"SITI Cable Network Limited Q4 Full Year FY-15 Results Conference Call"

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Moderator: Ladies and gentlemen, Good day and welcome to the Q4 Full Year FY-15 Results Conference Call for SITI Cable Network Limited. We have with us on the call today Mr. V.D. Wadhwa - CEO, Mr. Sanjay Goyal - CFO and Mr. Ankit Saint - Senior Manager Investor Relations.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Sanjay Goyal - CFO, SITI Cable Network Limited. Thank you and over to you, Mr. Goyal.

Sanjay Goyal: Good morning ladies and gentlemen. We welcome you to the SITI Cable Conference Call for Q4 2015 and the full year financial year results for financial year 2015. This quarter happens to be a exciting quarter for us in terms of revenue. The revenue has grown by 15% YoY, EBITDA has also grown versus the same quarter last year on a basis of 15%. The digital subscriber base has also increased to 5.38 million, broadband subscriber base has increased to 70,100, and FY15 operating EBITDA has increased drastically to 134% versus the last year.

Now I request you to kindly ask the queries. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question is from Shobhit Khare from Motilal Oswal Securities. Please go ahead.

Shobhit Khare: Firstly, some housekeeping questions if I could get the debt and net debt numbers including that in the other current liabilities?

Sanjay Goyal: Yes, the Gross debt is around INR875 Crores gross debt and net debt is INR500 Crores.

Shobhit Khare: Sir, does this include the short-term debt in the other current liabilities also.

Sanjay Goyal: No, that does include the buyers credit if you include the buyers credit it is 1,347 Crores as a gross debt, net debt is 913 Crores.

Shobhit Khare: 913 Crores, okay.

Sanjay Goyal: Yes, if include the buyer's credit.

Shobhit Khare: Yes. And sir what the CAPEX for the year?

Sanjay Goyal: The CAPEX which we have incurred during this year is around INR293 Crores.

Shobhit Khare: 293 Crores, okay. And sir could we get the revenue break-up for the year?

Sanjay Goyal: Yes. The revenue split is around INR 250 Crores from carriage, INR480 Crores from Digital subscription, around INR55 Crores from analog and activation revenue is INR60 Crores, and the balance out of the various revenue streams which is to the ad revenue, sale of set-top boxes, leasing, and fiber, etc.

Shobhit Khare: Okay. Sir how has been the collection in Phase-I and Phase-II versus last quarter what kind of improvement we have seen?

V.D. Wadhwa: Shobhit, Wadhwa this side. As I mentioned in the last quarter call, Phase-I collections have been Rs. (+100) in the last quarter and we have not been able to move the collection up in the Phase-I market because there has not been any effort to increase the collection collectively by our peers, so we are the odd man out because we would like to increase it by at least 15% to 20%. Now, we have built some consensus for about six markets we have again engaged E&Y between Hathway, DEN, and SITI and where SITI is taking lead in terms of driving the collections up in Phase-I and selected Phase-II markets. And effective 1st of May basically for whatever the billing will go for the month of May that will go with the increased billing and the collection impact will start being felt from June onwards.

So this is what we are doing in six cities but Phase-I collection there is no growth, Phase-II which was Rs. 70 plus taxes for us on a weighted-average basis has gone up by Rs. 5. So our Phase-II in the last quarter has been Rs. 75 plus taxes. And in the analog market the collection has been up only by about 5%-odd. wherever possible, we are collecting about Rs. 30 in the analog in areas where we are doing voluntary digitization. The analog revenue has gone up by 5%.

Shobhit Khare: Sure. Sir, I have couple of questions on your cost – on the other expenses as well as on the content cost there seems to be some one-off in 4Q number so if you could explain that? And also on the balance sheet the trade receivables have grown significantly year-over-year so what is the reason for that?

Sanjay Goyal: Versus the last quarter and this quarter one-off items include annualized content cost of Taj. Taj content agreement has been renewed only in Q4 so corresponding cost for whole of the year has been accounted for this quarter. Similarly, for one of the other major broadcasters also, the content cost has gone up. These are two content cost items which have come only in this quarter.

Shobhit Khare: Okay. And sir in terms of other expenses, what has happened?

Sanjay Goyal: The other expenses quarter-on-quarter basis there is a growth of 22 Crores therein which largely represents one is the broadband related expenditure which we have incurred in ICNCL so that comes herein and second we have taken a conservative True and Fair View Accounting so some provisioning on adhoc basis has been considered there.

Shobhit Khare: Sir, this is related to receivables?

Sanjay Goyal: No, this is related to the certain advances.

Shobhit Khare: Okay. And sir why is the trade receivables up sharply year-over-year?

Sanjay Goyal: Because carriage deals have happened corresponding to the content deal so largely receivable which are appearing as on 31st March, 2015, represents mix of carriage as well as the subscription receivable which we project to recover within next quarter.

V.D. Wadhwa: Shobhit, just to add further to what Sanjay said typically the way the industry operates, your content and carriage deals go hands-in-hand together. 1) Like the way the content cost has gone up in the quarter so carriage deals also have been settled for which some other collection is yet to be received. 2) What I was explaining to you is that in order to increase the collection because after the Star RIO and the a-la-carte billing all of us have taken the package prices increases so during the quarter we also increased our collection rate from some parts of the market and we are invoicing basis that. Now for that the collection is yet to be realized because whenever we go for an incremental revenue realization there is a resistance from the ground so right now are not being able to realize it. From effective February 1st in some of the markets we have asked for incremental collection, particularly in the UP market. We are dependent on competition, because we are not the market leader in the UP market. Similarly the same amount of effort we are putting in Central India which is MP, Chhattisgarh market and we have been successful in improving our collection in to that market but we have not been successful in the AP and Karnataka and the UP kind of markets in terms of improving our collection despite incremental invoicing. So, that is where I think jointly the teams are working with our peers also to improve the collection. So debtor increase has been largely incremental on account of the carriage as well as DAS receivable.

