connect and the EBITDA deficit on this account is INR147.5mn in this quarter vis-à-vis INR123.8mn in the previous quarter. So our foray into Soccer DEN Snapdeal and other below-the-line marketing initiatives are targeted to establish a better brand recall. The Snapdeal JV within the first month of its operation has already clocked an annualized gross merchandise value (GMV) in excess of INR500mn, the latest daily sale being about INR1.8-1.9mn and is expected to scale significantly as the channel gets distributed across networks. If you were to look at the cable business highlights the first one is the revenue split. The split of revenue of INR2860mn for the quarter is INR1467.5mn of subscription revenues, INR1180mn of placement revenue, INR165mn of activation and other operating revenues of INR50mn vis-à-vis INR1461.1mn of subscription, INR1161.7mn of placement, INR198.5mn of activation and other operating revenues of INR28.9mn. The percentage split between the subscription and placement/other incomes is roughly 55:45, which is similar to the previous quarter. We have been also investing into the DAS III and IV markets and as we head closer to the phase III digitalization threshold of December 31, 2015 we are actually currently expanding our reach as of now and although those markets are giving a negative carry on our current profitability but these investments will prove really value accretive in the coming years. We currently have 1.6 million digital subs in DAS phase III and phase IV areas, which are expected to go up significantly by the completion of the digitization deadline. As far as DAS phase I and phase II is concerned the average gross billing rate for phase I which is the net off the LCO share is roughly about INR110 per box including taxes. In DAS phase II the net billing rate is INR65 per box including taxes and though the net billing actually varies from town to town and ranges between 45-50 to 80- 85 including taxes. The boxes deployed have been 220K this quarter at an ARPU of INR750 and the previous quarter we had 270K set top boxes deployed. So the total set top boxes deployed till date are approximately 6.6 million, which includes 2 million in phase I, 3 million in phase II and 1.6 million in phase III and phase IV. The company has a networth of INR18bn and a debt of about INR10.05bn. The cost of debt is on a blended basis about 7.8% and the cash and cash equivalent is about INR10.05bn. The capex done during the quarter is approximately INR600mn, which is about 0.4mn boxes. This is all what we wanted to cover. We can now probably open the floor for any questions which we can try to address.

Moderator: Thank you very much Sir. Participants we will now begin the question and answer session. We have the first question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Good evening Sir. I just wanted to check on the ARPU collection that you are doing for phase I and phase II cities if you could give us the breakup.

Rajesh Kaushall: I think I just touched upon the average gross billing rate for phase I which is about 110 per box net off the LCO share and including the taxes. In Delhi we have 120 and in Calcutta and Mumbai at around 80-85, so on a blended basis we have 110.

Mayur Gathani: How has it improved over the quarter Sir and how do you see it going ahead?

Rajesh Kaushall: I think in terms of the previous quarter it is about marginal increase but I guess based on the new RIO structure or based on the new pricing packaging I am sure this should grow as we move ahead.

Mayur Gathani: Do we see some uptake in the general ARPU because the RIO coming in Sir?

Sameer Manchanda: I think it is not the RIO, it is really what you are implementing right now, industry is trying to implement packaging, so the industry has actually looked at four or five months period of implementation of packing and saying how do we now have people saying, implement packaging means sports are being, so it is not being bundled as everything else. So sports is coming separately, English is coming separately. It is a bit too early; I mean you should take packages. You should see prices going up but I would say that you should give industry a four-month period at least and that is what everybody has looked at till March to see really what the thing is but of course it will affect ARPUs going up. So I think it is good thing where broadcasters and operators have collaborated and they have taken a risk on reach and expectation in that. ARPUs are going up so then I think everybody is happy where an LCO, MSO and the broadcasters all have a fair share. People really pay money for what they watch rather than bundled products if you look at it.

Mayur Gathani: Coming to your broadband Sir, what is your capex plan for this year? What have we done and what is the cost of the per home pass?

Sameer Manchanda: Capex is really dependent on how aggressive you want to bring out the broadband. So if you look at it there is roughly between 1200 and 1300 is the average home passed that is the cost. So vary between that price and then it is basis of that but we do want to look at, we have done 200,000 I think in over a period of years and we would like to be 2 million. So if you multiply that is what the capex plan would be.

Moderator: We will take the next question from the line of Rishabh Chudhgar from Enam Holdings. Please go ahead.

