



“SITI Cable Network Limited Q3 FY16 Results Conference Call”

January 22, 2016



MANAGEMENT:

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Moderator: Good day ladies and gentlemen and welcome to the SITI Cable Network Limited Q3 FY16 Results Conference Call. 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 a '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Saint from SITI Cable Network Limited. Thank you and over to you sir.

Ankit Saint: Hi, Good Morning everyone. I am pleased to announce the Q3FY16 results and we are joined by Mr. V.D. Wadhwa, Executive Director & CEO of SITI Cable, Mr. Anil Jain, Head (Finance), SITI Cable, Mr. Vinay Chandhok, Chief Operating Officer for the Video business and Mr. Sanjeev Mahajan, Chief Operating Officer for the Broadband business.

I am happy to report a very good set of numbers backed by solid operational metrics. In the third quarter we have reported Profit before Tax of Rs. 56 Crores and PAT at about Rs. 56 Crores. EBITDA is at Rs. 130 Crores, it is up 152% QoQ and 159% YoY. Revenue was also strong at Rs. 375 Crores up 54% QoQ and 68% YoY. Subscription revenue saw an uptick of 5% QoQ and 7% YoY and was at Rs. 146 Crores. Broadband income was also strong at Rs. 14 Crores. It was up Rs. 50% QoQ and 99% YoY. In terms of the operational metrics, we seeded about 1.1 million boxes and our digital sub-base stands at 6.8 million...we have added 15,550 broadband subscribers and home passes now stand at 6.7 lakhs. For the 9 months FY 16; PBT was at Rs. 5 Crores and EBITDA was at Rs. 220 Crores up 61% YoY. Revenue was at Rs. 848 Crores up 29% YoY. With that, I leave the floor open for questions which the management will be happy to answer. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vivekananda Subramaniam from Ambit Capital. Please go ahead.

Vivekananda Subramaniam: I have a couple of questions. One pertains to the Phase-III landscape. I guess your seeding numbers would be among the highest in the industry but can you help us understand how Phase-III now looks like, the number of STBs that have been seeded by the cable industry and has DTH seeded an equivalent amount or not, that is one. And the second question pertains to your acquisition.... where your reach has grown by 1.5 million subscribers during the quarter. Of specific interest to me is the acquisition of SCOD18 where there are also media reports that Vodafone is buying the Broadband business of YouTele which I guess has an overlap with the cable subscribers of SCOD18. Just wanted to understand how the arrangement works. Do you get only the cable subscribers or do you also have a right to lay your own network for broadband?



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V D Wadhwa:

We have seeded about 3.1 million boxes in Phase-III and we have got about 4 million boxes on order right now out of which 1.1 million is the inventory as on 1st of January and about 3 million boxes are on order, which shall be arriving during January- March 2016. To the best of our knowledge, we think more than 50% boxes have already been seeded by the MSO industry. Balance (because there was some delay in getting the shipment of boxes from China), will be getting executed in January-February.

The DTH industry also has been carrying sufficient quantity of stock. We do not have a precise estimate on how many boxes have been seeded by DTH industry. We believe a large part of digitization is yet to take place because certain High Courts of the country have given a stay order for about two months or so, which has slowed down the process. We think within the next 60 days', digitization will be completed.

We strongly believe that if there is no further extension and there is no further delay on the entire digitization process, then over 90% of digitization should get completed by 31st March of the current year. One more thing we would like to say that certain phase 4 areas are also getting digitized simultaneously, wherever they fall in the contiguous territory of Phase-III.

We can speak with authority on behalf of the MSO that all of us had planned to convert our analog into digital and we had ordered the boxes. Now when we started seeding the boxes ...phase 4 markets are also getting digitized and that is resulting in incremental demand. So some portion of that is there and nobody had planned for the phase 4 digitization right now, therefore, there is a mismatch between the boxes ordered and the boxes which have been seeded. As far as the MIB data is concerned, 35 million is the universe. Our belief is that it will be going up to 45- 50 million universe, by the closure of Phase 3 digitization.

Your next question was on the SCOD acquisition. We have acquired the video part of the business with the full understanding that as and when we are rolling out our broadband services, we will have the full authority to expand and put up our business in these markets. So these are two separate things. I think there has not been a much of an overlap between the video and the data piece of business in the same market.

Vivekananda Subramaniam:

Sir a couple of follow-ups. You mentioned that of the seeding that has happened in Phase-III areas, over 50% has been done by the MSO industry. So in your view what would be the seeding that would have been taken place in the previous quarter by the industry on the whole?