Shobhit Khare: Got it sir. So if I could ask one last question on what is the status on the tax demand from the Delhi government?

Sanjay Goyal: Shobhit, the matter is sub-judice. We have gone to the Delhi High Court since there is vacation in the High Court so regular hearing is not happening there in but the matter has been stayed as of now. While we are raising the invoice payable, tax outflow has been accounted for so there is no exposure on the books of accounts.

V.D. Wadhwa: Shobhit, again to add one more thing SITI Cable has taken the stand that tax liability is on the MSO. It is not on the LCO and basis which we are accounting for and it is already pass through the P&L so there is a provision available in the books, even if you take the worst scenario there is not going to be any hit to P&L. Whereas in the peer group, they have taken a different stand and all of them have taken a stand at the MSOs are not liable to pay the taxes whereas the legal position is that the liabilities on the MSO. So that is why you must have seen when us see the tax demand on the other peer group companies, our is the lowest because based on the High Court direction we have been depositing the tax “on account basis” and as and when the matter get settled by the court we shall be depositing the balance amount in case if it is due from us.

Moderator: Thank you. Next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity sir. My first question is on the broadband business. You have currently around 70,000 subscribers and added 16,000. If you could tell us how many cities you plan to increase and what is the current status? And similarly in the existing cities how does your ARPU compare to the other relevant players with the similar kind of speed, etc. And when do you see break even in this business from a longer term perspective some plans you have?

V.D. Wadhwa: Abneesh, first of all the 70,100 subscribers basically are in the Calcutta and Delhi market because also you know that we started broadband two years back in Calcutta and in Delhi we started three quarters ago. Out of 70,000, we have got 8,000 subscribers on DOCSIS in Delhi …balance all are in Calcutta right now using Ethernet on cable technology so this as far as the cities is concerned. For the current year we are targeting eight cities which include all the major metros plus four cities in Haryana. Besides Delhi & Kolkata, we are targeting Hyderabad and Bengaluru. In addition, we are targeting 4 cities in Haryana.

Second question, your question was in terms of ARPU – so on EOC in Calcutta, ARPU is roughly about Rs. 420- Rs. 430 whereas in Delhi we are experiencing about Rs. 720 ARPU on the DOCSIS 2 and DOCSIS 3 Platform. When I compare with the our peer group, we are in the same range because competitors also are experiencing around Rs. 750 on the DOCSIS ARPU and on the non-DOCSIS are operating with about Rs. 400. So our blended average is about Rs. 440 that is what we believe is in line in the with the industry practices. As far as your breakeven is concerned on the broadband at the project stage when we have given the sign-off, the breakeven is coming close to 30 months.

Abneesh Roy: 30 months is an overall broadband business taking expansion into account or will be for the cities in which you have present say in FY-16?

V.D. Wadhwa: No, whichever the city we are starting with the broadband I am talking 30 months' period of that particular city. Like I will give you an example – Calcutta when we have started broadband within the fourth month itself we were able to recover. We were in profit from the fourth month itself but the overall payback period for Calcutta because it was a low cost model, we got it in less than two years' period. DOCSIS is a high-cost platform so, DOCSIS will take about 2.5 years' time to recover the full money.

Abneesh Roy: Sir, I see every cable company going into DOCSIS 3 and you are also targeting Delhi and other metro cities in the top eight cities. It is a great technology versus the current offering says the telecom players, etc. So is there a chance that a price war can come here great technology, very good ARPU, but in order to get numbers in terms of market share is there a price war possibility here or as an industry the discipline is there in this?

V.D. Wadhwa: Definitely there will be some price war possibility here but as you know, mostly companies will be first giving preference to their own wired network. Today, we have got 7 lakh subscriber in Delhi, Hathway has got 5 lakh subscriber in Delhi, DEN has got 8 lakh - 9 lakh subscriber in Delhi. So as a first priority everybody is trying to upgrade their existing cable network and to connect with the existing cable subscriber because the moment suppose today if we start proving our broadband signal into Hathway's territory, DEN territory it will disturb the peace. So as a first priority everybody is going into their respective market and once you are going to your respective market. More or less the way the bundling had been done and the pricing of the packages have been done are within (+/-5%) difference compared any other MSO.

Abneesh Roy: Sir one last follow-up on the broadband if you could share what was the CAPEX and OPEX in FY-15 in broadband and similarly what is the plan in CAPEX and OPEX in FY-16 for broadband?

V.D. Wadhwa: Sanjay, CAPEX and OPEX for broadband in FY-15 and plan for FY-16?

Sanjay Goyal: We have already worked out a detailed plan which is submitted to Board. It is yet to be approved by the board. So once it will approved, we will share the complete detail. Total CAPEX we have incurred is 293 Crores out of which 18 Crores have been incurred on broad band and rest has been incurred in the cable TV business.

Abneesh Roy: And OPEX in FY-15?

Sanjay Goyal: That detail I will share separately because we normally do the accounting in the same company so we will share offline.

Sanjay Goyal: In terms of EBITDA, yes, I can share with you on the basis MIS which we have worked out so EBITDA level is somewhere close to 15-20%.

Abneesh Roy: But you must be employing a lot of feet on street because currently numbers are small and you can really scale up significantly. So this 15-20% is on current business not taking into account the feet on street or the other CAPEX because the numbers reported by the other player they were on the higher side so your numbers looking better 15-20% margins.

