



“SITI Cable Network Limited Q2 FY15 Earnings
Conference Call”

November 12, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the SITI Cable Network Limited Q2 FY15 Earnings Conference Call. As a remainder, 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 this conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Goyal. Thank you and over to you sir.

Sanjay Goyal: Good morning, ladies and gentlemen. Welcome to the SITI Cable investor con-call Q2 FY2015. This quarter highlights includes revenue has grown by 36% at 2238 million, EBITDA has grown rather better at 39% at 458 million. Digital subscriber base has increased to 4.6 million, this quarter we have added close to 300,000 subscriber in digital subscriber base. We have already launched the broadband service on DOCSIS-3 in Delhi and NCR. These are the performance highlight for this quarter. Now I request all of you for question and answer session.

Moderator: Thank you very much sir. 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: Coupe of clarifications, can you give me the breakup of what was the subscription, carriage, and activation for this quarter?

Sanjay Goyal: Largely in this quarter 65% has come from subscription, 25-26% has come from carriage and rest comes out of the rest of the streams.

Mayur Gathani: And there is a note in the results which says that 20 crores have been recognized its subscription income but the cash flows have not come in right, is that understanding clear?

Sanjay Goyal: No. That understanding is not clear, we are doing two kind of billing, one there are certain locations which includes Delhi, Mumbai, Calcutta and certain central India location includes Indore, Bhopal, Jaipur, Jabalpur wherein we are doing the gross billing. While in rest DAS 2 areas we are doing net of revenue share billing. Hence that note 6 speaks about the quantum which has been billed on net of revenue share basis.

Mayur Gathani: Okay. So only on the net of revenue share basis amount is mentioned.

Sanjay Goyal: Yes.

Mayur Gathani: Any uptakes on the broadband that you have launched you can share with us some data on broadband?

V D Wadhwa: We have launched broadband with DOCSIS-2 and DOCSIS-3 technology with Cisco technology in Delhi and NCR. We are upgrading all our about (+600,000) subscriber base of cable TV. we are converting them into home passes over next 4-5 Quarters that is the target and commercial launch has happened about a week ago. So far we have added just small numbers about 100 odd



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customers. We are giving upto 100mbps speed, the packages Starts from 599 going up to about 3699, these are the various packages. And we are simultaneously working on taking the broadband into the other cities as well wherever we have more than 50,000 subscriber base like Jaipur, Indore, Bhopal, Jabalpur, Bangalore and other markets.

Mayur Gathani: Okay. I just missed what is the timeline you are saying that you will convert this 600,000 into home pass?

V D Wadhwa: This we are targeting that entire 600,000 will take about 4-5 Quarters. Our ambitious target is about six months but I think there is a big challenge, the technical team is bargaining for little bit more time on that issue.

Mayur Gathani: Okay. And there also a point in the result note that direct LCO point, so can you throw some light on that? You are trying to buy out the LCO points?

V D Wadhwa: I think in the longer term we believe that we need to have the B to C business model wherever we are into the leadership position, the consumer ARPUs & LCO collections are better. Basically company realizations are better and where we have a much better management control in the geography we believe in acquiring more direct points there because as a company I think historically we used to have the direct points in the analog regime but in analog there was no discipline so somehow those were not sustainable. But today we believe when we are investing the CAPEX we are upgrading all the 600,000 home passes and by and large almost 100% of the cases the entire up gradation is being funded by the company. It is high time that we should own up the customers and we should start it directly because the future of the cable industry cannot be only pure cable unless you are giving broadband and other value added service. Once you have a direct control on the consumer then you will have much more flexibility in terms of changing the packages, giving the various offers. So that is one direction which when we compare ourselves with the other leading MSOs every one of them have got some direct point whereas in SITI Cable this was one area which was out of focus that is what we have Started. So far we have added close to about 25,000 direct points in the last two to three months period. We are targeting at least about 100,000 direct points in Delhi by march 2016.

Mayur Gathani: Okay. So you are basically buying out them, bidding out LCOs.

V D Wadhwa: That is right.

Mayur Gathani: Okay. And sir what is average collection been for Phase-I and Phase-II?