V D Wadhwa:

As I said that, we have seeded 1.1 million in the last quarter whereas our total seeding in Phase-III is currently at 3.1 million. So more than 1.8-1.9 million we have seeded prior to the current quarter. We are assuming that same must be the case with our peers as well



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Vivekananda Subramaniam: Right. And the number that you just mentioned about Phase-3 and 4 combined which is getting seeded is that the 45 - 50 million numbers that you are saying includes the contiguous phase 4 areas?

V D Wadhwa: That is right.

Vivekananda Subramaniam: And another one on the broadband side or rather the SCOD acquisition, so this gives you an access to a large catchment area in Mumbai. So we were just trying to understand does this change your broadband strategy in any way given that the Mumbai market may be ready for High-Speed DOCSIS 3 Broadband?

V D Wadhwa: It does not change the strategy. Actually this acquisition is a part of strategy. As we have been saying that over the next 2 to 3 years' time we would like to be eventually a broadband company and cable will probably become a secondary revenue stream. So the fact that we have identified this expansion in the Mumbai market and Gujarat market, largely keeping in view the broadband opportunity. So if you have to do Broadband, unless you are a strong player on the cable side, you cannot do broadband because your broadband network is banking on your cable network. So that is why it was quite imperative and it was a part of the strategy to acquire some network in the Mumbai market so that we can do both video and broadband business in Mumbai. So it is well within the strategy currently.

Vivekananda Subramaniam: And sir lastly on the acquisition, what would be the outlay that you are looking at for the acquisition, the total outlay?

V D Wadhwa: We have not earmarked a separate amount and then are looking around for opportunities. We believe that if there is an opportunity available, we will arrange the funds. We are keeping our eyes and ears open, whichever opportunity comes our way and if that fits in our scheme of things. Does it make any strategic sense for us to get into that market or no? There are several markets, like Bangalore market, where there are a lot of acquisition opportunities available; we do not believe that it makes any economic sense for us to acquire those businesses. So we are letting it go. So if there is any other good opportunity we will always be doing that and funding is not a big issue right now.

Vivekananda Subramaniam: No sir, actually I meant the outlay for the acquisitions you announced in January.

V D Wadhwa: We have already informed the stock exchanges about the acquisitions

Vivekananda Subramaniam: Yes, I am just probing on the amount that you would be spending on the acquisitions.

V D Wadhwa: We cannot give you a consolidated figure, like each acquisition has got different metrics and even if we agree on a particular amount that is subject to the current liabilities we are setting



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off. So some acquisitions are on a full-cash basis, some acquisitions, as you know, there is kind of a barter system where we are agreeing on a price and we are giving them the set-top boxes. Largely you can assume that, if it is an analog acquisition we are paying less than Rs. 500 per customer as acquisition price. If it is a digital acquisition we are paying less than Rs. 2500 as acquisition price.

Moderator: Thank you. Next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Congratulations for a PAT positive result this quarter. So you gave some highlight in terms of how Phase-III digitization has happened but a couple of clarifications first. So you mentioned Phase-III plus the contiguous area of around let us say 50 million subscribers, out of which 50% is seeded. So that means 25 million set-top boxes are already there in the market. Am I right on that?

V D Wadhwa: Yes, it is there, very much there.

Ankur Periwal: An incremental 25 and this is despite all the High Court stay orders with the respective states as well?

V D Wadhwa: Absolutely.

Ankur Periwal: And secondly in terms of the agreements with the LCOs as well as the content agreements on the broadcasters, I understand that we have already entered all the content agreements but is this that if you can highlight some specifics on the industry front whether the industry at large has agreed into contracts especially on the LC as well as on the content agreement front?

V D Wadhwa: We can talk about few of the big players; we think by and large all the big players have contracts in place. But besides the top 4 or 5 also there are hundreds of MSOs existing in the country, we do not have any knowledge or any information whether they have a contract or they do not have contract. So as far as the LCO agreements are concerned we have been following our earlier format right now, though TRAI has come out with the standard interconnect agreement on which they have invited the comments from MSOs. We are going ahead and we are executing our own agreement before appointing any LCO. So in our case, we do not just start doing business with any LCO unless we have signed the interconnect agreement.

Ankur Periwal: Yes, which is the same strategy which we have been following in Phase-I and Phase-II.

V D Wadhwa: Absolutely, no deviation from the earlier strategy.



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Ankur Periwal: Secondly, on the collections front, if you can highlight any improvement in Phase-I and Phase-II cities we have seen in this quarter.

V D Wadhwa: Last quarter we said that Phase-I is about Rs. 100 per subscriber, Phase-II is about Rs. 76. So unfortunately, realizations are at the same levelwe have not been able to move the needle up on this front. We are hoping, and trying to build consensus to increase the subscription by Rs. 8-10 in the fourth quarter. Right now the focus is more in terms of seeding the boxes and also in terms of starting the monetization of Phase 3 markets ... all of us were banking very heavily that effective January; we will start monetizing the business. Due to the High Court decisions, we feel there have been delays in that happening. But regardless of that we think definitely there is going to be incremental revenue generation happening from April onwards

Ankur Periwal: Okay, so the reason I asked this was predominantly on a QoQ basis our cable revenue has gone up by 5%. So I was wondering whether this is realization driven or probably some Phase-III subscribers have started paying us.