Sanjay Goyal: See what we have done in terms of optimization of the cost, largely the cable team is also engaged into providing the data services.

V.D Wadhwa: Abneesh let me take this question. When we have started with the broadband we have started with the idea that there will be a separate vertical and what is how we have started for the last two quarters or so. Now when we are trying to firm up the plan for the next year and we came at the budgeting stage we felt that next year overall given our ambition of broadband we were targeting addition 3 lakh subscriber for broadband in the current financial year and the requirement came in for more than 2,000 headcounts to be added for the broadband vertical.

So we have taken some cautious call. Internally we have discuss because there are aspirations of the current team also and because your LCO is the same, distributor is the same, geography is the same, probably only the skill set maybe missing or handling the broadband in the current team. So about a month back we have made an organizational announcement. We have merged both the organization. Largely our vision is that in three to five years' period SITI Cable should be a broadband company which is by the way providing cable also. So we want this to be a largely a broadband led company and we have merged both our teams so we will be adding wherever there are gaps in the skill set, wherever there are gaps when we are getting into new market. So largely we will hiring the people to fill up the gaps or wherever the current team is not in a position because of the skill set or whatever the reason to handle the broadband business only those position we will fill-up or we will replace but by in large we have merged both the teams from top to bottom including the feet on the ground itself.

The only separate team what we are creating is the activation team because there is a group like in Delhi we have got a dedicated team of about 40 people their job is only broadband, nothing to do with the cable. They are working with the cable operating team. They are following the instruction of the cable team so whichever the area, whichever the LCO network, and whichever the geography has to be upgraded and customer acquisition to be done those that group of 40 people we have divided into three or four different small group and they work in different geographies at the instruction of the current cable team. So there is a better synchronization, better team work, and there is cost efficiency on the business side that is how we have done it.

There has been some incremental cost that is why when you look into the quarterly you will see the HR cost has gone up this quarter largely on account of ramping up of the team but by and large on a larger scale if I put a ballpark number our original numbers was coming to about 2,400 incremental headcount only on account of broadband. After we have merged both the team we may not be requiring more than 600 people. So it is just getting reduced to 25% of the original request coming in from the operations team.

Abneesh Roy: Sir that is quite useful. My second question is on the cable business – sir you plan to expand into AP and Haryana. Historically, SITI Cable has been one of the cautious players which is actually good in this industry. So if you could tell us how do you plan to expand here, how much aggression you are planning here any numbers? And secondly sir, again coming to collections and subscription revenue earlier there was another consultant McKinsey, now E&Y so does this really work? In this kind of industry does that really change on ground collections and when do we see numbers really changing? You said next quarter Phase-II some improvement will be there but Phase-I when do you see improvement happening?

V.D Wadhwa: First question on AP and Haryana, if you study the entire profitability metrics of all the players, companies that are confined to one state largely and those have gone for deeper penetration rather than spread out across the country and not controlling a particular state. Let's say I will give an example GTPL in Gujarat, Fastway in Punjab or let's say our own JV partner in West Bengal or Ortel in the Orissa. Anyone who is dominant player in a particular state, their business model is far more profitable because the a) cost of operation is low and b) because of the largest player in that particular geography you command better content price, better carriage deal, and you are in the driver's seat in terms of driving the discipline you want to drive. So as per the same logic we are also following that rather than spreading too thin in the 500 cities - 400 cities, we felt that why not we go for a deeper penetration and a do a carpet bombing into two states which is AP and Haryana.

So in AP we are targeting (+3) million subscriber base and Haryana we are targeting roughly 1.5 million subscriber base so in these two states we are talking ~ 4.5 million subscribers. In AP, Hathway is present only largely in Hyderabad and out of Hyderabad, there is no other national player. Similarly in Haryana also it is largely SITI Cable is there and to some extent Fastway but given the overall dynamics and the deeper presence of SITI we believe these two are very critical states for us from expansion point of view that is why we are focus largely on these two. Like you can say for example for DEN this is UP, for Hathway it is Mumbai and Bangalore and Hyderabad kind of markets are there.

Your next question was E&Y versus McKinsey. Now today also Delhi collections are about Rs. 115 to Rs. 120 at a gross level. Now this has happened only when we have worked together and we have engaged McKinsey. SITI Cable has always been the front runner in terms of driving the compliances of the regulatory requirement or in terms of driving the collection up or driving the realization price of the box also. And with the help of third-party what happens is it brings in some transparency because otherwise it is always the operating team of respective MSO and they always give the impression as if the others are not doing it.

So in order to bring the transparency, in order to bring the confidence, today if let's say my employee is telling me that Hathway is collecting Rs. 125. Now the general feeling is that the people keep giving all kind of figures there once there is a E&Y or McKinsey kind of independent agencies establishing that yes, this is x amount is what SITI Cable is collecting whereas SITI Cable claiming that we are collecting Rs. 125 what is the collection of Hathway what is the collection of DEN and this information gets presented to all the three promoters and all the three CEOs and basis that we take a call. We do not go by what the operating team's feedback is. Decisions are made on facts and figure not with emotion so that helps.

Today let's say my competitor is collecting Rs. 130 and my collection is only 110 and we have the break-up of the entire city as well also which zone my competitor is collecting higher. Then that gives us the clear cut pointed direction that these are the areas and these are the short comings and this is the operator with whom we have to deal and we have to fix this problem to improve the collection. So from that point of view it helps, however the consultant do not visit the market and they do not influence the distributor or the LCO and do not convince them to pay more money to MSO. Transparency the bigger issue this industry if you today ask me many people have asked in the past also that how long it will take to fix the industry problem? I think if the top four or five MSO in the country if we work together and with the open heart with the clear intention, the industry issues can be fixed in one quarter. The issue is because people have got different ambitions in terms of the market share, in terms of what actually they want to do? That is why price cutting happens, under cutting happens, all the malpractices happen, and the benefit is being enjoyed by the middleman

Moderator: Thank you. Next question is from the line of Sandeep Gupta from Ambit Capital. Please go ahead.