Nihar: This is Nihar here from Enam holdings. I just had a few questions. My first question is if you can just throw some more clarity on the impact of RIO, if you can give a little bit more granularity in the sense of how does your content cost increase because of the RIO deal with Star and to sort of negate that increase what is the kind of package price increase that you might have to sort of take across your different packages and when do you see these sort of being implemented on the ground?

Sameer Manchanda: If you look at it deal is actually structured in a manner really if you look at the effects of the entire cable industry, what we have done is we have implemented packaging. So you got to look at say what you were paying earlier and what you are paying now is actually one of the dependent on the packages that people subscribe to. Suppose you were paying X earlier today you do not know what you are going to be paying because it has gonna be dependent on people of packaging. So if you look at it people are not taking packages then you are not going to be worse off, then you are roughly the same and then if they are taking the packages the way pricing has been done if you look at in the way that you actually make, you are keeping you are getting a share yourself. So if your cost is INR10 or INR15 you are charging at 30 or 40 so if you look at it there is enough for LCO, there is enough for MSO, there is enough for the broadcaster. So any incremental we make money, LCO make money, broadcaster makes money. So really as far as industry goes, to an extent there is quite a fee change for the industry. So the content cost in a way is dependent on your realizations as peoples more watch content. Otherwise it is a fairly reasonable one.

Nihar: As you sort of sell higher packages going away from the basic to the higher packages does the economics in that sense improve.

Sameer Manchanda: Yes because you start making more money. So for us if you are getting say INR100 and theoretically people are taking more I am sure that if they take a sports I am going to get net which is after content and after LCO INR10 or INR15. If somebody watches English I will get another 15 and this is going straight down to bottomline without any cost and net of LCO.

Interviewee: How does the carriage work under the new regime with Star?

Sameer Manchanda: That is in a way it is really, I am just saying net of both whether it is content minus carriage and all that everything else it balances out when you are saying there is no increase or decrease then it balances out to that extent where depending again linked to complete packaging. There are completely discounts on the numbers that you have so it is in-built on everything and what you do, what you have and the numbering and positioning of the channels. The discounting factors and numerical factors are there. So if you look at it composite numbers and it is again linked to numbers what you achieved and in worse case you would have normal increase if you look at what you are aware normally if you look at it.

Nihar: I had a couple of more questions. One question that I had was in terms of the management are there any sort of changes or additions that you are planning into the team because we had the CEO Mr. S.N. Sharma leave some time back. So any plans to replace him and when can we expect some announcement on the same?

Sameer Manchanda: The team is empowered right now, if you look at how the company is working but as you grow addition, alterations may happen but otherwise completely empowered team right now.

Nihar: My last question is just book keeping question. In terms of the broadband subscribers that you have had coming in. Can you just give me some number on that what is the current broadband subscriber base?

Rajesh Kaushall: We have roughly about 10,000 subscribers.

MG Azhar: Mostly these subscribers are coming in the last 30 days or so. The average ARPU is around 740 obviously we have just started. So these are small numbers but we were clearly indicative of the kind of response that we are getting and also the level of ARPU the people are willing to pay. As Sameer explained in the introduction that the kind of speed that we are able to deliver probably competition ends there, so hopefully over a period of time the idea is to get more high end customers who probably use lot more bandwidth than they normally do and the incrementally try and increase the blended ARPU.

Nihar: In the initial part of the call you mentioned you have done about 200,000 homes pass. So in a sense you got a 5% sort of take rate within the first couple of months of launch itself. Is that a correct assumption to make?

MG Azhar: No I think if you see majority of the scale up has happened in the last 45 days. So effectively the kind of days that we would have worked on to convert subscriber probably would be 50 to 75K. The rest of it is still sort of come on stream on the last 30, 45 days. So I think you will see conversion of those subscribers. So conversion is pretty decent but like I said these are just starting days so let us spend some more time on the ground to see the actual but the initial response has been quite encouraging though.

Moderator: Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir my first question is on your initial remarks. You said government ads have started on phase III. You see subscriber additions happening more towards deadline end which happened in phase I, phase II or you see for yourselves and for the industry subscriber numbers being fairly strong because of advertising and because of proactive push from your from all the MSOs.