V D Wadhwa: Ankur it is not realization driven, it is because some of the subscribers in Phase-III have started paying. There is no incremental realization in Phase-I-2 market.

Ankur Periwal: And on the broadband expansion front we have done some healthy expansion which is also visible in terms of higher ARPU that probably we have derived in this quarter as well. If you or Mr. Sanjeev can highlight on the strategy overall on that front?

V D Wadhwa: It is a good progress but somehow internally as a management we are not happy with this. We had higher targets internally, but because there is still a lot of overlap between the broadband and cable team and right now there is a lot of organizational focus getting diverted for completing digitization. So broadband is likely to take off at a much faster pace effective 1st April. We are targeting around 20,000-25,000 incremental subscribers in Q4. Overall if we give you a broader picture of what we are targeting that for next 2-3 years.... we should be adding at least about half a million customers every year. So we are gearing up in terms of the CAPEX or in terms of the entire manpower and the management bandwidth point of view, who largely focus on the Broadband business beginning with the next fiscal year, because large part of our digital expansion would have taken place in the current year itself. Wherever in phase 4, we had to go we are trying to go hook up in the current year itself and may be a little bit of a spillover may happen in the next fiscal year, but largely for the next 12 months our focus is going to be on the broadband piece of the business only.

Ankur Periwal: And sir lastly some bookkeeping questions – our other operating revenue has increased in this quarter and same is the case for pay channel cost as well as the overheads, which has jumped sharply on QoQ basis if probably Mr. Anil can highlight on the same.



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V D Wadhwa:

Other operating income has gone up basically in some of the new businesses what we have acquired and some of the new companies they are still in formation stages right now. So whatever the money has come in in terms of the set-top boxes seeding, instead of going into activation income..... it has gone into other income because the companies are under formation stage right now. And that is why it is classified as other income.

On the operating cost and the pay channel cost, what we are seeing is a blended average of existing business as well as expansion business. If you notice that we have opened 110 new cities in the last quarter and whenever you are opening a new city obviously there is a lot of infrastructure cost in terms of putting up office, taking bandwidth and also in terms of the content cost. There are incremental costs and the monetization is yet to start. So it is all latching onto the existing business currently. If we internally as a management split this business into existing and the expansion business, our existing business is growing at a healthy pace, most of the incremental cost is in the expansion business only and once we start monetizing the business from the current quarter, you will see a different trend on this.

Ankur Periwal:

Sir just one clarification, is this the Q3 numbers, will it be fair to say that this factors in the entire quarter's cost or this can go up probably sequentially for this because the full quarter in fact may not be visible in this quarter?

V D Wadhwa:

This quarter cost whether this is fully reflected, next year this cost can go up further.

Anil Jain:

It would be slightly higher as compared to current quarter.

Moderator:

Next question is from the line of Sumeet Rohra from Kuber India Inc. Fund. Please go ahead.

Sumeet Rohra:

Chief, I was just looking at your results, so you have added about 1.1 million subscribers. So what is your outlook now basically going ahead, matter of fact that Phase-III is picking up. So do you think the momentum of adding a million subscribers a quarter can continue? And I also wanted to ask you, the press release basically says we have a subscriber base of 10.7 million which I think is analog and we are looking to add additional 1.5 million. So is your plan ultimately to get to 12 million subscribers? So what is your plan on that sir?

V D Wadhwa:

We had a 10.7 million base, then we acquired SCOD Network in Mumbai and we have acquired one business in Gujarat also. These two businesses are giving us incremental 1.5 million subscriber base. So our overall subscriber base is increasing to about 12 million. Within that in the last quarter we exceeded 1.1 million boxes and this catch-up happened largely in December month. As of 1st of January, we have settled on about 1.1 million opening inventory in our godown and we have got 3 million set-top boxes on order including some of 300,000 HD boxes on order. So if all goes well, in fact there have been some temporary road blocks because of this High Court stay orders, otherwise our plan was to seed at least 2 million



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boxes in January alone. So now if you see the opening stock of 1.1 million and 3 million boxes on order we are targeting that this quarter, we should be seeding 3-4 million boxes, if there are no further roadblocks.

Sumeet Rohra: But sir as I basically understand that your thought process is that you will get to about 10-11 million subscribers and that can happen latest by end of this calendar year. I mean is it safe to assume so, say December 31st, 2016 you can actually end with a subscriber base of 10 million and upwards? Is that safe to assume?

