"DEN Networks Limited Q2 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to DEN Networks Limited Q2 FY17 Earnings Conference Call. This conference 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. Thank you and over to you, sir.

S. N. Sharma: Thank you so much. Welcome to all the analysts on the call and thanks for being part of Q2 FY17 results of DEN Networks. As mentioned in the previous call, the environment and industry landscape is changing rapidly. Most of the high court cases with respect to Phase-III digitalization are behind us now. There is a draft tariff order, as you all know from TRAI with respect to broadcasters and MSOs. This bodes very well for the industry and sets a positive future tone for the MSOs in future. In addition to other steps towards digital economy, demonetization of currency will also help consumers to move towards bank transfers and wallet payments. This will also bring transparency in the industry and collections from the ground.

As far as performance goes we have fitted close to 2,70,000 boxes in Q2. The focus strategy to increase our foothold in Phase-III and IV market continues. With this edition, our digital base has gone up to 10.1 million boxes with strong presence of 5.1 million boxes in Phase-III and IV markets. There has been a significant improvement in subscription revenue for cable business at Rs. 176 crores inclusive of taxes for the quarter. I pointed out last time that our focus will be just the collections. That is what we have been doing. ARPU for DAS-1 and 2 and 3 markets stood at Rs. 113, Rs. 90 and Rs. 51 per box respectively. Phase-III ARPU has grown almost 35% on a quarter-on-quarter basis from 38 per box in Q1. Please note that ARPUs are average for the quarter inclusive of taxes on per box per month basis and include the impact of associates.

As of November 2016, the above ARPU have further improved to Rs. 123, Rs. 92 and Rs. 58 per box for the three DAS areas, respectively. This is in line with the targets that I forecasted in our last call. DEN has seen the highest ever collections in the month of November, 2016. I am pleased to share with you that collection efficiency continues to be strong at 95%. We have enforced discipline of collection through our LCO portals and LCOs and consumers who do not pay on time are switched off instantly. This has yielded very strong results for us and has greatly helped to improve the ARPUs and collections for our company. As far as broadband business is concerned, it has achieved breakeven at EBITDA level in the month of September through series of initiatives on revenue front and optimizing cost without committing significant CAPEX. Broadband subscriber base at the end of Q2, 2017 was 1,40,000.

We are well on track to achieve the cable ARPU guidance given in previous investor call achieving an ARPU improvement of 7% to 10% in Phase-I and II and 35% to 40% in Phase-III from current levels going to Q3 and compared to Q1. The indications are already given when I mentioned above about November collections. You would notice that we have already delivered on Phase-I, II, III numbers. The focus for next few quarters is going to be ST box penetration and seeding in phase 4 areas.

And then to the cable TV on-going business, we are consciously aware of the continuous changes in viewership pattern and to cater to the young Internet savvy consumer, DEN is also exploring on opportunity to venture into OTT application. This is currently under test and the formal launch is expected to take place shortly. New tariff order guidelines currently in draft form mandated by TRAI is expected to contribute positively in terms of improved financial performance for the investors. This recognizes the fact that MSOs need to be compensated separately for their investment in digital infrastructure. Hence there is a provision for a separate network costs for MSOs from the consumer. It is a very big step forward. At the same time the order prescribed for distribution margin on broadcasters' content being consumed by subscribers. Both of these regulations are path breaking for the MSOs.

At this time, I would like to hand you over to Manish to walk us through some of the important financial numbers, Manish?

Manish Dawar: Thanks, SN. Good afternoon, ladies and gentlemen. We have already calculated the presentation on our Q2 current year performance. As you are aware effective 1st April 2016 we have started reporting our financials on the basis of Ind-AS accounting standards. However, upon the specific request from the investors and for the benefit of all of you we have decided to give the comparative previous quarters and the current quarter number basis the IGAAP as well. You would have seen this in a separate press release that we have done yesterday and the investor deck also carry both Ind-AS and IGAAP numbers.

We believe this will help you to understand the business performance better. Please note that the consolidated and standalone Ind-AS results are viewed by the auditors and not the IGAAP numbers. Q2 financial results summary, which I am about to share with you, is basis business overview on IGAAP numbers. The Ind-AS numbers are already included in the presentation. As communicated earlier, the key adjustments relate to activation income non-inclusion of certain subsidiaries and small adjustment in the employee costs.