Sandeep Gupta: First a few book keeping questions if you can share the revenue break-up for the current quarter in terms of the difference head?

Sanjay Goyal: Sandeep, this quarter the large break-up is close to INR73 Crores is the carriage revenue, INR21 Crores is the activation income, and INR145 Crores is the subscription revenue.

Sandeep Gupta: Fair enough, sir. Secondly, you did mention that there was certain increase in the content cost because of the agreements getting signed off in the last quarter which were also pertaining to the previous quarter.

Sanjay Goyal: Previous three quarters, Yes.

Sandeep Gupta: If you can share if an absolute numbers or probably directionally or in broad numbers as to how much lumpiness is there so as to have a little idea about how the cost should be seen from the current quarters perspective? And also if you can share your views about how should the cost in terms of content should be looked at from next one to two years perspective?

Sanjay Goyal: The cost to us is approx. INR24 Crores/month. The last quarter has seen drastic change on account of two broadcasters – one broadcaster we were not paying any cost to them in one of the major geography wherein we are operating, however they have insisted on payment from now on us and we have agreed to some exchange between the carriage and content. Second, one broadcaster deals have been renewed only in the month of January from retrospective effect across the country so both are jointly impacted the content cost has gone up by somewhere close to 43 Crores - 44 Crores.

Sandeep Gupta: Okay. And the view on how should one look at the content?

Sanjay Goyal: Average would remain close to INR26-28 Crores a month.

V.D. Wadhwa: Sandeep, going forward, we have factored about 15-20% growth, because most of the pay broadcaster deals are structured in such a manner that if there is a cost increase obviously there is an increase in the carriage side also so we always factor. Net payout is likely to go up between 15% to 20% that is what we have factored in our budget for the next year.

Sandeep Gupta: Correct sir very helpful for this Wadhwa sir. And if basically you can also help us understand that carriage revenue in the last financial year was broadly the same a year before. Are we seeing some kind of decline in carriage revenue going forward?

V.D. Wadhwa: No, actually the carriage revenue has gone up by 10% on a full year basis. Last year our carriage revenue was 227 and this year, year ending March '15 is 249 Crores. So it has gone up by 10% and we do not see the carriage revenue declining in the current fiscal year as well.

Sandeep Gupta: Okay. So it will be largely an increase in the content side that you were trying to highlight basically coming through?

V.D. Wadhwa: That is right.

Moderator: Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: When you talked about one major broadcaster you had you are not paying anything in a major geography so net-net is there something that you are paying because after taking into account content cost and carriage?

Sanjay Goyal: No, for that particular broadcaster it is a net profit-net gains deal where in the kind of regiment was wherein we have to pay them and they will give us the incremental value towards the carriage because the deal happens on the net basis.

Dheeresh Pathak: So net basis there is no change?

Sanjay Goyal: There is a growth to us.

Dheeresh Pathak: There is a growth to you, okay. But why would the broadcaster want to do it that way net leave you something more?

Sanjay Goyal: They might be having their internal budget.

V.D. Wadhwa: Broadcaster have their own targets. The way they operate is they have got targets to increase their revenue which obviously through the increase in the content cost they will get the increase in the revenue and they do have a marketing budget also to spend for promoting their business. So they book their cost as a marketing expense and they also want revenue maximization. Even if at a net basis there is no increase most broadcasters insist that they should continue to get an increase in the revenue side as well.

Dheeresh Pathak: Okay. And for the full year this line item which is carriage sharing pay channel and related cost is around INR510 Crore. Can you break this INR510 for the full year into how much you paid for content and how much you paid for other major items in this category?

Sanjay Goyal: The only net major item into this category is the distribution cost while we are comparing it with the financial year '14. In financial year of '14, we have done the gross billing in Calcutta for 45 days, in Delhi it was for five months, and in Mumbai it was four months. Corresponding to that in this year we have done the gross billing for the full year so one-third of the invoicing which we are required to pay to the LCO towards the distribution cost is also coming into this and that is the reason why it has gone up.

Dheeresh Pathak: So what I am only trying to request is that we need better detailed line item wise disclosure in the press release in terms of how much you are getting from subscription both digital, analog, and broadband so that we have a much more granular sense of how the profitability is trending because we keep having these adjustments and are not able to sort of work out and monitor the traction in the way the key metrics are trending?

Sanjay Goyal: Sure, Dheeresh, we will share this time with you and going forward we have taken a note and we will do the needful.

V.D. Wadhwa: Point well taken you will have all these details now on it.

Dheeresh Pathak: Yes so an exit rate can you help us understand based on whatever negotiations they have been reset with whatever broadcaster and the current trends in the realization what is the exit rate that you are seeing in the month of April or May from an EBITDA ex-activation point of view? Because you have these activation revenues which skew the EBITDA so if you can help us understand the exit run rate per month or per quarter basis on EBITDA ex-activation on your cable business.

Sanjay Goyal: Dheeresh, the plan is yet to be approved by the Board. Since our operations are aligned with the projection and the projection is…

Dheeresh Pathak: This will be not be the projection sir, actual exit run rate we are talking about, I am not asking projections.

V.D. Wadhwa: As you know in the current quarter because of the various factors EBITDA has been impacted, so exit EBITDA cannot be a direction for the future because as you see that the content cost for the full year has been booked for one or two broadcasters.