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- Sanjay Goyal:** In Phase-I the collection has improved to the level of 90 plus taxes. Largely Rs.5 to Rs.7 has been increased on average basis in Phase-I while in Phase-II it has increased by Rs.10 to Rs.15 so largely it is somewhere close to 60 .
- Mayur Gathani:** And this is 100 plus taxes right sir for Phase-I?
- Sanjay Goyal:** Yes.
- Moderator:** Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** In Delhi can you just share what is the CAPEX per home pass that you are incurring, now that you have done 20,000 home passes.
- V D Wadhwa:** Per home pass, the cost is roughly about 650. And if you see the conversion basically we are targeting 15% conversion. So basis that our effective cost per subscriber will be roughly about little below Rs.4,000 somewhere between Rs.3,500 to Rs.4,000.
- Dheeresh Pathak:** Okay. And on the modem, etc., is this includes that also or does it excludes that?
- V D Wadhwa:** No. This excludes that modem is basically the way we have done the packaging and the way we have launched our packages modem has to be funded by the consumer.
- Dheeresh Pathak:** Okay. So no subsidy right?
- V D Wadhwa:** No.
- Dheeresh Pathak:** And how many subscribers you have now that you have launched. Although it's still early stage.
- V D Wadhwa:** It is less than two weeks so it is roughly about 100 subscribers only.
- Dheeresh Pathak:** Okay.
- V D Wadhwa:** Just less than two weeks
- Dheeresh Pathak:** Yes, understood. And Delhi, Mumbai, Calcutta roughly all would be close to 90 plus taxes in terms of net realization now?
- V D Wadhwa:** Yes, that is right.



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- Dheeresh Pathak:** When you report the subscription income on P&L do you show it at Rs.90 or do you show it at gross before the LCO share?
- V D Wadhwa:** Depending upon the different markets whichever the some markets the gross billing which is happening, package wise billing is happening. And in some markets the way there is a net billing which is happening, which is net of the LCO share.
- Dheeresh Pathak:** So can you tell like in Delhi what is happening, Mumbai what is happening and Calcutta what is happening the way it comes on the P&L, are you doing gross, are you doing net?
- Sanjay Goyal:** Dheeresh while we are doing gross billing and Delhi, Mumbai and Calcutta and central location we show the revenue with the total value, net of tax value i.e. package value after reduction of discount towards additional revenue share we give to the LCO. The corresponding distribution cost which is 38.33% means 33.33% is the share of the LCO and 5% is the share of distributor on the subscription revenue is being considered and accounted for as distribution cost.
- Dheeresh Pathak:** So EBITDA it will not be, what I am trying to understand is that
- Sanjay Goyal:** For example, let say 180 is the base package in Delhi against which we are getting 90 plus taxes. Now we have agreed that Rs.90 to be given to the LCO and Rs.9 to be given to the distributor. So revenue is being shown as if 180 minus 11 (i.e. Rs 89-90) that comes out to be 180. Meaning thereby Rs 180 has been shown as revenue and 99 has been shown in distribution cost. So net debtor value is Rs.89.
- Dheeresh Pathak:** Right. No, what I am saying is that assuming that on 2.2 million subs in Phase-I you bill at 180 and then 1.5 in Phase-II you bill at 60 which is netting off LCO share, and then some analog subscription revenue. The 121 crores of subscribers in the subscription revenue look lower if we do that basis math. So what am I missing there?
- Sanjay Goyal:** You we can talk offline, for this details.
- Dheeresh Pathak:** Okay. And can you give activation revenue for this quarter?
- Sanjay Goyal:** alike of last quarter.
- Dheeresh Pathak:** So last quarter was 143.
- Sanjay Goyal:** Yes, this quarter it is at around 13 crores.



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- Dheeresh Pathak:** Okay. And now in Phase-II where you would get let say Rs60- Rs.70 at the EBITDA level would it come to be, would it contribute something per subscriber per month or it would be still zero in Phase-II?
- V D Wadhwa:** Right now we are not doing the profitability on the different markets point of view but everything is consolidated, so at company level we come to positive EBITDA level. Right now we do not have separate P&L for the Phase-II markets as such.
- Dheeresh Pathak:** No, but would it fair to say that at Rs.60 it would hardly contribute to EBITDA?
- V D Wadhwa:** Yes.
- Dheeresh Pathak:** Okay. Thank you.
- Moderator:** Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** Just wanted to understand, I would also want the sales break up because out of the 121 crores that we are talking in subscription can I understand how much is coming in from analog, how much from digital and is the 13 crores of activation also part of this 121 or elsewhere?
- Sanjay Goyal:** No. 13 crores is not a part of this, activation is not a part of the subscription income indicated in the note, activation income has been represented in other income.
- Vikash Mantri:** Okay, sir. So sir if I take 90% also my working comes to more like an Rs.80 per subscriber of the 4.6?
- Sanjay Goyal:** Vikash, we can not take simple math's herein since at some location Gross billing is happening and in some location net of revenue share billing is happening. Secondly gross and net subscriber no. also needs to be factored in arriving at the blended per sub revenue.
- Vikash Mantri:** Sir I have only one number which is 4.6 so can you tell me some net number?
- Sanjay Goyal:** It has 3 breakup and part of it has been seeded in DAS 3/DAS 4 location also which is the analog connectivity, wherein the digital subscription billing is not happening. Secondly it includes Hyderabad also wherein the analog billing and collection is happening because of the non-clarity in the DAS notification.
- Vikash Mantri:** Okay sir. So I will take these numbers offline from you in terms of the.



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Sanjay Goyal: Yes we will be able to arrive at the correct blended ARPU in the same formulae and manner, if nos are correctly used.