Sameer Manchanda: My sense is the government is just about getting the act together and they are going to start advertising. So my sense is may be give this October-December quarter, January quarter onwards we should start seeing the buildup and now that digitization as a concept become sort of all across the country so everybody within the value chain is pretty much aware of what needs to be done. So our expectation and belief it is not going to probably end up the way it ended in phase I and phase II you will see constant buildup from Jan quarter onwards.

Abneesh Roy: If you see the first half the subscriber addition for the entire MSO industry has been quite weak versus what we saw in most of the quarters earlier. So in that context any numbers you are looking at second half how much activations and first half of next year how much additions or is it too early to kind of give any numbers at this stage.

Sameer Manchanda: I just wanted to tell you that we have a fairly large base in phase III so if I look at it from a January to December 12 months we will be doing a large number. Now the past example has been very clear, you are right that normally people take digitalization in the last three months of last quarter or may be four months. Does this change or not it is a bit early to say but from our side now that we know and from an industry side when people get to know it is definite and there is an end date which is serious and once we have showed that end date is not going to change so efforts will be made now starting off but I would say you will see a gradual buildup as Azhar was saying quarter-on-quarter and quarter going up but the number is very large for anyway in a thing that we need to do in the one year period if I look at it.

Abneesh Roy: If you see currently we have a new I&B Minister and the logic for shifting the deadline was indigenous production. If you see till now we have got one or two players who are doing large capacity manufacturing but in general the quality of the others is a challenge. So in that context do you see deadline getting delayed because we do not have good quality and we will not do much of domestic production of set top box?

Sameer Manchanda: I am saying the answer is very clear, the government has already decided by taking the ad out in November right now. Otherwise the ad would not have been out. So the intention and everything is very clear and it is very clear dates mentioned. So the interaction and the feeling and especially the task force meetings everywhere it is very clear that that they do feel the date is not going to change and digitalization will happen by this date.

MG Azhar: And to answer your question in quality the way we see it essentially all the international manufactures including the Chinese manufacturers they are already looking at setting up a base, when I say setting up base it is essentially trying to line up assembly lines and third party guys would probably do the assembly for them because most of the component as it is imported. So I do not see quality being a challenge because these players will sort of ensure that third party manufactures effectively adheres to their quality norm. So we do not see any challenge on the quality front but having said that this is going to be like Sameer said this is not going to come in the way of digitization.

Abneesh Roy: Sir my second question is on the home shopping business, which you have started with Snapdeal. Till now whatever data is available Indian consumer is largely going through the online way rather than shopping through the home shopping channels and quite a few have mushroomed in fact of data available that not too much of buying is happening through them, so in that context what is the reason why we have started this business and what makes you feel that online will not remain the preferred way and home shopping can carve out a decent market share?

Sameer Manchanda: You know what, just to tell you, I think the world over both remains. So it is like it is just not that one thing happens the other goes dead, if you look at QVC in the US, it is $8 million sales, Amazon will have the Amazon. When you look at India home shop the two home shop channels already in existence do more than INR10bn in sales and have more than 25%-27% EBITDA margins. So it is fairly large, if you look at home shop 18 and Star CJ now of course they do INR10bn and Flipkart or Snapdeal would do INR60bn that is fine but INR15bn coming at margins and giving you money, would you like to take INR1000, 2000mn profit or you would not like to do it, so we think that this will both Co-exist and we have seen sales go up in home shop radically whether e-commerce is driving it and as long as you have sales going up rapidly and this is an industry which was zero four five years back has now in home shop the entire home shop industry both are doing 2000, if you Naaptol it would be 3000, 4000, so you are talking about a fourth which is a fairly large industry, which has mushroomed from mainly zero 5 years back and it is going up so every time the growth if you look at it I am pretty sure we will be growing at 25%, 30% or more higher that is fairly largely growth at a fairly decent pace, so we want to be a fairly decent player and you make your margins we think it is going to be a very, very big business and costs are nothing we have explained very clearly that both the partners are putting only a million dollars each and that is it nothing. At lower cost because of what both of us have it is a great venture and I think this will be probably one of our biggest ventures which you have really seen and this is going to be a big hit. The initial response is crazy, I have never seen being in television for 20 years sales happening like that on home shop and I was telling to our retailer, the retail after about 10 years of existence is not even selling that much what we trying to sell in a day. Now that is the difference and what we have done. We have spent right now INR20mn that is it, not even 1 million each. That is where it is.