Dheeresh Pathak: Sir that is what I am saying, if you clean up your EBITDA for the one-off content cost that you paid and whatever accounting related changes that you had and you just clean up your EBITDA for us and just tell us the cleaned-up EBITDA ex-activation for last quarter and is that what you are seeing?

V.D. Wadhwa: I will put it differently I think it will help you. Our operating EBITDA is 106 Crores without activation.

Dheeresh Pathak: 106 Crores for the full year?

V.D. Wadhwa: For the full year without activation.

Dheeresh Pathak: So this is a full year number?

V.D. Wadhwa: I am coming to that even if there is a quarter-on-quarter basis there is some skew up or down on a full year basis it is 106 Crores. So it is about Rs. 9 Crores a month roughly. So you can safely take 9 Crores as the exit EBITDA at the operating level at an exit value. And we plan to have at least 50% growth on this in the coming year.

Dheeresh Pathak: So this is a function of because realizations are not increasing we are trying to get the realizations up but obviously we are not seeing traction on that. So what will lead to 50% growth?

V.D. Wadhwa: Two factors, one is improving the collection and second thing is that tighter control on the cost as on the call I just now said that like we have merged the broadband and cable teams. Similarly, we are looking into all our top-lines though and I am sure when you are comparing with the other players in the industry our cost lines are largely under control or maybe on the lower sides because we are very tightly managing our ship. But still at any given point of time I personally believe there is a greater scope of at least 2% reduction in the cost line and we are very tightly managing our cost. For example, when we originally planning to expand into the markets, our plan was to add additional 8 million subscribers in the coming year. The operating team wanted to go into (+200) cities which we have pruned down to about 100 odd cities only because of lesser number of cities will allow us deeper penetration and reduce the operating cost. So that is how it is a combination of improving the realization as well controlling the cost factor basis of which this will be going up.

Dheeresh Pathak: Okay. And so last question is on this Phase-III, Phase-IV obviously general belief is that this will get pushed out to a much longer time horizon but I wanted to just get your thoughts on what do you think that whenever it happen what do you think would be the share of DTH industry versus cable industry those Phase-III, Phase-IV subscribers? I am not asking on timeline, I am just asking on terms of capability balance sheet strength of the cable industry as a whole not just SITI Cable so what do you think would be the share of DTH versus the cable industry in those subscriber?

V.D. Wadhwa: I do not think whatever the current share is there between DTH and cable will undergo any change even after digitization reason being. For cable there is sunset date, there is deadline whether it is December ’15 or December ’16 there is no such deadline for the DTH industry so where the cable is not there right now people wherever people want to take DTH there is no such government mandated deadlines so people have taken DTH where they wanted to take so that is one reason because for DTH there fortune does not change whether that sunset date is happening or not happening, number one.

For cable even today majority of Phase-III, Phase-IV towns wherever the cable is currently doing I believe cable will gain further momentum and the reason because cable is giving only an analog signal right now and where there is restriction in terms of giving the number of channels so that household those who are currently viewing 60 channels - 70 channels in the analog network, once the analog network gets converted to digital they will also be able to see more than 250 channels - 300 channels so the cable business will come at par.

Right now I would say DTH looks superior in those markets wherever the analog is there because DTH is able to offer roughly 150 channels to 300 channels but the moment digitization happens cable will come on par with DTH or rather better than DTH because cable has the capacity to provide broadband and insert a lot of local channels also which is not possible in DTH. So I do not see any change in the ratio of the market share even in developed countries such as the U.S., two-thirds of the business is controlled by cable and I do not see much of change happening into this.

Moderator: Thank you. The next question is from the line of Rajeev Sharma from HSBC. Please go ahead.

Rajeev Sharma: Just a couple of questions from my end. Sir in terms of Phase-III what is the opportunity for you is it AP, Haryana only and the break-up you provided and in terms of your current digital subscribers 4.85 million how much is digital and paying and how much belongs to Phase-III, Phase-IV where some voluntary DAS has been done? Second, what is your sense coming from the task force meetings, can you provide some color in this interconnect advance agreement where TRAI has asked you to get into with the broadcasters so what is the issue there, what is the challenge? And do you think there is a big delay possible given that the task force meetings have started and TRAI is taking initiatives there on the Phase-III deadline. And will you plan to go for your additional funding anytime soon or it will close to sunset and what are the plans there?

V.D. Wadhwa: Okay, on your first question, the plan is not restricted to AP and Haryana alone. Just to give you a larger picture on that issue which I was saying earlier that we would like to concentrate in a limited geography so as you know we are market leader in the East. West Bengal is dominated by SITI Cable network. We are the number two player in the Delhi and UP market. So these two are already strong areas for us so when we are expanding into Phase-III, Phase-IV market we have identified besides these two strong area we will create two more strong areas which is Haryana and AP. But that does restrict us and that does not mean you are not going anywhere else. We have aggressive plan for becoming a significant player because right now in the entire Central India it is Hathway and SITI these are the two big players. And we are working jointly together to capture that additional market share in Phase-III, Phase-IV market itself

We do have plans to expand into Kerala in aggressive manner as well into some pockets of Karnataka. We do have plans to enter Orissa market. We are also expanding into Bihar market and we also have aggressive plan to expand in Phase-III, Phase-IV markets of UP. So our total plan is to seed about between 8 million to 9 million boxes. In AP and Haryana currently we do have about 7 lakh boxes so we are talking additional 4 million into these two states but our total additional requirement is coming to about 8 million to 9 million. So half of that is coming from these two states whereas the balance half is coming from different geographies.