Vikash Mantri: Fair enough sir. Sir now for Mr. Wadhwa, sir what is the development with respect to Star RIO what is the position. Apparently till date while we have seen in Mumbai at least few of the networks taking away few channels but some channels still remain, so #A how are we seeing this exercise and #B what do you think will be the development post this in terms of our cost impact?

V D Wadhwa: With the Star RIO basically the Star had given the affidavit and all of us landed into this situation and as a MSO I do not think we are left with much choices other than going to the court, litigating and saying that it is taking away our right of negotiation. But all the MSOs met in the MSO alliance meeting and we have decided and finally we found a subcommittee to negotiate with Star to come out with some kind of better packaging and Star has come out with some scheme. So basically they are requesting that if you run seven channel in the base pack the whole idea has been worked out that whatever the current payout of the MSOs are there they should not have a significant increase on that current Payout. Basis that some formula has been worked out and seven channels will go into the base pack, the two sports channel will go into base plus one pack and the four English channels will go in the base plus two pack. All seven channels will be given as the part of the package and balance in the base plus one and base plus two everything else will be bundled and it will be priced and charged separately on a-la-carte basis. So you call it as a-la-carte, you call it as star bouquet that is sports bouquet or English channels bouquet. But the whole idea here is that we need to recover that money from the consumer. Now if we take the Star bouquet our costing will be total if you take all the published rates and all the discounts, incentives what Star is offering, the costing to us will be about Rs.32, Rs.33 which is at least 50% higher than at least means my current costing is two third of that, much lower than that. So no way we can take that kind of cost hits so that is where we have decided that we will carry fewer channels of Star in our bouquet so that our cost does not go up and in case if the consumer wants to see over and above that let the consumer pay and let the LCO pay that money in advance to us then only we will offer that, because we will not go on a postpaid basis it will become nightmare to recover the money, if we will offer these channels from a postpaid basis. So for a-la-carte basis bouquet we are going to launch within next two or three days some bouquet with the pricing, with a proper revenue sharing format for the LCO as well and then the LCO has to pay that money in advance to us basis that we will be offering those channels.

Vikash Mantri: Sir from what I understand this pricing is also without the carriage fee, so I were to adjust for the carriage fee then they may be looking at an 80 to 100% increase in the prices. Now what I have been told is after the negotiations we have renamed carriage fee as marketing fee. So is this marketing fee now good enough to adjust for that carriage fee element?



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V D Wadhwa:

No. I think just to correct this when I told you that my current costing is roughly two third of what the current price is, that is net of any carriage fee. So I am not comparing gross versus gross, when I am saying my current costing or let say about Rs.20 and my 20 is likely to go to 30 that means my net of carriage of cost was 20 which is likely to go to 30. And today whatever the channels I am offering in my bouquet, I am ensuring my cost remains below 20. So carriage is there or not there is not going to impact me, earlier I was showing 27 channels now will be showing seven or nine channels only balance channel we will offer at a price if the consumer wants to watch those channels consumer will pay that price extra and then we will offer those channels. So it is basically cost pass through format. If the Star is offering some channel to us let say for Rs.10, we are going to price that channel for Rs.20-Rs.25 give one third 35% margin to the LCO and keep some margin for ourselves and balance pass it on to Star. So effectively if we are able to establish this currency, a-la-carte currency and we start passing on the incremental cost to the consumer, this will be far more profitable for the MSO business model, because you are passing on the entire incremental cost to the consumer. And second advantage of this situation is that we are actually becoming B to C because of the moment we are doing it whichever the market right now the entire industry has been struggling that when will the package wise billing will start and when will the package wise collections will start coming in. I think with this kind of format the package wise billing is must, you cannot survive unless you are doing because each customer will opt for different choices so you have to have a separate invoicing, you cannot no longer you can go ahead with the same standard Rs.200-Rs.250 rate to the consumer. So all of that will move to the tearing and all of that will move to a proper packaging. So we do not see that in the short term yes for the next one or two quarters there could be some issue in terms of stabilizing this new format because everybody has not fully understood everybody will take some time to adjust to the situation but in terms of the cost I think it is going to be a rather cost reduction exercise for them as so.

Vikash Mantri:

Okay sir. But if I were just do even for seven channels our cost comes higher than the 20 rupees or at least most to Rs30. If I were to put this seven popular channels on. Then are we also getting when we put the seven channels in the base pack also are we taking an ARPU hike now?

Sanjay Goyal:

Yes, we are.

Moderator:

Thank you. We have the next question from the line of Sumeet Rohra of Silver Stallion. Please go ahead.

Sumeet Rohra:

Just I wanted to chat with you for about five minutes on the overall perspective of where we are heading, though I understand that DAS has been extended by one year and our subscriber base for about 4.6 we installed setup boxes. But it will be nice if you can actually share your thoughts on basically where are we headed over the medium term particularly by March 31st and also if I read correctly sir you were also mentioned that this opportunity is actually being utilized to enter



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into a newer market. So if you can just also just share some thoughts of yours on what is the expansion plan, what we have from here and actually where do you see SITI Cable on December 31st 2015 that is when Phase-III is done with and then if you can answer this then I will probably ask you a little bit more in a bit then sir.