Group consolidated revenues pre-activation in quarter two were up by 12% on quarter-on-quarter basis from INR 256 crores to INR 287 crores. Cable subscription revenue at Rs. 150

crores during the quarter grew a healthy 31% versus the same quarter a year ago. The cable ARPU net of taxes and LCO share for the quarter were Rs. 97, Rs. 76 and Rs. 43 per box respectively, for DAS-1, 2and DAS 3 areas. This reflects the growth of almost 35% in Phase-III ARPUs versus quarter one, and 8% in Phase-II. The cable subscription collection efficiency continues to maintain a strong momentum during the quarter and stands at 95%. We have continued to maintain a good strong growth in our collection efficiency on a consistent basis. The efforts are on to make further improvements on this. We are able to achieve this through strong discipline on timely billing and collections and the boxes are being switched off in case there is a delay in collection or there is a non-payment on the billing cycle that we have.

The basis of recognition of activation income in Ind-AS accounts have changed to eight years in the current quarter versus four years in the previous quarter and the cumulative adjustments has been carried out in the current quarter. But for this the activation revenue would have been similar to quarter one. Revenues for broadband business stood at INR 21 crores in the current quarter versus the previous quarter of INR 18 crores. This has been primarily driven by the subscriber additions. There has been a continuous focus on optimizing the operation expenses also which has reduced from INR 23 crores to INR 18 crores despite increase in the revenue base. More importantly, we have been able to achieve breakeven at EBITDA level in the month of September for the broadband business. Consolidated EBITDA has improved to Rs. 34 crores from Rs. 15 crores in the previous quarter. This was a loss of 39 crores as you remember, in the same quarter in the previous financial year.

Cable business EBITDA witnessed a robust growth of 38% in quarter two versus the previous quarter. Broadband losses improved to Rs. 2 crores loss for the quarter from Rs. 9 crores a quarter ago. We have received the SEBI approval with respect to the scheme for the de-merger of broadband entity. We will now proceed with the filing of the scheme with the board. As discussed in the previous calls this is part of our corporate simplification exercise.

With that, I would like to open the floor for Q&A. Thanks a lot for your presence.

Moderator: Thank you very much. We will now begin the question and answer session. We will move to the next question. That is from the line of Vivek Anand from Ambit Capital. Please go ahead.

Vivek Anand: So, very encouraging set of numbers and commentary. Just wanted to understand from you some of your listed peers have reported rather lacklustre collections in DAS-1, 2 and 3, any reason for the significant divergence between your collection performance vis-à-vis that of your peers?

S. N. Sharma: Well, I would like to use this opportunity to talk about ourselves and I refrain from commenting from others performance and what they are doing. It is better I request you to post these queries with them please.

Vivek Anand: So, at least can you help us understand the key factors that led you to improve your collections and what about the rest of the market? So you are right in pointing out that the others, obviously you will not talk about that, but the improvement in collections that you are seeing, is it sustainable if the collections do not improve for the other players in the industry, your collections being at elevated levels vis-à-vis others?

S. N. Sharma: Yes. So, far the experience has been quite positive. We defined certain benchmarks. We defined certain targets, knowing very well the current ARPU level in the market and give targets to our team members and to our partners and associates, cable friends, cable operator friends in the ground in a very transparent manner. We conducted open house sessions with them and had face-to-face open-hearted discussions, took them through the course what we are following, and simply requested all of them to follow the discipline that we are trying to bring in place for their own betterment in times to come. And I would say that it is easier said than done, everybody put in lot of efforts, lot of hard work has gone into it, but the only basic underlying thing was, follow the guidelines, follow the targets and no laxity over there. That was the only thing that we followed irrespective of what the general competitors are doing, what generally the other operators are doing, and it is not just Q2, you see we are already towards the end of Q3 and I referred the figures of November, while exiting November, we have already tasted the success, I would say with confidence that we are on the right track. So this is now a journey of not just one month. This is a sustained journey of five, six months. So I am sure that we are on track and this should be sustainable unless God above has something else in his mind. But as far as human beings are concerned and realistic world is concerned, this is definitely sustainable.