Abneesh Roy: The 25% EBITDA margins seems bit surprising if you see the Flipkart.

Sameer Manchanda: If the home shop EBITDA margin for both if you look at it are more than 25%. You can take home shop 18 and you can take STAR CJ excess of 25% margins. It is the margins on the e-commerce on the website are small but and that is why their numbers are very large. In the home shop, this is video, so any product which has more video which needs to be sold where people really want to see it, the attributes of the product are much better on a video will be on home shop. So that is how the market is divided the world over. So I don't see India being different when retail takes off everything will take off.

Abneesh Roy: That is useful. My last question is on your other diversification the Soccer business; the initial viewership data has been decent. Our reason for going into this has been in terms of creating more awareness for our branded sector and creating long-term value for that business also but till now has it met your expectation and where do you the profitability of this business from a two to three year perspective?

Sameer Manchanda: If you look at it, it is very clear that we did it for brand building. We are very clear we are changing into consumer-centric business. Consumer centric business we got to become a brand and cable has historically been seen in the perception value slightly behind Dish players , so the whole idea was how do you change the brand, how do you make the brand and the consumer sticky and staying and sports is one part which is very sticky as far as content and very price sticky and sports has very sticky content and very sticky audience if you look at it and that is reason of a Snapdeal which is associating with big brand, football, similarly to that extent and that is where it is. If you look at the viewership and viewership will surprise everybody, so it has surprised us, it has surprised the league, it has surprised everybody, to have 175 million viewership is unheard of. The football after the second and third week to have audience of more than 9 or 10 times VPL football was not seen to start off in a manner, so if you look at it, it has surprised everybody of us. We have got nearly got more than 0.5 million fans in Facebook. We probably won the best Twitter. The point was it has met with reasonable success and we do feel that lot of value has been also derived as far as valuation numbers have gone but otherwise there is breakeven naturally you look at about four years three, four years but I look at it in a way from a shareholder value the valuations have gone up which is great and I think as a brand it has exceeded our expectations.

Moderator: Our next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sameer my question is to you. Actually as compared to the other MSOs we have been quite swift in trying to acquire digital costumers or even customers in phase III and IV, which in my view is really smart thing to do but then my question is that why are not we being equally aggressive for broadband. I mean I agree that we are doing well in Delhi. We are trying to go lot of things there but why are we leaving the ground open in cities like Mumbai which are so highly skewed towards like wealth or education or whatever even other phase II towns and especially even in places like Mumbai where LCOs have started doing their own broadband and have reached penetration of almost 10% whereas our penetration is almost in few basis points.

Sameer Manchanda: Now let us look at few things. For us this is not a business for today. We are looking at a very, very big business. We are not looking at 100,000. We are looking in excess of millions and millions that is what we want to be. We want to get the product. We want to get specifications, we want to get speed, we want to get our metrics everything right. It takes a long, long time. We have been doing it for nine full months testing, doing everything right because we do not want to be another cable broadband product. It is very different. We are trying to say it is a genuine high-speed broadband and when you see the high speed broadband we are not redefining, our packages start from 5 mbps going to 100, we are not even doing 512, 1 mbps, 2 mbps we are not doing that. We just want to be sure and we have actually, that is the reason it is a bit slow but if you look at it, it will give us six months you will see radical changes in big time also. But I think that is the period we will know because the product is ours really this is it. I now understand time is money I completely understand your point of view and some people will blame us for being slightly more extra conservative or being more cautious but we just want to get it right because we think in life we get one chance and we did not want to do it so we are just getting trying marketing, branding everything right in a way but you see the big change and our aggressiveness 2015.

Gautami Desai: 2015 pan India.

Sameer Manchanda: Yes from January itself. What I am saying is you just give us few months but you would see our aggressiveness.

Gautami Desai: So after a few months can I take it that you are planning to pan India for broadband.

Sameer Manchanda: Yes.

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

Rohit Dokania: Good evening gentlemen thanks for the call and the opportunity and Sameer thanks for your opening remarks very helpful. Just had two questions. One is for Rajesh. Rajesh could throw some light on the provision for doubtful debtors I believe it is from DAS market as well so what is the total provision that we have booked in this quarter?