V D Wadhwa:

First of all as you know it is quite unfortunate that digitization has been extended by the government otherwise we were well on track as I mentioned in my last call also that we are targeting 10 million plus updates by the time we complete the March 15th. But unfortunately that has been extended so right now we are already at about 4.6 million and between now and the end of the year we are targeting at least about 800,000 we are trying for about a million but at least 800,000 is the confirmed we will adding further so it will be about 5.3-5.4 million is what we are likely to close the year.

Sumeet Rohra:

That is basically sir on March 31st 2015 right?

V D Wadhwa:

March 31st 2015 I am saying and that question was by December 15th. So by December 15th I would say because unfortunately this extension of the digitization the people it has given lot of hope to the people that again there will be some extension and the other thing is the ministry has not clarified, they have split Phase-III and Phase-IV. December 15th and December 16th, whereas we believe that when we are doing digitization both are interconnected. You cannot do what is Phase-III and leave out Phase-IV that is a problem we are struggling in Hyderabad also right now. So are taking up that might have with the government but we believe that I cannot give you the December 15th but I can tell you by March 16th we will definitely be a 10 million plus.

Sumeet Rohra:

So this is with only Phase-III, forget Phase-IV for now is that correct?

V D Wadhwa:

Yes. But we are doing Phase-IV also actually when you start doing the digitization in the market you are let say if I had gone to Ujjain, now there are 10 smaller towns closer to Ujjain which are Phase-IV town, which are getting analog which have been getting analog signal from Ujjain town only but today when you are doing 100% digitalization of Ujjain all those smaller 10-12 towns which are connected or which were getting analog feed from Ujjain they also get digitized. So that is how the digitization takes place. So actually for the MSOs and for the ground level there is not much of a difference between Phase-III and IV because they are all interconnected. So that is why I am saying whatever we were targeting by March 15th, will definitely happen by March 16th now. It has given more time and we are trying to utilize it, we are exploring few new markets also and more than that what we are planning to do is, to become much more aggressive on the launch of broadband.



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- Sumeet Rohra:** Okay, that is nice. Sorry to ask you this again but because I joined the call a little later so I do not know whether you have touched up on the this earlier, but I would just want your thoughts on this, on Phase-II have you started the gross billing sir?
- V D Wadhwa:** No Phase-II we started gross billing only in Central, MP Chhattisgarh area and we are the only MSO in the country who have started gross billing no one else is doing it. In fact this is, industry issue for us because some of the competitors even in Phase-I also they are thinking of moving to a net billing rather than the gross billing to save the taxes. So this has been a challenge and unless the regulators, as well as the ministry is coming firmly on this issue I think the gross billing will not happen in the next two quarter, two to three quarters.
- Sumeet Rohra:** Okay, so you feel that gross bill would not happen for at least two quarters from now at least. That much time it will take.
- V D Wadhwa:** In Phase-II and unfortunately this is also linked to the digitization delays. The government also I believe the MIB as well as the regulator they are also taking easy on this particular issue because earlier the TRAI was driving this all the discipline and we were always front runner in terms of implementing all the regulations and the policy. So the fact that we are doing a gross billing in all the DAS one cities, all the three DAS one cities and the central India.
- Sumeet Rohra:** Okay, understand. And sir basically coming to the other point of subscriber additions so you are saying that we added about 300,000 this quarter and by March quarter we should add about 800,000, so we should end the year at about 5.3 million is what you said if I am correct right?
- V D Wadhwa:** Yes that is right.
- Sumeet Rohra:** And these additions are going to be into existing Phase-II or are you actually going to go into Phase-III market and do that and sir also I wanted to know how much are we charging now on activation income?
- V D Wadhwa:** Sumeet basically this is going to be a very little is going to be in the existing market wherever some opportunity which is basically in existing market unless you poach into some other territory you cannot expand or it is because it is going to some consolidation, but this is going to happen in to the Phase-III markets which I have already shared in my previous calls, we are expanding rapidly in the AP, Karnataka, Kerala, Maharashtra so these are the Phase-III market where our plan has already been there and we are going ahead and doing the voluntary digitalization in these markets.



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V D Wadhwa: That will come in Phase-I and II as well. We are also entering Nagpur city which is the Phase-II market we were not there in Nagpur earlier so Nagpur, Pune these are the cities where we are making a fresh entry.

Sumeet Rohra: Understand and sir just one last thing if I can tough upon before I come back in the queue again. Do you think that this is a very good time where in because SITI Cable of course is backed by very strong promoters, so if this actually a good time to go and acquire smaller SMOs and actually build the subscriber base and get ready for 2016?