Rajeev Sharma: Sir sorry to interrupt you on this. So one part of this was how much of your digital subscribers are from Phase-III where voluntary DAS has been done? And you are talking about 8 million to 9 million from Phase-III so how much is the analog base you currently have in this 8 million - 9 million and do not you think this sounds little too stretched and aggressive because the total size is 16 million for Phase-III where DTH is not there 16 or maybe max 20 million so basically it means you are aiming for 50% share of incremental net adds so your thoughts on this? And if you are going to expand in Orissa, Bihar then you talked about 50% growth in your EBITDA run rate will not that be diluted because of your expansion in Kerala, Orissa. So this if you can provide clarification on these follow-ups please?

V.D Wadhwa: First of all, out of 5.38 million our current mix is DAS-1 and DAS-2 put together is about 4.15 million, DAS-1 is 2.3 million subscribers are there DAS-2 is 1.85 million subscribers are there and currently on voluntary basis we have seeded 1.23 million boxes in Phase-III market. So that is the break-up of the current 5.38 million subscriber base. Now your next point, I think perceptually your information is incorrect because Phase-III is about 30 million and Phase-IV is 60 million. So Phase-III I do not know where from you have taken the figure of 16 million it is (+30) million Phase-III and the way the industry operates is like today Gurgaon is attached to Delhi but on the ground there is no difference because Delhi is Phase-I market and Gurgaon is Phase-III market, Noida is Phase-III market so similarly when we are talking of 30 million.

The 30 million you are talking about is a theoretical definition. Let’s say if you are getting into Karnal market, Karnal is Phase-III so only 55,000 set-top boxes can be seeded in Karnal but the moment you are doing the digitization in Karnal, you are also talking about the contiguous territories around it. The entire district will get digitized 1.5 lakh boxes will be seeded so if you take Karnal alone it is 55,000 but if you take the district is it 1.5 lakh so whatever the action is taken, whatever the content deals are done, whenever you take your IP connectivity into that particular city, that is with the purpose and the intent of doing the entire district not just Karnal city.

For example, when the Delhi digitization was supposed to happen the Delhi SITI Cable universe was supposed to be 4 lakh only but we have actually seeded 6.5 lakh boxes in Delhi. All the past malpractices such as under declaration and lack of transparency disappear the moment digitization happens the actual numbers are at least 15% to 20% higher so, we are working with the assumption if 30 million is as per the government's definition the actual number of seeded in Phase-III will not be less than 35 million that is the universe we are operating with. And when I am saying 8 million to 9 million it is not entirely Phase-III there are some contiguous Phase-IV towns also which are attached to our cities if I am taking my signal let's say from Delhi to Sonipat or Delhi to Karnal so within that if there are three or four towns of Phase-IV also fall I will be connecting them also I will be not dropping my signal….I will not be doing a landing through the air the particular city I will be going through the road.

So whatever the city falls on that stretch obviously I will be connecting that also. So it is a combination of largely Phase-III but whatever the cities are falling on to my route or my network I will be connecting those as well and that is how it is we are targeting 8 million to 9 million. Your third question was in terms of how we are going to improve the EBITDA. Now the issue is today when I am having 4.2 million boxes in DAS-1 and DAS-2 my DAS-1 and DAS-2 is not going to remain at Rs. 70 or Rs. 100 collection. It is impossible that I will keep giving 15% to 20% cost increases to the broadcaster, keep giving wage increases to the employees and I will not be monetizing my business. If this is my problem, then this is the problem of the industry. So this is no SITI Cable issue, this is industry level issue when everybody is coming together working in tandem right now to improve the collection from the market place. So definitely this is going to go up significantly and that is what gives us the belief. One more question you had our total universe is 10.5 million to of which roughly 5.4 million we have already digitized so our left over base for digitization is only 5 million so when I am saying we have the ambition of adding 8 million to 9 million, obviously incremental 3 million is likely to be from a new market where we are not present so either through an acquisition or through a some hostile entry into some of the markets we shall be doing it.

We also have a plan to improve our base into existing DAS-1 and DAS-2 towns as well and ~(+1) million, we are talking of increasing in the existing DAS markets as we believe payback period is far better and we have been under penetrated and we have already started our activity on that just to share with we were not present in several DAS-2 cities. In the last quarter, we have entered Nagpur, we have entered Pune, we have entered Mysore, we have entered Dombivali, and we have entered Thane.

And coming back to your one more question, you had asked as far as the role of the task force is concerned the government has been asking us in terms of our commitment for the digitization and this time we have again taken a lead because we been telling the government that we never release any of our set-top box in a pre-activated form because most of time your asset gets lost if it is in a pre-activated form. Thereafter you keep struggling for several months to collect the subscriber application form and CAF and all the other stuff and this is where we have not suffered so much but indirectly we have suffered because if other players are not up to the mark in the industry then indirectly it impacts us also. So we had requested the regulator that why don't you make it mandatory to submit a subscriber application form so that we do not struggle with all those hygiene issues later.**

It has been seen in the Phase-I and Phase-II so TRAI has mandated and MIB also is now involved so they are mandating that without CAF we will not allow the digitization to happen. But now the moment they are insisting on this we have faced one more problem because when we are seeking the content we have given the intent to all the broadcasting bouquets to plan. We intend to enter into approximately100 new cities but now the expectation of the broadcaster is that we should pay them the same content price what we are paying them in the Phase-I market that is what is expectation they are carrying and if this is the expectation then there is no meaning of digitization because there is no economic model if you start paying content cost in Phase-III, Phase-IV market at par with Delhi, Mumbai market then there is no benefit anybody to invest the capital into the business. So basis that we have gone to the regulator and we have given them the approach because the regulator is telling us to launch packages and our approach. And we have given told the regulator that how do we commit at our end customer price, that my bouquet price will be at tax value unless we have a fix on our input cost. And once you give the customer price there are some time line restriction you cannot change those bouquet prices frequently and that too without giving notices whereas we are not sure at what price we will be able to get the content from the broadcaster so that is why we have requested the regulator and the MIB that if you want us to do the digitization, we are all for this but please help us in terms of getting the content cost at the fair price and that too with two years to three years fixed fee deal basis so that for next two to three years we focus on digitization. We focus in terms of improving the monetization, before the broadcaster can start expecting the content price at par with the developed market. So that is the reason why the task force has been created, that is the reason now the regulator and the MIB are also getting equally concerned.