V D Wadhwa: 1000% safe.

Sumeet Rohra: But actively it should happen, right, I mean that is the thought process, right that eventually it should happen within the next 6 months at least, right.

V D Wadhwa: Definitely.

Sumeet Rohra: And sir what is happening on the promoter's infusion? So how much is a promoter putting in now and so what is exactly happening on that front?

V D Wadhwa: We have taken permission from the board and now we are doing an EGM on the 4th of February, where promoter is infusing another Rs. 680 Crores of funds. The entire cash flow may not happen in the current fiscal year because of the creeping acquisition rule of SEBI; the limitation is that the promoter holding cannot go up more than 5% in a year. But we should be getting roughly half of that in the current fiscal year. The entire OFCD money should come in immediately and 25% of warrant funding should also come in. We will largely utilize this money to retire certain term loans and improve our balance sheet position

Sumeet Rohra: So sir today if I am correct our outstanding number of shares is 67.7 Crores shares, so after this round of funding comes in what will our total share outstanding go to?

V D Wadhwa: We think because we have arrived at Rs. 35 pricing as per the formula probably our number of shares is going up to Rs. 87 Crores. Promoter holding will go to roughly about 74%.

Sumeet Rohra: Okay, promoter holding will go to 74% and in accordance will be the number of outstanding. And so basically your strategy on addition of subscribers ahead of funding you have got now, how about ground level of collecting money from the LCSO, how do you see that shaping up?

V D Wadhwa: Phase-I and Phase-II, there is not much of momentum in the last 2-3 quarters. It is virtually flat in Phase-I and 2 on a net of tax basis. Some other MSOs are not able to push the needle because of their internal challenges but we are very clear that we need to continuously keep on improving on that issue. And we are trying to build consensus with other players also because



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on a standalone basis it becomes difficult for SITI Cable alone to be taking the prices up. At the same time, I think the big trigger on the SITI Cable side will happen is because as you know we have got a large base in Phase-III. In Phase-III right now, as we speak we have already seeded about 3.1 million boxes where the monetization is only Rs. 6.5 crore a month currently. Because we might have seeded boxes on a voluntary basis but the revenue is happening only at an analog level currently, so we are expecting that we should start generating at least about Rs. 50-odd revenue per month. It may not happen for all the boxes from January because of this current litigation and the stay orders in the High Courts, but definitely the moment we are coming out of these stay orders and the markets are fully digitized, we are quite confident that effective 1st of April we should be comfortably generating Rs. 50 per month on a full year basis on Phase-III subscribers.

Sumeet Rohra: With the Phase-I you are collecting about Rs. 105, right?

V D Wadhwa: Rs. 103.

Sumeet Rohra: And Phase-II you are collecting about Rs. 70 something, right?

V D Wadhwa: Rs. 76.

Sumeet Rohra: So you saying that Phase-III you should collect at least Rs. 50 you feel?

V D Wadhwa: Rs. 50 from the day one itself and we are just being conservative when we are saying from April because from the current month itself our invoicing is going and we are pushing the entire operation team to start collecting from the current month itself, but as you know in the market which are not fully digitized where the analog signal is – we can safely assume that the entire Phase-III will be fully monetized from April onwards.

Sumeet Rohra: So basically you feel that the things are very much on track and by the end of this calendar year we should be on a very strong wicket, is the sense I get after our conversation. Is that right?

V D Wadhwa: Yes, that is right.

Moderator: The next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Nihar Shah: Hi sir this is Nihar Shah over here. My first question to you would be on the carriage side. We have seen some growth on the carriage on a year on year basis. For the industry we hear that carriage seems to be on a declining trend, so just wanted to understand what factors have sort of contributed to the carriage growth and how do you see that panning out going forward?



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V D Wadhwa:

If you compare any of the listed entities currently, our proportion of the carriage revenue is probably the lowest as compared to Peers because traditionally we have always focused much more on the subscription side of the business

Despite being probably the smaller player, if you see our subscription, it is the highest among all three of us whereas our carriage is the lowest. So there are organizations those have been heavily relying on carriage revenue, they are going to be affected the most because they were getting disproportionate high amount of carriage. We have been getting lower than our fair share of carriage, so we do not have that kind of a challenge. On the contrary when we are consolidating and expanding our business, our carriage income has been going up. If you see the last 3 years also, our carriage income has been going up by at least roughly about 10% or so. So even in the first 9 months or so it has gone up and mind you this despite the fact with Star and Zeeboth the bouquets content deals are on net of carriage basis. Not only for Star and Zee, it is Star, Zee as well as IndiaCast, all three bouquets... our deals are on net of carriage basis. So carriage revenue from the major broadcasting bouquet is on a declining trend but because we are expanding and our base is becoming bigger and there are another 200 channels wanting to enter the space. We can assume 8% - 10% growth on the carriage side for the next couple of years.