V D Wadhwa: Yes. That is what actually we are very aggressively and effectively working on it because we believe that going for a natural expansion is a time consuming process when you are, and when the digitization is happening one is that you convert your existing analog customer into digital form. Second one is there are several markets where we are not present despite being a national MSO there are several market which has not yet touched upon, and some of the MSOs the medium to small time MSOs those who are struggling, those who are short of funds in terms of funding for the digitization they are, so we are contemplating several proposals and different geographies and hopefully I think before the end of the year you should be able to hear some progress on that.

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

Rohit Dokania: Just one question from my given the role start eroding, is there a consensus amongst MSOs that we will have to take up prices I am talking the package of Rs.30-40 per pack?

V D Wadhwa: At least some of the national level MSO there is a consensus, and at the regional level and the smaller SMOs I cannot say on their behalf but I think people do not have much choices there.

Rohit Dokania: But beside the fact that you made a comment that only seven channels will be in the base pack and the rest of the channels could be offered in a al-a-carte base in base plus one and base plus two. Despite that we will have to increases prices by Rs.30 to Rs.40 is it?

V D Wadhwa: The issue is they are 27 channels so always you categorize into A, B, C category. There are some high pull channels, some medium pull channels, and some low pull channels. So when you look at the consumer behavior so long as on an average a consumer is watching 10-12 channels the entire spectrum of 300-400 channels what people are showing. So we believe that those seven channels will take care of the current 80 to 90% of the audience whose who have been watching. On the consumer point of view it is a part of the bouquet and earlier it was available as a part of the bundle at a consolidated price so were also offering it. Our cost is also going up by showing all those 27 channels we will show the channels which matters for our consumers. And beyond



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that in case let us say 20 more channel. If there is a demand for those channels if the consumer would like to watch those channel, we are not going to deny any such opportunities to the consumer. The only think it should be a cost plus basis. So if the consumer wants to watch that channel we will provide it, we will charge it and pay to Star. A markup for ourselves as well. It is a cost pass through policy, so real pack is actually, what was happening is today when you talk of Star Plus bouquet the highest pull is for the Star Plus. All the 27 channels if they are comprising of that they are ranging between Rs.2 to Rs.7, today also the Star bouquet is available for Rs.30, to my mind as a consumers I do not mind paying Rs15 for this Star Plus only. For some other channels I will pay Rs. 1 to Rs. 2 only. So similarly we have put the seven channels which are having the high pull as per whatever the data is available from the consumers demand point of you. Not the entire universe would be willing watch those reset of the channels so which are most watched we pay and watch those channels.

Rohit Dokania: Just wanted to know by when should we increasing this Rs.40 on the base prices?

V D Wadhwa: Immediately in this month itself.

Rohit Dokania: Okay. So the new packages you believe would be launched by this month?

V D Wadhwa: New packages would be launched within this week.

Rohit Dokania: And lastly two things, one is do you expect any backlash from the regulator because there is this rules and says there has to be a minimum of 8 packages of Rs.150 number one and number two do you expect any backlash from the consumer as well?

V D Wadhwa: Only time will tell because as I mentioned earlier that as a MSO we have not taken any initiative on this. In fact we have to handle the business partners, all the cable operators as well as the consumers so, I think we have to handle all those sentiment but I think this requires lot of education to the consumer as well as to all the business partners and somewhere as a broadcast and Star has to create a consumer awareness in this regard. But in terms of regulatory compliance that we are ensuring that we remain in regulatory compliance whatever we do.

Rohit Dokania: Okay. And sir lastly do you think DTH guys will fall in line in terms of ARPU increase?

V D Wadhwa: They may, I cannot speak on their behalf but I think it is the right opportunity because the biggest concern for the industry has been APRU has not been growing in the last so many years and I think with this a radical change which is happening in the industry I think everyone should look at increasing the consumer ARPU price.



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Moderator: Thank you. We have the next question from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri : Just one question, this is with relation to the government stated objective of encouraging local manufacturing of set up boxes and which was cited one of the reasons for postponement of delay. Can you share your thoughts on what is the feasibility of doing this and given that the government is very keen on doing this, how is the industry pursuing this particular objective to get more local manufacturing done?

V D Wadhwa: First of all I will say from SITI Cable point of view we are quite disappointed with that development because this is not the real reason because of which the digitization has been extended because all the set up boxes are made in China or Korea. Even if what is available in India they are sourcing the component from China and Korea and assembling it here. So it is not going to have a major impact. Now since the government has come out of this scheme that everything has to be indigenized the development what I am seeing around in the industry is that the most of the Chinese suppliers or the Korean supplier they are setting up a front shop in India and instead of place the order on China address orders will be placed on Indian address and the supply will happen within India. Other than that I do not see much of changes happening. There are few domestic manufacturers, I believe they are stepping up their capacities but I am apprehensive that even if they step up their capacities by 10x they are not able to meet the overall digitization demand. So eventually all the international players have to come into play, they have to setup a shop here, and they have to start selling the boxes in case there has to be business case.