They have understood that broadcasters are looking at digitization largely as an opportunity to gain for themselves but not to help the industry to go through the digitization so this is what is going through in the task force. We do not get that feeling sitting on this side of the table that the digitization is likely to get delayed because when we talk to the regulator, we talk to the MIB, there is no such sense we are getting that it is likely to get delayed but general perception I do not know this is more of wish list of LCO typically but from the MSO point of view I do not think any of the MSO want it to be delayed or it should be extended further.

Rajeev Sharma: Thanks a lot sir. One last thing on the funding and incremental boxes and what you will need….

Sanjay Goyal: Yes, fair enough as far as the funding is concerned as you know that we have raised, we took the permission from shareholders for raising $100 million and we have raised only a part of that and earlier also in my last call and when I met the investors also one-to-one basis. As I said that we are raising a part funding right now that will take us through to the sunset date or so and closer to the sunset debt obviously we will again seek the incremental funding which is the left over portion of about $60 million.

Moderator: Thank you. Ladies and gentlemen due to paucity of time, we will be taking the last question from the line of Srinivas Seshadri from Antique. Please go ahead.

Srinivas Seshadri: My first question is on Phase-III markets, just wanted to get your perspective on what do you think will be the ground ARPUs which potential for ground ARPUs relative to Phase-II markets? And given the fact that the TRAI has also asked to share to kind of sign agreements between MSO-LCO prior to kind of getting into an execution mode is that also happening when you are going into these new markets and what is the cooperation from the LCO side to get this streamlined in terms of the rollout in the Phase-III markets?

V.D. Wadhwa: See in terms the ARPUs are concerned the Phase-III, Phase-IV markets consumer level ARPUs are Rs. 150 and these are currently the analog subscription fees being collected in those market which varies from Rs. 10 to Rs. 20 only that took on a declared not on the full base. So the point is when you compare let's say all the Phase-I market Delhi, Mumbai kind of market, the consumer ARPU is about Rs. 275 weighted average I am taking. Some of the consumer is maybe paying Rs. (+400) also but weighted average is about Rs. 275. So it is at least Rs. 100 - Rs. 125 lower right now but we have seen in existing Phase-I, Phase-II markets also the moment analog signal is switched off and digital feed is started the consumer ARPU goes up by Rs. 40 - Rs. 50. So this 150 will straight away go between Rs. 190 to Rs. 200, the moment you migrate from analog to digital platform. There is one more logic behind this is today when you look at the DTH players, all the DTH connection even in the Phase-III, Phase-IV market their lowest price is about Rs. (+180) only so nobody is actually below Rs. 200 right now in the DTH industry in those market. So this is likely to go up to Rs. 200 to Rs. 225 and I think for next two to three years the roughly Rs. 50 gap will be there between the Phase-I or Phase-II and Phase-III, Phase-IV kind of markets. Over a longer period if I will take three to five years' kind of horizon I do not see there will be any difference in the consumer prices or consumer ARPUs, the only differentiator will be that each one of us have four or five different offering to the consumer maybe that urban customer or Delhi based customers may be taking our highest bouquet of Rs. 400 and in the smaller towns consumer are more happy taking entry price bouquet or maybe the mid-price bouquet that is how the differentiation will be there but the bouquet prices across the country will become uniform in the near future.

Srinivas Seshadri: Yes, the second part was on this again TRAI dos and don'ts.

V.D. Wadhwa: Yes, coming to that if you look into these do's and don'ts more than 90% of these do's and don'ts are being complied by us and somewhere we will take the credit that we have been giving this input and suggesting that as you come out with do's and don'ts because unless everybody else is following we are not saying that SITI Cable is the most noble company in the industry but the fact is given our DTH experience and given the fact that strategically we are the most serious player in the MSO world being a part of the broadcasting group, we believe that we should follow all the best practices then only there is a future for this industry, then only there is return for the investor, and then only there is a return for all stakeholders. The faster all of us are able to do this the faster the industry will get regulated and industry monetization will improve significantly because it you recall in the last call we said that the good part about this industry is in most other industries and the consumer product segment the customer is not willing to pay more money but there is no problem as far as the consumers paying capacity or consumers' willingness to pay more money there is problem is created largely by the intermediaries and not by the end consumer who are user of your content or user of your services. So it is important that all of us whether all the MSOs should become united and all the LCOs also we should partner with the LCOs aggressively then we can monetize the business far better.

As far as the Interconnect Agreement is concerned even today also more than 90% of our LCO agreements are in place with the one-third of the revenue share which was mandated or which was recommended by the TRAI. Whereas the issue is that most other players are struggling on this particular issue that is why we are not able to even go through the court of law also because once contractually we have signed some agreement, at least there is legal remedy to settle the commercial dispute. But in the absence of a proper Interconnect Agreement between most of the MSOs and LCOs they are not able to implement also through the court of law so it has left to the subjectivity and the judgment of the individual cooperating in different geographies of the different players this is where we have insisted that we should have the Interconnect Agreement so that revenue sharing ratios are pre-defined and before we commit our large resources in terms of digitization at least all these teething issues are resolved and addressed.