Manish Dawar: Vivek, to be honest, we were expecting this question. That is the reason we decided to give the November numbers also. So that I mean just to kind of ensure that quarter two is not just a flash in the pan, even let's say quarter three and November, is a month whereby most of the industries have got impacted because of demonetization and we see November month to be one of our best month in terms of collections. So therefore if you see the November ARPU they are better than even quarter two.

S. N. Sharma: And these ARPU figures, what we are quoting, just to make it very clear with everybody, it is realistic collection amounts we are quoting. It is not the revenue amounts that we are quoting.

Vivek Anand: Just a small follow-up, on the balance sheet side has there been any, so since we have not reported the FY16 and consolidated balance sheet, can you help us understand whether there has been any movement of the trade receivables from current assets? Has it been reclassified somewhere or is it so that the 398 crores trade receivables at the end of FY16 is now 432 crores. Is that the only movement or is there something else that we should be looking at?

Manish Dawar: Vivek, there is no significant movement. In fact if you guys are interested, we can start to give you the balance sheet also on IGAAP basis. We only show the P&L because as we have said repeatedly, we are absolutely open and transparent with you. But in terms of the movements with trade receivable, if you were to look at the subscription side, they are almost flat. There is no big growth there, but the increase in trade receivables is happening on account of the placement and if you see there is a corresponding increase in the creditors also because the content side and the placement side typically they go together.

Vivek Anand: So this, this you are saying this is also reflecting in the increased trade payables line item.

Manish Dawar: Exactly. And as Mr. Sharma has talked about that our collection efficiency also has improved versus the previous quarter. So, therefor there is no reason why we would not like to talk about it. So, if you remember the previous quarter collection efficiency was 94%, on a higher ARPU that we have talked about and I am talking about including the November ARPUs, we are at 95%. And the November if at all November we will be 95% plus it will be a little positive on it.

Vivek Anand: So, how does this, the collection efficiency KPI that you just shared or you have been talking about for a while now, how does this, how do I look at it in P&L terms. Is it, likely to reflect in lesser increase in trade receivables and also lower provision for doubtful debtors, is that what I should be monitoring from a financial standpoint, the parameter linked to your operating parameter which is collection efficiency?

Manish Dawar: Vivek, this parameter is very simply put is basically the month collection divided by the month revenue. So, what we are saying is, that if you are at 95% our increase is debtors has virtually stopped. If you remember a few years back, every quarter the debtors used to go up. So, subscription side that part is stopped. And if you see, I mean there is still a small provision, which is being carried out every quarter and that is basically to take care of the differential in the collection efficiency.

Vivek Anand: And as of now, how much would our provision for doubtful debtors be and how does it compare Q-o-Q and year-on-year?

Manish Dawar: So, we had put in a policy, if you remember, last time we talked about it. That is on the subscription side, anything more than 90 days we will start to provide for it. We have implemented that for the standalone results, which is almost about 60% of the company and that we will continue to do it during the year.

Vivek Anand: And the provision for doubtful debtors' number that you have shared in this, in slide number seven, in your presentation, that is largely pertaining to the cable business, right?

S. N. Sharma: Yes. Because broadband, is basically a prepaid business. So, let's say if the consumer is now fake then he is not able to reach us.

Moderator: Thank you. We take our next question from the line of Avnish Roy from Edelweiss Securities. Please go ahead.

Avnish Roy: My question is when I see the November ARPUs which you have reported versus the Q2, in Phase-I, there is 8% growth, in Phase-III there is a 13% growth, in Phase-II, it is just 2%. So, why the divergence in terms of the growth numbers?

Manish Dawar: Abneesh, if you see there has been some growth in big, okay, let me just kind of step back a little bit, so that you are able to understand it better. So, within Phase-II, UP used to be a little bit of our pain area we have mentioned earlier, and rest of the Phase-II was already close to Rs. 100. And in quarter two, when Sharma Ji came in, our first focus was less kind of get cracking on UP and that is how we kind of focused on UP and Phase-II first. And in November, we focused on Phase-I and Phase-III, but nonetheless if you also remember that in the last call, we have said our objective is to reach 125, Rs. 100 and Rs. 75 rupees for respectively for Phase-I, Phase-II and Phase-III. And I think we are pretty much close to that now.