Srinivas Seshadri : Sure. And sir if that is the case where you see a bit of difficulty in local manufacturing actually happening practically. Then any thoughts on how the government is going to react to this or will they say okay when we have tried to encourage it but it has not worked, or is there a risk that they may take a more harder stance on this?

V D Wadhwa: No. I do not think so because the entire setup box is less than a billion dollar requirement but if you look at the mobile business government is not insisting on mobiles to be produced in India which is several times bigger industry than the set up box industry. I think this is not more than the government I think generally as a philosophy this is all right but this was more particularly with Mr. Prakash Javadekar, the Minister of Information Broadcasting, who was insisting because this is not the real reason to postponed the digitization and I am sure that within in next one year also the Indian manufacturing are unlikely to come up to that level who can cater to the demand of the digitization. So I do not think government will be left with much choices.

Srinivas Seshadri : Sure sir. And sir just one related question. At this point of time what is the kind of subsidy if we are barring for the new digital connections that are being set up.



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- V D Wadhwa:** It differ from market to market, if you are expanding in the Northern state, any of the Northern Hindi speaking belt the subsidy because the box price has come down so subsidy is about Rs.300 to Rs400 but when you are expanding the Southern state the subsidy is virtually not there.
- Srinivas Seshadri :** Okay. And sir is there any incentives we offer apart from just the pure subsidy on the box to the channel for seeding the box?
- V D Wadhwa:** No. In fact giving subsidy on the box itself is incentive.
- Srinivas Seshadri :** Okay. So that is the net kind of.
- V D Wadhwa:** Yes, that is a net kind of and there is no other incentive at all. MSOs will go bankrupt if they start offering further incentives.
- Moderator:** Thank you. We have the next question from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** Sir just on this Star arrive thing, to summarize what you said and correct me if I am wrong, you are saying that you will have only seven channels in the base pack, the current base pack which is Rs180 will go to Rs.210 or Rs.220. And everything above those seven channels will go a-la-carte in some sense and in the net result of all this is that you would be better off than what you are in terms of the increase in package pricing minus the content cost you would pay to Star, is that a correct understanding?
- V D Wadhwa:** Yes, that is a correct understanding.
- Miten Lathia:** And this is just factoring what Star is trying to do, tomorrow other broadcaster will also come and sort of try to do the same thing. Does this Rs. 30-Rs40 also address that or you have to again.
- V D Wadhwa:** No it does not address that right now because are in business we cannot out right our prices as compared to DTH. So today only Star is doing it and if everybody else start following it whether it is Zee or India Cast or Sony and anybody else then we have to come out with a different packaging and we have to again change the packaging and come out with a revised prices for the consumer but one thing I would like to make you a statement that it is a matter of time whether it happens in next 12 months so it takes little longer than that. The consumer ARPUs in this country has to go up significantly it cannot remain at these levels.
- Miten Lathia:** Sir the consumer ARPUs in your assignment pre-DAS and post-DAS has it changed at all or no?
- V D Wadhwa:** It has changed by about Rs. 50.



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- Miten Lathia:** So what you are attempting by this is another Rs.50 immediately not even next two to three months, this has to happen immediately Rs.50?
- V D Wadhwa:** That is right.
- Moderator:** Thank you. We have the next question from the line of Nirav Dalal from SBICAP Securities. Please go ahead.
- Nirav Dalal:** I had few clarifications, one is the note that follows the results that mentions the number the subscription revenue network sharing as 1071.63 million if I am not wrong.
- V D Wadhwa:** Yes.
- Nirav Dalal:** Yes, and last quarter's number was 1349.74 so there is a decline in that how should we look at it?
- Sanjay Goyal:** Nirav, no this is not the way of looking at. These numbers represents the billing which we have done under the digital addressable system in the locations wherein net of LCO revenue share billing is happening because in the contract we have executed with LCO and distributor, those specifies that we will be sharing 33.33% with the LCO on subscription revenue what we will bill in. And 5% we will share with the distributor since unfortunately due to the industry issues the billing is not happening on gross in some of the areas that is the reason why this note is required number one. Number two if you compare with the last one pager note, you will see that in some of the location we have shifted to gross billing like in central India location.
- Nirav Dalal:** Okay, I will get back to you on that. And the number that you show in the release 1214 million that total subscription revenue including analog and digital.
- Sanjay Goyal:** That is the digital subscription.
- Nirav Dalal:** Only the digital subscription revenue.
- Sanjay Goyal:** 1214 is the digital revenue and our analog revenue is over and above it.
- Nirav Dalal:** Okay. So when you say 65% in the revenue came from subscription that to.
- Sanjay Goyal:** 1214 constitute (+65%).
- Nirav Dalal:** Okay. And third sir you had given a number in terms of CAPEX per home pass I actually missed that, what was that number?