Nihar Shah:

My second question was in relation to the question to the prior person in the queue asked which was on the Phase-III collections and you mentioned that you would like to start out with Rs.50. We have seen in Phase-I, Phase-II, the collections struggled after reaching a certain point. How do you envisage the movement of collection from Phase-III, do you think that this 50 could rapidly go up or are there certain factors that might limit the growth? What's the growth in Phase-III collections that you envisage over the next two or three years?

V D Wadhwa:

The INR 50 number is a blended average, because in some of the Phase-III markets, we are collecting even now about Rs.90 to Rs.100. In some markets, our collection is about Rs.70 even today. It is a function of whether what kind of dominance you are having in that particular market. If there is a single player, we are collecting Rs.100 and not only have us there are many other MSOs ...those who are in a dominant position in their respective market, collected close to Rs.100. So this is the blended average of Rs.50 because by and large the intent is at an industry level, we are coming out with two formats because in the current quarter because of high court cases ...there has been some slowdown.

So we are targeting right now Rs.50 but I think everybody is working to be to about Rs.75 plus tax collection target from April onwards. We were taking a conservative approach but yes it takes time, it doesn't happen from day one so if we start demanding Rs.75 even in 3 to 4 months' time we should be able to establish that kind of price. There is one more reason why Phase-III will not be as slow because Phase-I and Phase-II market, we have to understand these two markets there is a high amount of carriage also come then in these two markets. So



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many MSO follow the approach of subsidizing the subscription revenue and that's why subscription doesn't improve drastically.

Whereas in Phase-III market there is hardly any carriage so unless anyone who is operating in Phase-III market is asking for the subscription revenue from day one, he is going to bleed drastically. So I think good sense is prevailing It is reflected in the set-top box activation charges. Also Phase-I and Phase-II, We think most of the MSOs have given between Rs.800 to Rs.1000 subsidy on the box. Now the subsidy has been reduced to Rs.200-300 in the Phase-III market. Whereas originally the belief was the subsidy will be much higher in Phase-III. So similarly on the monetization of the box also, this is proving to be far more profitable for us and we see the same trend will continue on the subscription as well.

Nihar Shah: Just a follow up to that would be, what are the ARPU levels that you notice in Phase-III and would these need to go up to take care of the increase in taxes as well as the charges that you would now be pushing down to the LCOs in term of collection.

V D Wadhwa: Blended average ARPUs in analog market has been roughly between 150 -175 and the moment digitization happens, this will go up by Rs.60 to Rs.70. There is not going to be any dip in the LCO margin because if he is able to realize Rs.60 to Rs.70incremental revenue from customer, he will be passing on that revenue to us. There is no dip in his margin and we will start realizing Rs.60-70 extra.

Nihar Shah: This is net-off taxes that you are talking about?

V D Wadhwa: Yes when we are saying 50, this is net realization to us.

Moderator: The next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: The first thing I wanted to ask, the activation revenue which has been shot up by 72% on Y-on-Y basis so what is the activation revenue pro subscriber and this revenue stream which is going on upward trend and that would be maintained throughout FY17 as we have given the guidance that on each quarterly basis there would be an subscriber and addition of approx. 2 to 3 million, so what is the activation revenue per subscriber?

V D Wadhwa: Activation revenue for the quarter is 105 Crores and we have seeded 1.1 million boxes in the quarter so it's roughly about Rs.1000 per box. And activation revenue shall have the same trend going forward also. But largely because Phase-III digitization, was supposed to take place by 31st December, the current quarter is going to see a significant amount of activation revenue coming in. We don't think as a management we have given the guidance that every quarter there will be 3 million boxes seeded, we never give that guidance. We have always been saying



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that our Phase-III analog base is about (+5) million and we intend to convert that analog base into digital before the end of the current fiscal year. If all goes well, there is no further extension and no further delays by intervention of the regulatory authorities. We should be in a position to seed between 3- 4 million set-top boxes in the current quarter.

Rahul Maheshwari: Can you give CAPEX guidance for FY17 and current incoming quarter?

V D Wadhwa: Current quarter, we have incurred 263 Crores CAPEX in total. In the nine months' period ... at a consolidated level, we have incurred about 338 Crores CAPEX both on the cable and the broadband side of the business. For the next year, we are currently in the budgeting stages so we don't have the exact number right now to share with the investors currently. But we should be in a position to share that number once we have frozen our budget. As a guidance I can tell you largely the CAPEX funding would be required for next fiscal year on the broadband piece of business. If you take roughly, we are targeting at acquiring about 0.5 million subscribers. So it should be somewhere around 300 - 400 Crores CAPEX.

Rahul Maheshwari: For broadband only?

V D Wadhwa: Broadband only.