Rajesh Kaushall: I think you already have a number of about INR160mn or so I think for this quarter vis-à-vis about INR85mn the previous quarter. So this was essentially because of higher provisioning what we felt prudently for particular market of Karnataka where the model of the business actually transformed from a digital partnership to a distributorship model so that is the only change but I think as we move ahead I think we definitely would be relooking at the provisioning and this is kind of DAS phase you can expect that to be in line with our prudent provisioning.

Rohit Dokania: Would you see any further step up from this or do you think quarterly runrate of INR80 to 100mn is doable or it could be higher.

Rajesh Kaushall: Roughly I think we have been at about 3-3.5% but I think in this DAS phase I think we could be probably little higher unless we streamline the ground collections.

Rohit Dokania: So is a 5% number better I mean just for this intermediate phase?

Rajesh Kaushall: 5% number is there in this quarter but let us see, right now we are actually having a relook at on the debtors and provisioning and then we will come up with any specific updates next quarter.

Rohit Dokania: The second and the last question for Sameer. Sameer could you throw some light on what you feel the potential threat if at all from reliance JIO because I believe they also have an FTT plan as far as the top 30, 40 cities are concerned?

Sameer Manchanda: That I also have no answer to. It is a worry, we all understand it is a product coming out from Reliance which we have heard so much and the only thing is that world over wire broadband has had a place. There is a coexistence in both the places because of the fact wire broadband does give you it does not have a problem with spectrum and video can go in anything which is really wireless will have problems on high data wire spectrum especially the video part and we have seen coexistence between in the world of where a lot of players there has been synergies and coexistence between and actually partnerships between which you call the cable and the wireless products where lot of data is being used from the even wireless being offered with cable products together and both about together we do feel that there could be synergies and we hope that synergies we would look at but it is something which we track carefully because it is going to be a fairly significant change when it launches and can have an impact but really I think we just have to watch it closely and see where but fundamental belief still remains that wired broadband has a big-ticket advantage and cost. It is very difficult on a wireless. Normally the cost of wireless and wired broadband if you look at it just the cost of consumption data which is we have had McKenzie advising us, we have done study, we have done everything is about nearly, it varies from country to country but on an average it will nine times just on data usage to cost because of spectrum and things. I do feel that there will be synergies which will help the industry to grow faster and India to be sought but it is too early so I think we are going ahead with our plan and we will continue to watch it and saying if they have synergies and what do we do with the synergy.

MG Azhar: To add to what Sameer said some players have already launched 4G in some other markets and if you see the response there it not very, very aggressive one because of affordability but as long as we get the product right and we are able to deliver the kind of speed that we intend to deliver I think we have a very, very competitive product in the market place and if you see the data consumption of consumers world over 80% of the data is consumed out of home or office, so if that fact remains relevant for the Indian market there is no reason why a product which is delivering high speed bandwidth in to the consumer home should not be successful. I think the more important thing for us is to get our product and consumer proposition right. I mean competition will come in different form and shapes but I guess as long as we have a product positioning and product pricing and the product delivery done well enough I think we have a reasonable chance of being successful.

Rohit Dokania: Is there an overlap in terms of the homes passed from the other MSOs in terms of broadband or is it also like cable where large we have our own territories sort of your margin in that sense?

Sameer Manchanda: That is pretty much the way the cable operates. So all of us are primarily operating in all areas and everybody has got huge subscriber base to cater to. So I think broadband also probably goes in similar lines and there could be some kind of model evolved where some players are not keen in offering broadband. There could be some models evolved but I think having said that I think initially people are going to look at there own territories to offer broadband.

Moderator: Our next question is from the line of Nirav Dalal from SBI Cap. Please go ahead.

Nirav Dalal: Thank you for the opportunity. The first question I had was subscription revenue have not moved from Q1 to Q2. So do we assume that the net realizations would not increase going ahead for at least phase III launch happening?

MG Azhar: If you see phase I phase II there has been little bit of increase in different markets but phase II is where we have to see significant bump up and I think in the next quarter or two you will see net realization from phase II market and some incremental increase because of all the packaging initiatives and tiering of content that we have seen that has been hitting both phase I and phase II market. So I think over the course of next two quarters you will see progressive increase in subscription revenues.

Nirav Dalal: So do you see a 10 to 15 rupees increase in the net realization in the next two quarters also?

MG Azhar: Yes that's pretty much possible, so we are definitely over the next two quarters we definitely want to increase the subscription revenue significantly from where we stand today.