Srinivas Seshadri: So sir practically for let's say 0.5 million or so boxes which you have seeded during the quarter and once which you are planning to seed in the next two-three quarters are these being done after the Interconnect Agreements are being signed?

V.D. Wadhwa: 100%, not even single box is going without the Interconnect Agreement. Srinivas, as per policy the way we have our system and processes and through SAP we have integrated this in to the SAP. Unless the Interconnect Agreement is signed, it is coming to the legal department, legal department has given okay and finance department has given the okay and we have received activation revenue till then no code is being opened in our system.

Srinivas Seshadri: Okay. And by that coin sir should not the net ARPUs to you be very good from day one onwards in the Phase-III or do LCOs come up with some kind of excuses and say this will happen for a few months and so on?

V.D. Wadhwa: The way the digitization is happening on voluntary basis is people continue to pay the most of the places the deals are people will continue to pay the analog revenue till the sunset date. And for the boxes, because you are seeding boxes so there is at least Rs. 20 per box the depreciation per month and Rs. 10 per box is cost of the IP connectivity per month. So Rs. 30 incremental cost of providing the digital feed so at best we are able to recover Rs. 30 per month per box from the analog market basis which the digitization is happening wherever we are doing right now.

But in terms of giving you over and above that any incremental revenue because this is great in digitization that is not happening that it is we are doing it so that we are not rushing it for doing the digitization in the last 60 days of the year.

Srinivas Seshadri: And sir, in the agreements there is no mention of what will be the kind of share post the sunset date there is nothing of that so that agreement…

V.D. Wadhwa: No, there is at without the agreement cannot be signed. We sign all our agreement this is TRAI mandated guideline that one part of the revenues will be shared.

Srinivas Seshadri: That is minimum revenue share right? That is not guaranteeing you any kind of any specific amount?

Sanjay Goyal: No, that is the contract consideration what we have added to pay them is one-third of the revenue when we will start doing the package base billing.

Srinivas Seshadri: Fair enough. Fine sir, I just have one more question on Reliance Jio – if you can throw some color on the risk perception to the MSO industry per se especially in the metro markets from the next one year perspective and maybe over a longer-term perspective how does this change the competitive environment for you on an overall pan India basis?

V.D. Wadhwa: See from the Reliance Jio point of view, I see only positivity. The reason being when a big player like Reliance will get into the MSO space, obviously most of the malpractice of the industry will go away because the way the Reliance has demonstrated in different business models, they try to control end-to-end and they generally do not prefer the middleman into the business.

Firstly, with Reliance coming in, the fragmentation will reduce. Number two, in the metro market Reliance will be largely targeting the broadband side of the business because getting into the MSO businesses they will be bleeding. Anyone who is planning to expand into the exiting market has to come at a huge cost. So unless Reliance has got the mindset of incurring the huge cost to get in and to get lower returns on the video side of the business I do not think so. They are targeting largely the data side of the business which gives them a better margin. I do not know what the real intent is but if you go by the stated objective they would like to participate in Phase-III, Phase-IV towns. Now there again will be moment big player like Reliance is getting in to Phase-III, Phase-IV market I believe it is going to be positive because the monetization will happen far better and faster also.

Today the biggest problem which is happening is we feel the industry will get consolidated because unless the industry is going through the consolidation, the operating cost will not come down unless among the MSO we start doing the infrastructure sharing the way it happens in the telecom sector, unless we start partnering and collaborating with each other things cannot improve at a monetary level. So with the bigger player coming in to the industry I very strongly believe that the industry will go through consolidation at a much-much faster pace. Today most of the investor at least the overseas investors also do not look up to the industry because we are still struggling with some of the old analog issues. But once again, the Reliance kind of player gets into this, this will again give a different perception and things will be getting cleaned-up much faster. While there will be one more competitor to the coming into the industry but I believe that competitor will help the industry to consolidate and become disciplined much faster.

Srinivas Seshadri: Sir but do you not perceive a risk in terms of getting a proper conversion in terms of the number of home passed you are doing I mean could there be some risk to that based on Reliance also coming into the field for you?

V.D. Wadhwa: As I said the competition will be there but today the cost of adding one home pass for me versus the cost of adding one home pass for Reliance is ratio of cost is 1:4. If my cost of adding a subscriber is Rs. 5,000 to Rs. 6,000, for Reliance it is costing around Rs. 20,000 so I will be getting a pay back of approximately three years Reliance will take at least seven years to eight years. If somebody wants to get in into the business at that cost then nobody can stop him.

Srinivas Seshadri: No, I suppose given the cost they will try to be more aggressive and terms of subscriber acquisition and locking them in.

V.D. Wadhwa: Yes, but their business model is in such a way they are laying a underground fiber that underground fiber actually if you see this is not fiber to home whatever they may claim or they may say with due respect to them this is not fiber to home this fiber up to the kerb. And in the cable industry the issue is even if I wish that in my house or my office I should get Hathway connection or DEN connection I cannot get in because my building is serviced by the current cable operator or the current service provider so it is not that easy for the last (+20) years people have been trying to get into each of these markets, they have not been able to get in because already there is a relationship, there is already a connectivity, there is already a network, and it is legally also established that this network belongs to that particular cable operator. So it is not so easily possible to get into the every household. So that is a long process. It will take more than a decade and at a huge cost.

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Sanjay Goyal: Ladies and gentlemen thank you very much for your participation in the conference call. Do you have any other query remains which you wish to ask us, we can discuss after this call offline. Thank you very much. Have a great day.

V.D. Wadhwa: Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of SITI Cable Network Limited that concludes this conference call. Thank you for joining and you may now disconnect your lines.