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- V D Wadhwa:** It is about Rs.650 per home passed.
- Moderator:** Thank you. We have the next question from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Sir just wanted to check are we giving any subsidy on HD setup box, then what is the price to the consumer of HD?
- V D Wadhwa:** I think HD boxes are commanding just a Rs.500 subsidy because the consumer price is Rs.2000 it is costing versus about Rs.2,400 to Rs.2,500.
- Mayur Gathani:** You are charging consumer approximate rate Rs.2,000?
- V D Wadhwa:** That is right.
- Mayur Gathani:** Okay, and again to understand this I am sorry for just repeating this, is the Rs.30 hike that you intent to take this week or this month is only because you are including seven channels of Star in the base pack now?
- V D Wadhwa:** No. That would be wrong to interpret it that way, the issue is that overall cost of running the MSO business has gone up significantly so in the even otherwise we have been contemplating to revising the prices of our packages and now that Star things has come in because of which we have to adjust the prices. So definitely Star may look like a catalyst in this area but even otherwise we were thinking of repricing our bouquet because if you compare our bouquet vis-à-vis the DTH industry and because of the thanks to the carriage fee, we offer best of the content, best of the channels in our base back. Today SITI Cable is offering 180 plus taxes the base pack, that pack you can compare with the Rs.450 pack of Tata Sky. So because whatever the channels the Tata Sky is showing in their Rs.220 pack is much lower than what we are offering in the base pack. So we have been contemplating in any case taking some increase and revising our prices to adjusting it to be at par with the DTH industry and now with inclusion of Star channels and with the no carriage coming in from Star any longer we are left with no other choice but to take up the prices further.
- Mayur Gathani:** Star could be one major reason but there are other reasons also that you are increasing the price by Rs.30.
- V D Wadhwa:** Because in general the content cost is going up and carriage income is coming down directionally. To understand generally as a philosophy today we were offering all the channels in the base back because the broadcaster gives the placement fee and the broadcaster wants a large viewership for their channel, and that is why since we are getting the revenue from the



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broadcaster we are offering in the base back and charging lower money from the consumer. Today if our carriage revenue start declining and you are no longer getting a carriage on showing a particular channel, you would like to take the prices up for a base pack as well as you may like to pull out that channel from the base pack and put it into the higher pack, whichever is not giving you the carriage.

Mayur Gathani: Okay. And just getting back to our Phase-I average collection we are looking at around Rs.100 for this quarter, there is not much of a change from last quarter, that Rs.115 what that LCO was still keeping with him more than the agreement price, he still continues that there is no.

V D Wadhwa: Yes. I agree there is not much of a significant change, and there is a reason for that while we have been the pioneer and driving collection from market place but let say Delhi market where we engage McKinsey and between Hathway- Siti and then we were driving the improvements. Unfortunately because Hathway got into some kind of a fight with the Star Group and Zee Group and Hathway collections were taken the beating. When one of the big MSO is not able to collect the money from the market for various disturbances in their packages it impacts the collection of DEN and SITI as well. So while we have been made able to maintain our collection we are not been able to grow it significantly. The day when DEN, Hathway and all the three, four major national player they are collectively working in the market the collection improved significantly.

Mayur Gathani: It is unfortunate sir but somewhere or the other some of the MSO will get into some negotiations with the broadcasters and it is an annual thing. Today it could be Hathway with Star tomorrow it could be you with Star so it just keeps going. Every time there is something that keeps our collection subdued?

V D Wadhwa: No, I think it is the first time it has happened, I do not recall ever it has happened that one national MSO is running both the Star and Zee bouquet on a-la-carte. I have never seen at least in my life. It does not happen regularly.

Mayur Gathani: No, either these negotiations are annually so again they can come up with bond.

V D Wadhwa: Negotiation is a part of the business, negotiation will happen annually with every broad caster but you do not take Star and Zee bouquet which is comprising of 78 channel on a-la-carte. No one does that. And if no MSO can afford to collect the same money if you take out 78 channel from your bouquet, consumer is not going to pay the price to you.

Mayur Gathani: Okay, so we look forward for some additional collection in quarter three, quarter four and Phase-I and Phase-II.

Sanjay Goyal: Yes.



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Moderator: Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: On DOCSIS-3 just to help my understanding can you just explain briefly what part of the infrastructure is being upgraded and what is the understanding with the LCO given that he owns the network although you may want to own it from him at some point, can you just opt through that?

V D Wadhwa: It is first of all up to the LCO point it is a two way connectivity already up from the nodes at the LCO point up to the consumer house hold that is a network which is getting upgraded by us. In 100% of the cases the entire CAPEX is being incurred by the company and we are the owner of that particular asset. We are getting into a contract with the LCO on a revenue sharing basis, we are giving 15% revenue on the broadband to the LCO. There are basically, is grading between 12 to 17-18% so I am just giving you an weighted average about 15% odd of the broadband revenue will go to the LCO and we are targeting roughly Rs.1000 ARPU from the broadband because we are offering up to 100 mbps speed. So if LCO gets 15% of the Rs1000 ARPU or even if ARPU you take it on a conservative side at 800 the LCO has an opportunity to make additional Rs.120 on the broadband revenue.