Nirav Dalal: What are the efforts that are going into increasing this net realization?

MG Azhar: Like Sameer said earlier, one is obviously tiering of content which is effectively going to increase the blended ARPU both for us and for LCO and from a strategic point of view this whole tiering and packaging of content enables the dependency of LCO more on us so there will be a constant interaction between LCOs and us and LCO dependency on us is going to increase progressively so that to my mind strategically will benefit all the players over period of time.

Nirav Dalal: That would again mean that you would have to go to the LCO to have the incremental money getting out of them because of the tiering, I guess because they would be paying the fixed amount for all the tiers whatever may be tier 1?

MG Azhar: No that is not the case, supposing there is a sports package and the consumer asks for it, there are multiple touch points for the consumer to come back and ask for the content, ultimately when an LCO comes and asks us to provision the content for any particular subscriber obviously there will be a revenue model around it which could be pretty much in advance whereas consumers will also have capability to pay online from where we will deduct our share and pass on to the LCO that's why I am saying strategically we should be in a much better situation as where we are today.

Nirav Dalal: Because say for example Delhi you have 1.4 million what would be the base packs and higher packs there?

MG Azhar: There are four packages that we have.

Nirav Dalal: What is the distribution of subscribers to the base pack and the other packs taken together, is it 50:50, 60:40 towards the base pack or how is it currently?

MG Azhar: If you see the consumer preferences when it came to packaging for us majority of it was towards the higher end of the packages.

Nirav Dalal: But then still you have been receiving only 120 plus taxes so that would mean that he is keeping a lot of money with him.

MG Azhar: That is correct, but then I think the battle for us is relatively simpler if the consumer is paying a higher ARPU and we have to only get it out of the LCO hand but now because of consumer empowerment to go and subscribe to packages and their ability to deal more with us and a LCO in a seamless kind of manner, progressively we should be in much better control of both the product and the pricing that comes with it.

Nirav Dalal: The fear is that once the Star Packages go on RIO they would be collecting on a-la-carte or whatever so but will that money come to you in the end that is the worry, where I am leading towards?

MG Azhar: Ultimately if the LCO comes and asks for a particular content like I said majority of the time they are going to either ask for advance payment or if the consumer pays us directly then we are going to deduct that, so there will be on-going balance, today the situation is that the LCO collects and we collect from him , but I think the way the packaging is going to go some of the money is going to come to us directly from the consumers and some of it is going to be collected by the LCO so there will be a sort of on-going account with the LCO and progressively you should be in a better situation as you were earlier where you have to just ask him and collect money from him.

Nirav Dalal: Right, and sir the next question was, I guess this was answered earlier but how do you see the addition in STBs would that pick up the sales Q1 FY 2016 or when do we see the pick up happen?

MG Azhar: Like Sameer said, and I have also mentioned that digitization as a concept has already been sold and now with the new Minister coming in and the new thrust you will see advertisements plying in broadcasters also sort of coming out with campaigns to promote digitization, our sense is there should be constant build up from January quarter onwards, but that's going to be progressive, last two quarters should be where you will see a significant bump up in terms of subscriber addition.

Nirav Dalal: And sir very quickly, sports losses and broadband losses for the year would be same as that you mentioned earlier or is there any change in that?

MG Azhar: We haven't been providing yearly guidance.

Nirav Dalal: INR200 to 250mn loss would that be a right assumption, you mentioned that investment in the business would be close to INR300mn for the soccer business.

MG Azhar: Let me not preempt that eventuality because this current quarter which is October to December is there you know the Football event finishes so we are still in the midst of it, let me not just preempt that question, we will wait for another quarter for us to come out with the actual numbers.

Nirav Dalal: Sir and just last one, what would be the analog revenues from the subscription revenue?

Rajesh Kaushall: It was INR220mn I think it is similar to the previous quarter.

Moderator: Thank you. A next question is from the line of Vivekanand Subramaniam from HDFC Securities. Please go ahead.

Vivekanand S.: Thanks for the call. I have a couple of questions. The first question is with respect to the increase in subscription and placement revenue, which has been roughly 33% for the first half while if I look at the cost structure we have seen cumulative of content cost and subscription charges that has moved up by around 55% so clearly what we have seen is that a lot of costs including some fixed costs have been loaded in this year's financials compared to growth in subscription revenue, so by when do you expect subscription revenue to kind of outpace the cost which also include now an element of variable cost given the RIO deal?