Avnish Roy: Is it true that you plan to launch an OTT?

Manish Dawar: Yes, that is true.

Avnish Roy: So my question is, already the customer has a lot of options in terms of OTT and what is the plan for cost in this, what are the marketing plans, what are the technology costs in this service?

S. N. Sharma: You see as far as various options are concerned, those options have their own shortfalls. They are limited to their own respective platforms majority of them. They are limited to the broadcasters promoting their own dish channel only. There is not many platforms wherein all the platforms of, I mean all these broadcasters content and various others' content are given on the same platform. So ours will be the one wherein not just the channels being broadcast by different groups, besides that there will be many more, much more content being extended to the viewers, and viewers simply need to punch in is the VC card number, he is supposed to be our existing subscriber and all this content will be enabled on his handset. As far as cost is concerned, there is very minimal cost that is going to be put into, incurred in launching this. So, I do not think that will cause any stress on the existing figures as of now.

Manish Dawar: Abneesh, just to give you some contours for example, the OTT asset we are looking at, it will have almost about close to 120 to 130 live channels. It will have about 2,500 movie titles and it will also have about 10,000 hours of video on demand content. So therefore it is quite a rich app and as Sharma Ji explained I mean this is, this will basically be a good consolidation rather than individual broadcasters and individual apps which are currently available.

Avnish Roy: And you said your existing customer base will be the target. So, in terms of extra revenue, how does that work? And why you are not targeting beyond the existing customer base, because this is, you can go beyond that universe, right.

S. N. Sharma: No. Everything is planned out. It is just a part one, Phase-I of the thing that we are focusing. As of phase 1, we will be happy if our majority of our viewers get hooked into this and very soon we will be extended it beyond our viewers, existing viewers also.

Avnish Roy: And on pricing, any details?

S. N. Sharma: We will let you know. That is why I said, we will get to let you know very shortly. It will be very price sensitive and very price effective

Avnish Roy: And you do not expect your LCO partners to get impacted by this, because they may see this as a risk for them? Right?

S. N. Sharma: No, it won't be affecting their business at all. It won't be. Rather, I would say this will complement their business. This will further strengthen them against the other competing technologies. This will further strengthen their hands and will provide them strength to when they meet their customers for better ARPUs and better collections.

Avnish Roy: Sir, my next question is on demonetization. You said this will improve the transparency and the collection. This may improve maybe for the next two, three months. But once cash is back into the economy, say after four, five months, do you see this as a structural change? Are you increasing the online, are you increasing the prepaid, postpaid? What is the structural thing which is happening, which will continue beyond four, five months?

S. N. Sharma: Yes all the distribution platforms are sensitive to it and everybody has fallen in line. Already our online facilities are very much available on our website. And as for your update I do not know anybody has conveyed to you or not, a process has started, wherein cable operators at ground level have started collecting through Paytms though credit cards and through online payments. Although it is just 5% or 7% of the total flow, but that initiative has already begun and so far as my interaction with LCOs is concerned majority of them are likely to move to that directions. So, having set that direction, having tasted digital money, I do not think there is any reason why should they go again go back, because this helps in accounting at their end also. This helps simplify the life in many manners for LCO, for MSOs at both ends.

Avnish Roy: Sir, my point was this helps them save taxes so they might find it easier but this also helps them avoid the taxation. So, once the cash is back into the system, they will go back, right. Because in the Paytm, etc., the taxation issue can come, because it can be taxed.

S. N. Sharma: That applies to entire country, that applies to all the businesses. Isn't it? As far as our digitalization, why digitalization of the every subscriber is counted, there is a SMS report in place, there is all the logs in-place wherein every subscriber is properly defined with KYC in place and all the agreements into place. So, how long you can run away from the reality.

Moderator: Thank you. We take our next question from the line of Kunal Mehra from MSD Partners. Please go ahead.

Kunal Mehra: One quick clarification, what I am inferring Mr. Sharma from your last response is that you have put in place a set of systems which give you confidence, but even if we look Q3, Q4 in the next financial, the collection efficiency numbers will continue to sustain, or probably keep improving at these levels. Is that a fair assumption, Mr. Sharma?