Dheeresh Pathak: Okay. And when you say you are the owner of the asset what exactly can you just mention that what.....

V D Wadhwa: Whatever the CAPEX we are incurring we are the owner of that asset.

Dheeresh Pathak: Okay. It does not involve laying new?

V D Wadhwa: we are currently not putting up a parallel network we are upgrading the LCO network. We may also move towards laying a new network in the near future

Dheeresh Pathak: Okay. And just coming back to the earlier participants question of the Phase-II net, see whether you do a gross or a net billing on the P&L that is not that relevant what is important is how much you are getting irrespective of how you have shown the P&L that is not an issue but on Phase-II getting just Rs.60 although in the next two quarters it will also complete two years since digitization. So it is also again on the lower side, so can you just help us understand when do you see this?

V D Wadhwa: We are in the leadership position, we are taking it up like in Central India, MP, and Chhattisgarh we are taking up the prices to Rs.100 from this month onwards. UP we are present in four cities but we are not into a leadership position and UP collections are not even Rs. 60 it is I think somewhere between around Rs.40 to Rs.50 so I think the DEN has to take a leadership and UP to



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take the prices up, we are a small player in UP. In Bangalore we are taking the pricing up currently it is Rs.60 Bangalore this month onward we are moving to Rs.75 and eventually by the time we close the year we plan to take it up to Rs.100. Similarly I think the Jaipur market we have already moved up to Rs.90. So when we are telling you think Rs.60 it is a blended average I think wherever we are able to guide us a support and arrange some kind of local operational with the partners we are growing it but we are suffering mainly because in Haryana and UP.

Dheeresh Pathak:

So I think you would have roughly 2-2.2 million subs in Phase-II as well right?

V D Wadhwa:

No. We have close to 1.5-1.6.

Dheeresh Pathak:

So can you just broadly give how much you are in UP, Haryana and how much is in other major markets can you brief it.

Sanjay Goyal :

Let me checkup offline and if you want any further detail on that we are always available on call.

Moderator:

Thank you. Ladies and gentlemen due to time constraints only one last question can be taken. We have the last question from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra:

Just one thing I wanted to check, this base pack hike because SITI Cable is one of the key companies in the MSO alliance, so this Rs.30 base back which you are going to increase from Rs.180 to Rs. 220 so this is going to be for all the MSO am I right?

V D Wadhwa:

Sumeet this is right as per discussion stages we have not concluded whether we are going to take it up to 210 or not. But in general we have decided that we need to increase the prices whereas increasing the Rs.30 price of the base pack is a solution or increasing Rs.10 per base pack 20 for second pack, 50 for the third pack is the solution or creating a small bundles like sports package separately for Rs.50, English movie package separately for this, regional channel separately for Rs.50 this is the solution this is all we are going to discuss between today and tomorrow among all the national players. And then we will come out with the solution.

Sumeet Rohra:

Understand. And sir just one thing with the matter of fact you are entering newer markets and newer territories. So do you think that our bargaining power for carriage can actually if not decrease but increase slightly though I understand larger MSOs like say Star and all are not paying but I am sure there are other broadcasters also you have got a blinking lights so can the actually carriage revenues so if you can just share your thoughts from carriage revenue as well for the next year?



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- V D Wadhwa:** Yes, while the carriage as the trend is declining but definitely as once you become bigger and bigger and you acquire the customer into the market where the high time rated markets are there definitely you can command a better pound of flesh.
- Sumeet Rohra:** Understand okay. And sir just my personal thought I think that now all of you MSOs have got a fantastic opportunity to actually start the ARPU game, so I sincerely hope and wish that fruitfully things happen on this front sir.
- V D Wadhwa:** I think as I was mentioning earlier if all of us work together and actually convert this situation into an opportunity this is the name changer, this is going to be real name changer for driving the ARPUs better.
- Moderator:** Thank you. We have Vikash Mantri from ICICI Securities next. Please go ahead.
- Vikash Mantri:** Sir just wanted to understand we have said we have changed the depreciation policy for the new companies act so what is the number of days, years that we are depreciating our setup box.
- V D Wadhwa:** Setup box continues to be depreciated over a period of eight years. In fact the new companies act have defined that you have to reassess the useful life asset and then you have to put the depreciation and that has been implemented but setup box continues to be on eight years.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Sanjay Goyal over to you.
- Sanjay Goyal:** Thank you very much ladies and gentlemen for your participation in the SITI Cable Network Limited Conference Call for Q2 FY15 for Q2-FY2015. Do anyone have any other query just drop us a mail or speak to us wherein we can you provide you all the clarification in this regard. Thank you very much.
- Moderator:** Thank you. On behalf of SITI Cable Network Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.