MG Azhar: I think the LCO share has been similar as to what we had in the previous quarter on quarter-on-quarter.

Vivekanand S.: No I am comparing H1FY'15 and H1FY'14?

Sameer Manchanda: It is pretty stable now, if I look at it the resets have happened and I think it should be stable as we go forward if you are looking at either a matching a sub and increase versus cost increase, it should be stable now.

Rajesh Kaushall: In the first half of the previous year I think we did not have gross billing so I think that's the difference between the two halves.

Vivekanand S.: I understand that but still the first half subscription revenue and placement revenue cumulatively have grown by 33% I am including placement because our new deals will also have an impact on the placement income right, so first half subscription and placement income growth of 33% versus first half content and subscription charges growth of 55% that's the query?

MG Azhar: The phase I, phase II reset of content cost has happened in this current year, so while you have seen progressive increase subscription revenue but the entire follow through still has not happened and like you said phase I, phase II reset has already happened from hereon you should see nominal growth for content for these markets so obviously I think in the next one or two quarters once we see increase in subscription revenue it should cover the increase in content cost and also not to forget, today we are also in the investment phase where we are incurring lot of costs when it comes to phase III digitization of phase III and phase IV kind of cost, so if you would have seen in the last six months we would have had at least 30 to 40 or maybe 50 new cities on the digital platform all of that means lot of incremental cost, so we can probably provide you off line phase I and phase II cost to give you a better sense of where the subscription and placement vis-à-vis content cost stack up, because here we are talking about cumulatively for the whole company where all the sales figures and costs are also included.

Vivekanand S.: With respect to the content cost could you help us understand a little bit on what proportion of that cost would be variable just to get an assessment of the degree of operating leverage that we can generate?

MG Azhar: Like Sameer said, you know we were very, very early days the tiering of the content has been initiated by Star and the Star has taken a huge risk when it comes to their own viewership or clarity of their own channel, so as we speak it is still getting implemented on the ground and we will have to wait for a quarter before measuring actual impact of this but like Sameer said you know at the starting point we are not worse off from where we were on a net basis so as people subscribe to more packages and the tiering of content actually starts falling through in our books we should be gainers as people subscribe for more packages and move to higher packages. Otherwise the starting point is obviously marginally positive from where we were.

Vivekanand S.: Secondly I wanted to get a sense of other contracts which we would have with content players so essentially is Star the only platform which has a RIO deal with us and do you think others will consider such deals as well going ahead or they choose to remain on CPS?

Sameer Manchanda: It is too early to say, right now its only Star so if we really look at it, the others are fixed fees and it is too early to say which way the industry is going, so I think industry is also a testing phase of going through. The good thing is we all are working together and that has been a real change, so I think that is a welcome change and I think all of us would like it to succeed in a way but you know its too early saying because it also depends on content, consumer pick up, marketing, there are lot of variable elements, so I think its too early days to really see, but I think whichever way everybody will come out gainers from wherever it is, it's a good learning curve for the industry, too early but I would say give us till March April when the industry should be in a better position to tell you.

Moderator: Our next question is from the line of Jay Doshi from Kotak Security. Please go ahead.

Jay Doshi: Hi thanks for the opportunity. I have two questions if I may very quickly, in cable right now our net realization from phase II is about INR60-65, and we have not seen much increase in last one or two quarters, sir I was wondering why this urgency for us to see set top boxes in phase III especially when the deadlines are about 15 months away, why make this investment today when we probably won't be able to monetize it for another year and a half, what is the thought process exactly?

Sameer Manchanda: Two things on that. Let me just look at it. We are in November and we got to complete digitization by next December, I am talking about millions and millions of TV sets for us, so it's a consumer process that you start laying today it is not going to happen on a daily basis, it has to be slightly on a monthly basis if you look at it, so that's one. The second is I think all of us are wiser on hindsight of what we should have done and what the mistakes were, so very clearly I think some of the mistakes is not going to be repeated and that is true for the entire cable industry. If you look at it now the subsidy on the boxes which was 700 rupees earlier has come down to 300 rupees that is it. We are trying to monetize, actually let's us look at it we are trying to monetize some part from second month onwards. I am just saying I am trying to, I don't want to give any future projections but the market will tell you and the third is that we would implement packaging from day one, implement all good practices which we learnt from phase I on day 1 of the digitalization date and you would set that in order right now, we are very clear even right now what number of channels to go, what all will be done on packaging not everything else, I think the mistakes that we have done, we are not going to make it, that is why I am saying it is a complete mindset for us also to changing in to a completely consumer company, but there have been valuable lessons we have all learnt, we know the mistakes that we have done, the question is opportunity is huge are we going to miss this opportunity no, we going to do the right things, yes. So I think those are the things which concerns us and that is as far as DEN goes.