S. N. Sharma: Yes, of course. Definitely life cannot meet any success unless we follow certain systems, unless we follow, refine the processes to be followed and the discipline is to be inculcated into the entire system to follow a process. That is what I have been doing while driving the organization. I think the entire team, driving all the associates towards a common goal of better realization, better monetization and that has happened because of putting the processes and system into place.

Kunal Mehra: And one more question, Mr. Sharma, if you allow me, given you have introduced incredible changes, not only on ARPU realization, but also collection. I would imagine that it has, I mean and a lot of this has been rolled out because of the mindset change that a lot of the LCOs that have worked with you have brought in place. I would imagine that there is got to be some competitive response from your peer side. Is there any disruption you anticipate on account of that competitive response or is it something you have already seen and you are taking it your stride? I mean, how should we think about that over the course of the next two to four quarters?

S. N. Sharma: Kunal, there is always a resistance to change that happens, good for our life, good or bad it results are known subsequently. But definitely that is a basic human tendency to resist to a change. And here we talked, we are talking of bringing a whole change and we have seen it as a reality, now it has happened realistically in our life. The basic factor that helped me was talking to the partners, talking to the cable operators in a very transparent and upfront manner, without blinking an eye and sharing the statistics, sharing the tech from our upcoming technologies, making them aware of how the life is changing. Technology is not going to wait for anybody. And unless we change, unless we follow the system, unless we follow good practices, life is not going to be permanent. And I really appreciate all of them have so far agreed, accepted and wholeheartedly supported the process. Definitely, there have been skirmishes, there are always, not just skirmishes, there are manmade naughty things also. I mean when it comes to any business, there are always tricks that are being played to act as a spoil shot or to make some short term gains. But we consciously thought of overlooking that, because the upside is much bigger than the, if you spent time in following those tricks and whatsoever is being played on you, and that really helped me in not diverting from my focus. Instead of chasing those smaller, smaller issue ticklish issues, which eventually if we calculate in this journey of five-six months is not a very big count. It is not worth even mentioning over here. And gradually, now the message is going around in the general environment, that if, this can be done by this player, I am sure the others will cannot ignore the effects and they will also start following it.

Kunal Mehra: Mr. Sharma I will say this, we really appreciate the work you have done and I do not say this slightly. You have certainly continued to deliver against the targets. We wish you the best of the luck and we hope the delivery continues. So thank you again for the opportunity and all the work.

Moderator: Thank you. We take our next question from the line of Harish Kampani from JM Financial. Please go ahead.

Harish Kampani: Can you please repeat your Phase-I and Phase-II ARPUs?

Manish Dawar: Are you talking about November numbers or Q2?

Harish Kampani: Q2.

Manish Dawar: So, Q2 was 97, 76 and 43 without tax. And if you look at including tax, it is 113, 90 and 61.

Harish Kampani: Could you give me your primary cable subscribers currently?

Manish Dawar: It is very small, that is the reason we do not talk about it.

Harish Kampani: And in relation to broadband currently, how many cities, would you be present in?

Manish Dawar: So broadband, we have majority in Delhi (+95%) of our subscriber base is in Delhi, have a small presence in Kanpur and Jodhpur. So, our plan is to kind of go to smaller cities going forward. As of now it is Delhi you can say.

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

Dipesh Mehta: I have couple of questions. Can you help me understand activation in your states or now we shifted to eight years kind of amortization from four years? So this quarter number is whether any retrospectives are given in this quarter and what would be the normalized one should expect in terms of activation kind of run rate? Second question is about broadband. We have seen significant reduction in operating expenditure in broadband business. Can you help me understand what factors are playing out there or any one-offs is there in terms of operating expenditure? Third question is about set top box, can you provide under Indian GAAP and Ind-AS Phase-I and II and III, IV kind of STV under closing? And last thing is about, can you help me provide broadband CAPEX per sub number?