Rahul Maheshwari: As there would be uptick in Phase-III markets ARPU level so your CAPEX guidance for the next year, the effective tax rate which has fallen during this quarter, what's your tax rate guidance for next fiscal year?

V D Wadhwa: At the consolidated level because SITI Cable has been carrying forward losses, so for standalone business there will not be a tax issue, our subsidiary in the Eastern part of the country is in a profitable situation so there will be some tax liability coming in this subsidiary.

Anil Jain: So on overall basis it would be around 7% to 8% of consolidated profit.

Rahul Maheshwari: You would be leading the industry growth for the coming quarters once the digitization takes place in terms of the box seeding as we have taken 1.5 million which is an industry beating number for this quarter as looking at the Phase-III digitization till date which has taken place, so can you give highlight on those numbers?

V D Wadhwa: I don't think I have understood your question.

Rahul Maheshwari: You would be maintaining this same growth rate in the coming quarters as beating the industry growth rate?



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V D Wadhwa: We don't know what our competitors are planning to. We have got our own growth plan which we will be following. Whether we end up beating others or no, we don't know; only time will tell. If somebody else is seeding more number of boxes than us, probably they will beat us. But as of now whatever is in public domain, we think SITI Cable has a largest share of analog market to be digitized. So hopefully by the time we complete digitization probably SITI Cable should be the largest MSO in the country.

Moderator: Next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Excluding activation what is my EBITDA margins?

V D Wadhwa: EBITDA for the quarter was about INR25 Crores. If you compare to the previous quarter, there is a marginal dip but largely during the current quarter we have provided for the bad debt provisions so but for that margin for the quarter would have been higher than the previous quarter.

Mayur Gathani: 25 Crores excluding EBITDA, excluding the activation?

V D Wadhwa: Excluding activation.

Mayur Gathani: And how much is the bad debt provided?

V D Wadhwa: INR22 Crores in the current quarter.

Mayur Gathani: So what is your outlook on the bad debt going forward?

V D Wadhwa: In the industry we are witnessing two issues – one is in the past receivable and the second on the current side. So as a management, our effort is always to ensure that our debtor's position doesn't go up and we are being realistic that whatever revenue we are recognizing in the books of account is all collectible. At the same time, when the profitability is improving and we are trying to take a conservative view on some of our past receivable issues. We are taking a hard look on case-to-case basis.... every quarter we take a firm call on the issue that what is realizable, what is not realizable and accordingly we are picking up the bad debt provisions.

Mayur Gathani: Operating profit for this quarter was 125 Crores, this is including the activation and excluding it you are saying it is 25 Crores only.

V D Wadhwa: Yes that's right.

Mayur Gathani: Learning from Phase-II are we giving pre-activated set-top boxes or they are being activated when we receive the data forms, etc., from the cable operators?



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V D Wadhwa: SITI Cable has never given pre-activated boxes ever in its history. Unless we get the cable operator's agreements signed, unless we have received our activation revenuewe don't release the box.... It doesn't go out of our godown physically. So we don't have this problem, which probably most of the other players in the industry are facing.

Mayur Gathani: So you will have full solid data of all the customers that are using SITI Cable currently?

V D Wadhwa: That's largely correct.

Mayur Gathani: And as the industry also that you are seeing there is a shortage of set-top boxes because some Phase-IV installations have also happened. If this installation is happening currently we will not be getting the revenue as per DAS. You will continue to get analog revenue for the next one-year unless the deadline comes in for Phase-IV, is that correct as well?

V D Wadhwa: Yes that's correct. But there is no problem with that because the good part about this is currently more or less, anyone who is seeding boxes in Phase-IV also is realizing almost full value of the box. So even if you are able to realize 90% of the box value and on voluntary basis if you are doing the seeding in the Phase-IV market, you are not investing heavily in terms of converting analog into digital.

Mayur Gathani: Absolutely fine because end of the day becomes your customer. And you said the broadband CAPEX would be around 300 to 400 Crores for 5 million subscribers for the next year?

V D Wadhwa: That's right.

Mayur Gathani: So that's around Rs.7000-8000 per subscriber CAPEX so this will include my modem, my two-way wiring everything?

V D Wadhwa: Everything.

Mayur Gathani: This set-top box is also subsidized to a great extent for broadband?

V D Wadhwa: It's not to a great extent, it's totally subsidized. Our home passes are roughly Rs.1000 per home pass and we are working at the 20% penetration so if we work with a 20% penetration for acquiring one customer we are taking Rs.5000 the cost of home pass 1:5 ratio, and Rs.2000 is the cost of modem so that is why we are taking Rs.7000 as the cost of acquisition.

Mayur Gathani: Long back we had initiated the scheme that we will end up sharing 25% carriage fees with LCO that still continues?