Jay Doshi: Sir fair enough, but sir your company is well capitalized and may be a couple of other players are well capitalized but if the overall at industry level if smaller players are not ready for it isn't there a risk that the deadline may still get post a bit and in that case the companies who have made investments their monetization may suffer, is there a risk that you see?

Sameer Manchanda: If I look at the current government and current interaction and just the ads coming in so close happening we are pretty sure that it will happen and we have seen in the past all deadlines really have been met baring 3 to 6 month delay and that delays were communicated earlier and then when we know we are making investments its very clear they also understand that delay is going to happen beyond when it is, so I think everybody in the whole government knows , we know everybody knows that this is happening so I do not see, if you ask me I do not see delays, but you are right, if that happens you can imagine but I think those are small risks that you can take but if you don't get the market you will never have the market ever, the market would have gone to someone else and thence impossible to get it, so you have to got to weigh your gains with the bit of the risk and I think we are pretty capitalized and one idea was you are capitalized for phase III and we have capitalized for broadband and building a brand and then we continue to.

Jay Doshi: Right, thank you and earlier you mentioned right now the plans at broadband are that all the MSOs would probably focus on their own territories but are there markets in Mumbai where your market, where other Hathway is perhaps providing broadband DOCSIS 3 right now.

MG Azhar: I don't think so but it could be an independent territory.

Sameer Manchanda: Some places there could be overlaps but I don't think there is an overlap with us.

Jay Doshi: Sir is there an implicit understanding between MSO right now?

Sameer Manchanda: You know it has happened like that, when you got so much to do yourself I would have had to go in some other area where I would run the risk that he may do something what's the point. The market is so huge for us and Hathway and anybody else but I don't see that SITI cable if you look at it, I would not just like to go in to somebody else's area.

Jay Doshi: Sir that was true even for digitization.

Sameer Manchanda: Where is the point that digitization has happened, really, none of us really went into each of those areas frankly to an extent, for last two years I don't think anybody has ever gone in.

Moderator: Will take the last question from the line of Jay Gandhi from Antique stock broking. Please go ahead.

Jay Gandhi: Thanks for the opportunity. First of all I think I missed the phase wise subscriber split that you just gave, if you could give that?

Rajesh Kaushall: The split of 6.6 million was phase I 2 million, phase II 3 million and phase III – phase IV 1.6.

Jay Gandhi: How much of these are paying?

MG Azhar: Phase I and phase II is paying.

Jay Gandhi: 5 million are paying subscribers right?

Rajesh Kaushall: Yes 5 million in Phase I and Phase II.

Jay Gandhi: Also you just mentioned that there has been a change in the business model because of which the provisioning has gone up from digital platform to distribution model, if you can just shed some color on what is the change?

MG Azhar: This was a JV in Karnataka where we has 15% earlier and the minority partner was holding 49%, we have taken over that 49% stake and we have appointed them as a distributor so 100% equity ownership is with us, so the economic interest will completely be with us.

Jay Gandhi: And the current LCO share it is around the same levels as in Q1 around 50%?

MG Azhar: Yes.

Jay Gandhi: Sir, if I just heard it right, subsidy has gone down to around INR300?

MG Azhar: Yes. Basically on two counts one the box prices have come down and two the upfront money that we collect for subscriber also has gone up.

Moderator: Thank you. Participants, due to time constraint that was the last question, I now hand the floor back to Mr. Alankar Garude for closing comments, thank you and over to you sir.

Alankar Garude: Thanks everyone for participating in this con call, a special thanks to the management for giving us this opportunity, have a great day.

Rajesh Kaushall: Thank you so much for being patient on the call, thank you so much for all your queries and we are hopeful of really delivering all that has been committed to the shareholders and the investors. Thank you.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Edelweiss Securities, that concludes this conference call, thank you for joining us you may now disconnect your lines.

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