Manish Dawar: So, Dipesh let me come back to your first question first. So you talked about activation income if you remember, let me give you a little context because I think you raised a very valid point. So, in IGAAP we used to recognize activation at the point in point of charging and therefore the entire activation income used to get booked upfront. In quarter one when we moved in Ind-AS we had recognized the activation income over four years and that was in agreement with the auditors while they had not taken the final view because they were also wanting to look at what has been the international experience. So, in quarter two we have agreed with the auditors that we will shift this four years to eight years, and they have kind of scrutinized most of their international clients what is happening in other similar industries may not be MSOs. But that is the final view that was taken and therefore the cumulative impact of that four years to eight years is showing in quarter two numbers, that is the reason if you look at activation revenue, it is lower in quarter two. If, let's say, we have not done this adjustment, the activation revenue would have been very similar to quarter one. So, if at all, it would have been, let's say, probably 1 crores lower or something like that. That is the reason we also give you the number of boxes that we have seeded in the quarter, which is 270,000 and this number as you remember is more or less very close to the quarter one number as well. So it is only that accounting adjustment which is impacting the activation revenue otherwise the life is absolutely the same. In the current quarter, our actual activation income per box has gone up by about Rs. 15 to Rs. 20.

Dipesh Mehta: What will be the number?

Manish Dawar: Of activation revenue?

Dipesh Mehta: Yes.

Manish Dawar: Net of taxes, 1,070.

Dipesh Mehta: And from ..

Manish Dawar: Let me come back to your second question on broadband.

Dipesh Mehta: Sir, sorry to interrupt, on this, what will be, if I look now because cumulative impact is given in Q2. If one want to understand now eight years accounting kind of thing what will be the normalized run rate, considering eight years period.

Manish Dawar: The eight year accounting.

Dipesh Mehta: Yes.

Manish Dawar: It will depend on the number of boxes that we seed in the quarter, Dipesh. So, for example, let's say the DAS IV is yet to happen and we are waiting for all clarity to kind of come in that the dates are not changing and there are no court actions happening. So, once that happens, I mean we have another three million boxes to go in DAS IV. Therefore, this number will pick up substantially. But obviously, I mean it depends on the number of boxes that we seed in the quarter.

Dipesh Mehta: No. That I understand. Let's hypothetically 5 crores what we book in Q2, what would be that number without any historical impact or cumulative what impact we have given?

Manish Dawar: If, let's say there was no, are you asking on eight year basis or four year basis?

Dipesh Mehta: Eight year basis.

Manish Dawar: So, it would be about 20-25 crores per quarter, Dipesh.

Dipesh Mehta: The remaining question.

Manish Dawar: Yes. So you talked about broadband Opex. So we have been working very hard on reducing the broadband operational expenses because our objective and that is the reason we never kind of expanded very aggressively. We wanted to stabilize the model. So, whatever broadband Opex reduction you are saying is permanent. It is not temporary and we have been able to renegotiate the bandwidth cost, we have been able to renegotiate the selling side, in terms of commissions and all. So, there are lot of host of activities, which have taken place and that is the reason that the cost is actually down. Okay, so coming to the broadband CAPEX for sub that was I think your another question. So, currently, if were to look at, I mean broadband CAPEX is divided into two parts. One is the per home pass cost and second is per connected subscriber cost. So, our current home pass cost is about Rs. 800 and per connected subscriber there is an additional cost of about Rs. 2,500.

Dipesh Mehta: So, put together is around 3,300 kind of number and considering the ratio kind of thing.

Manish Dawar: No, you will have to see the penetration level. So, if we make a penetration level of let's say 25% within the broadband networks, so 800 will be multiplied by four, which is 3,200 plus 2,500. So, per connected subscriber CAPEX will be about 6,500 to Rs. 7,000.

Dipesh Mehta: Understood and the last part is about Indian GAAP and Ind-AS set box difference?

Manish Dawar: The box difference is only account of, only on account of three subsidiaries which are not getting consolidated and so it will be about a million boxes on an overall basis. I will have to come back to you with the breakup, but between Ind GAAP, between Ind-AS and IGAAP will be about a million boxes.

Moderator: Thank you. We take our next question from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: And my question actually 8.5 million slate, what are the November numbers actuals?

S. N. Sharma: November, Manish kindly ..

Manish Dawar: November, Gautami Phase-I is Rs. 123, Phase-II is Rs. 92 and Phase-III is Rs. 58, including tax.