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V D Wadhwa: That still continues. The only thing we would like to share that it is not just a freebie which goes to the cable operator. It comes with the caveat that the cable operator is to pay on time. He has to pay as per the collection rate agreed. He has to pay before the due date, but if he is not making the payment before the due date we are not under legal obligation to give him 25% carriage revenue. So this is being given as an incentive to disciplined cable operators.

Mayur Gathani: Anything that you are hearing from the central government saying that they will sum up all the cases and apply in the Supreme Court?

V D Wadhwa: Yes, that's what they have been assuring and we as an individual company as well as at an Industry Federation level are also moving the Supreme Court and intervening in this matter and we will become party to this case. Because the fact remains today that all of us have invested heavily in terms of digitization and we have already committed our funds in terms of placing orders and opening L/C in favor of the supplier. So MSO is the only entity in the industry who has invested both in terms of the money and manpower in doing the digitization. So it is detrimental to the interest of the MSO if digitization is extended unnecessarily.

Mayur Gathani: To understand again most of the High Court orders are for February 28 or March first week or so two months so suppose that you will start again the activation or it is a continuous process in the next two months as well?

V D Wadhwa: Activation is happening even today also as we speak, we are doing at least 15,000- 20,000 activations even today. So there is a greater realization among all the industry stakeholders that this is just a temporary relief because people have not asked for indefinite relief in terms of time. They have specifically asked for two months extension only under the pretext that there is a delay in getting the set-top boxes. So it is highly unlikely that these two months will become five months or six months. So the activation is already happening, again towards closer to the end of February the activation will again start picking up and March will be a very big month in terms of the activation, if there is no further extension.

Mayur Gathani: So in that case you're looking at a 3-4 million installation base in this quarter itself?

V D Wadhwa: That's right.

Moderator: The next question is from the line of Sumeet Rohra from Kuber India Fund. Please go ahead.

Sumeet Rohra: I just wanted your broad thoughts on this, the market seems to be pretty concerned that there is one big competitor who is going to be basically entering this space over the next maybe two quarters or three or maybe one that nobody knows. So how do you basically as a head of this company see this and what's your strategy for this? Do you think it's a big threat for the industry or do you think that the industry is too big?



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V D Wadhwa: On the cable side of the business, this new entrant is at least about a year away from now. Earlier there was a thought process that probably they will participate in the phase III market. By the time they are ready to participate ...phase III digitalization would be over. So if at all any new player has to come in it has to come in at a huge cost and at huge disturbance to the market by replacing the set-top boxes in the country. To the best of our knowledge and belief and whatever the basis we have informal discussions with various industry players, the new entrant was largely targeting the data piece of the business not so much on the video side of the business. On the data side of the business wired broadband business is negligible currently. It is less than 5% of the overall universe as a wired broadband. The way the Indian consumers are consuming the broadband... wired broadband is going to expand exponentially. Today, our game plan is to have at least 2 million broadband customers in three years' period and in order to reach 2 million broadband customers if we take three years outlook of the overall broadband industry probably we are targeting less than 2% of the market. We are not worried that who are the remaining 98% market share owners so long as we get our 2% market share.

Sumeet Rohra: But I was more asking you on the cable side of the business because that's honestly our bread butter because we have got about 10-12 million analog which will get converted at some point of time. So that you few basically feel that there is no issue where that is concerned.

V D Wadhwa: Whenever a new player comes in, it will definitely create some disturbance. But our belief is that the player will be largely consolidating the industry because the big players are not easy to attack-- mostly the marginal players will get consolidated. Second thing is if the industry consolidates and particularly if new player comes in and that player comes in there is a lot of regulatory support then the middleman's zone will be further shrunk as and when the new player comes in and the industry is moving towards consolidation. So the moment the middleman's share is shrinking in this kind of business, all the existing players are also going to gain out of it. Maybe in the short-term if we give a general guidancewhenever any big player comes into the market, in short-term it maybe some disturbance in the market place but in the longer term it will be healthy for the business.

Sumeet Rohra: His entry is basically one year away at least so it's not like it's happening over the next quarter or something.

V D Wadhwa: Yes is at least one year away.

Sumeet Rohra: So you see that broadly the cable and DTH industry seems to be pre-insulated from this then because the focus is not going to be more on this side of a business?

V D Wadhwa: That's right.

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



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Rohit Dokania: Just wanted your comments on the TDSAT order on the non-discriminatory content cost and how does it impact the industry and SITI Cable if at all?

V D Wadhwa: That order is likely to be effective from 1st of April if we understand that correctly. To the best of our knowledge, the broadcaster fraternity is moving to Supreme Court to challenge that order because it doesn't suit the broadcasters at all. Only time will tell whether this is the final order or there may be something more to this.