Gautami Desai: And another question is that what is your feel about Phase-IV deadline? I mean what is likely to happen just your view? And the next question is what will happen to the TV online shopping in light of the COD option having a problem right now?

S. N. Sharma: As far as Phase-IV is concerned, I do not see any hurdle unless last minute there is some glitch or somebody comes and steps in with whatsoever motive. But with the high court clearing all the old cases related to Phase-III, to my best of knowledge there is no application that is yet to come or there is no direction from any court in India that has come to stay the process, neither we have heard so from any association even in informal manner. So I won't like to make any comment and ..

Gautami Desai: But sir, do you think there will be a shortage of set-top boxes this time.

S. N. Sharma: No, I do not think there will be shortage of set top boxes. We all have become smarter over a period of time, how to manage our inventories and how to manage Indian requirements. So naturally, there is always a spillover of two, three months that we have all experienced while seeding in Phase-I, Phase-II, Phase-III and Phase-IV itself being such a huge market, you do not really expect all to be catered on a single night and there will be a couple of months that will go in tandem and in parallel to practically seeding 100% of it.

Gautami Desai: And sir, your TV online shopping, fate of that due to demonetization.

Manish Dawar: So, TV Shop as would have seen the results quarter two was positive EBITDA of 1 crores. So, we have talked about breakeven on this business, but as a result of demonetization the sales are down. And they are down to the extent of almost 50%-60%, because it was all COD business. And therefore we expect that probably losses will come back by the time we stabilize the current situation. So, we are working on, on the technology side to be able to accept the online payments and to accept the prepaid payments because as of now it was not there. So, once this gets sorted out we will be able to start, because we believe that in e-commerce companies have started to see the recovery and we think that the same thing will happen here as well.

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

Kaustav Bubna: I just wanted to know what is this in your presentation this divestment of another 25% in soccer business, I have actually just looking at your company, so I do not know about this, could you inform me please?

Manish Dawar: Kaustav, we owned the Delhi football club, which is called Delhi Dynamos which is under the Indian Super League soccer that takes place. And we used to own 100% of that. And almost, I would say a year back we undertook an exercise to kind of focus on our core areas. We defined our core business as cable and broadband. As a result of that we stopped or we kind of shut the joint venture with Star, which was there. And then we were in the process of selling the football business also. So in the first tranche we had offloaded 55%.

Kaustav Bubna: In the first tranche you offloaded 55?

Manish Dawar: Yes. And in the current one, so therefore our remainder 45 now has come down to 20 by, so we sold another 25%.

Kaustav Bubna: And so what would be the value of that 55% and 25%?

Manish Dawar: Value in the sense?

Kaustav Bubna: The monetary value.

Manish Dawar: We were able to recover, whatever we had invested. So there was no gain.

Kaustav Bubna: And but this other 20% that you will divest?

Manish Dawar: So another 20% our objective is that we will try and divest another 10%. We would like to hold the remainder 10% because it gives some marketing edge and then, let's see how it goes.

Kaustav Bubna: What was the initial investment?

Manish Dawar: So, there was no CAPEX upfront but over a period of time, we had invested about 80-85 crores by the way of OpEx. There was no CAPEX as such.

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

Rohit Dokania: Just two, three questions from my side. One is, if you can talk about the sharp fall in interest expense on a Q-o-Q basis, what is leading to that?

Manish Dawar: So Rohit, it is not just the interest expense, because we have some Forex exposure also and rupee strengthened versus the dollar. So that is a gain which is kind of flowing in. In quarter 3 that gain will get eroded because rupee weakened, so it will come back to the normal levels.

Rohit Dokania: And the other part was can you talk about in terms of the content cost per subscriber that you have seen in this particular quarter and what is the subscriber base in the denominator?

Manish Dawar: It is the same as quarter one. There is no change, because if you see the number of subscribers have remained the same. The content cost is more or less the same, except for 1 crores change. Yes, so it is absolutely the same.

Rohit Dokania: And lastly on the ARPU numbers that you disclosed across phases I, II and III. Can you also talk about the number of subscribers that you were taking into account while calculating that ARPU?

Manish Dawar: So, we have, as I mentioned before out of phase 1 and Phase-II where we have about 5 million subscribers, we have about 3.8 to 3.9 billable subscribers. And in Phase-III, where we have 5.1 million subscribers now the billable is about 4.5-4.6 as of now.

Moderator: Thank you. We take our next question from the line of Vivek Anand from Ambit Capital. Please go ahead.

Vivek Anand: Just a quick question on the status of regulations and likelihood of implementation in the current form. When does management expect the final order on cotton pricing by the regulator? And secondly does management expect the current draft guidelines to be implemented? Are there going to be meaningful changes in the draft tariffs suggested? Thanks.

S. N. Sharma: Yes, to best of our information the, everybody has posted its comments and taken all the clarifications from TRAI. And I am sure, they should be coming out with a formal order within December only, so that sufficient time is given to all the stakeholders to adjust themselves and get the agreements and understandings into place before April, where the new live starts in realistic digital environment. So, I do not see much of changes but for minor tweakings here and there, there are always good suggestions that come from stakeholders, which can always be considered positively. But the realistic date what it is going to be and when, I think, I cannot comment on behalf of TRAI, it will not be right, it is better than some TRAI official only comments. But I personally feel, it should, the formal orders should come within December.

Vivek Anand: Sir, just one last question. On the content deals that we have right now, I am aware that you have committed or you are receiving the same on a fixed fee basis from broadcasters. So, as you deploy set-top boxes in Phase-III and IV, you do not need to pay any extra content fee. However, can you help us understand the contract durations with the large broadcasters especially the big four broadcasters?

Manish Dawar: Vivek, as far as STAR and ZEE are concerned, which are the large broadcasters and that account for majority of the content, we have, it is valid until December 2017.

Vivek Anand: And with Colors and Sony?

Manish Dawar: That will be I think somewhere middle of 2017.

Vivek Anand: So, you feel that the new, when you renew these contracts with all the four big broadcasters next year, you feel that the new regulations will play a big role in determining the structure of the contract, is it?

Manish Dawar: That is right. If let's say the regulations get notified logically there should not be any content cost for us.

Vivek Anand: Right, because it will be a pass through and so on.

Manish Dawar: Correct. If at all the expense line which is there currently, we will get a revenue stream because one will get entitled for the commission on the content.

Moderator: Thank you.

Participant: I just wanted to know your situation on debt and how much do you, what is your outlook on your short-term, long-term debt or mainly long term debt going forward, debt by 2018.

Manish Dawar: So, you would have seen from the presentation our current gross debt is about 753 crores.

Participant: Yes.

Manish Dawar: And then we have cash and cash equivalents, so our net debt stands at about 336 crores. And just to point out that this is as of September end situation. In October we received another 142 crores from Goldman. So, therefore the current net debt is about 250 crores.

Participant: So, you received the 142 crores in October from Goldman. I thought you were going to receive it. Okay, great.

Manish Dawar: No. We have received that money from the bank safe and sound.

Participant: I mean what is the first deal, they are increasing the stakes on the two holding companies and is the promoter holding going down is that, am I right?

Manish Dawar: Yes, that is right. So promoter holding is marginally down from about 40% to 37% roughly. I will have to check the exact numbers.

Participant: Has this event already taken place?

Manish Dawar: It is already taken place.

Participant: Could I know the date it took place?

Manish Dawar: Is the date of?

Participant: I mean the time period, the time range?

Manish Dawar: It was October end.

Participant: So, now that full event is over right? It is past us now there is nothing, no more events like that in relation to Goldman Sachs in the near future.

Manish Dawar: Absolutely. I mean now holds about 24.49% and we have allotted the securities we have got the approval from the stock exchange to trade. So everything related to that is absolutely complete.

Participant: So, this holding is in two holds, it is in two different holding companies, right?

Manish Dawar: Yes, that is right.

Participant: If I may ask how are these holding companies linked to Goldman Sachs, what exactly are they?

Manish Dawar: They are from the prop book.

Participant: Okay.

Manish Dawar: So, that is how, so they have various investments through these multiple subsidiaries.

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

S. N. Sharma: Thank you, everybody, thanks for your patient hearing and see you soon with more positive work on the ground.

Manish Dawar: And if you guys have still any further questions, queries please feel free to come back to us. That will be great.

Moderator: Thank you very much. On behalf of the DEN Networks Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.