Rohit Dokania: Why would you say that it doesn't suit the broadcasters?

V D Wadhwa: Because as per this order they are supposed to sell their content only on an à la carte basis.

Rohit Dokania: The order says you can have bouquet also.

V D Wadhwa: Basically they are supposed to sell the content only on a RIO basis. Today if you see the consumer profiling, the moment the content is offered to the consumer on a RIO basis, then most of the consumer households don't want more than 20-30channels whereas all of us are showing (+) 400 channels to the consumer. So when the consumer becomes selective and probably as a distribution platform we will also carry those options --rather than negotiating the deal with the broadcaster for the entire bouquet-- we will carry only the high pull channels wherever the consumer demand is high and all the medium and low-pull channelswe would not like to carry on our distribution platform. So it will impact the broadcaster because they are generating lot of advertisement revenue on the so-called medium-pull channels and the low-pull channels also. So it doesn't suit their business model where distribution platform stops carrying their low-pull channels. If the consumer is not demanding those channels then the broadcaster has to write further amount by way of a carriage pay-out.

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

V. Subramanian: Just wanted to understand quarter-on-quarter swing in carriage sharing and pay related cost. So does this factor in the content renegotiations that we were alluding to earlier? You have announced that you have formed a JV with Dish TV which I presume is the COMNET JV. On this I wanted to understand if we are forming a JV with Dish then how does the current deal renegotiation fit in that framework?

V D Wadhwa: Currently, the content cost has been renegotiated on the current year basis so our current quarter results and the current quarter costs are reflecting the current deals. We maintain that on the carriage side we will see 8-10% growth and that is what is visible. Our view right now is on a full-year basis our content cost will be up 25%. So it will be net off carriage probably we are going to about 15%-16% up over the last year and that is what we have been



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maintaining throughout the year that net-off carriage basis, our content cost will be going up about 15% and mind you in this case we have entered 120 new cities also where we never existed in the past. So that's why whenever you enter the new city, obviously you have to pay some premium to get into those new cities. If we don't have it right now in terms of existing in the expansion market. But if we see purely on the existing market basis our content cost may not have gone up by more than 10-12% on net-off carriage basis.

V. Subramanian: On COMNET and how you look at content?

V D Wadhwa: All the deals we have done currently, have been done by the SITI Cable team. COMNET is in formation stage though there have been some kind of informal working together between the SITI Cable and the Dish TV team.... but it is yet to formally start working. Hopefully all the deals which are for financial year 2017 shall be a part of the COMNET mandate where COMNET will be doing joint negotiation. Our Board has given the approval for participating in the equity of a new company. So it is going through right now the legal formality because both of us are listed entities.... so we would like to do it purely on Arm length basis. You will see the impact in the next year because of COMNET.

V. Subramanian: On a related note, there is a follow-up. The operating margins excluding activation income seem to have declined this quarter. You mentioned that you have entered several new cities which has led to a large part of the overheads accruing while revenue hasn't yet flown through. So just wanted to understand in your existing markets what would your operating margins be?

Anil Jain: For existing markets our operating margin should be around 13%-14%.

V. Subramanian: Which means we would be incurring significant losses in the new markets?

Anil Jain: Yes, because there are certain administrative costs which have already started kicking in. Wherever we goWe have to open office; we have to incur fixed cost things have already started now. Revenues will flow in the subsequent quarters or subsequent period.

V D Wadhwa: This is a temporary phase because the largely the expansion has happened in the October to December quarter and the monetization is yet to begin in the current quarter. It's only a quarter gaps in between the monetization's level.... Once the monetization will start our operating margin will go back to the same level or maybe improving further.

Moderator: Next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Earlier there was a talk of a big player entering the market and they have incurred a huge cost also.... so they might not be destructive in nature. But there is a new player also by Andhra Government, they have laid down the AP Fiber Grid by the electrical cable and they have



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reduced the cost by significant amountso what challenges do you see from these type of projects from the 18 more states are looking for this project as an alternate thing. So what are the problems they will be facing or what are the advantages you have in this type of thing?

Anil Malhotra:

There have been instances where state governments have tried to come into the distribution business ... the broadcasting side; regulator and government have not been very supportive of this. You would recall the case of Arasu which is still going on in Tamil Nadu. So I don't see that the state government should be there-- they should be governing the business—and not be in the businessThat would be our take on this. We really don't know how it will pan out but at this moment it looks like a projected plan only.

Manoj Dua:

They are targeting in six months to start it and they are saying that we will be distributing at the price of Rs.150. The reason they are saying that they will be able to sell at lower cost because we have all the approvals of doing from the electrical poles and the Rs.5000 Crores project has been converted into Rs.330 Crores. This infrastructure they have created, they will be tendering to the new operators to give at a subsidized rate.

Anil Malhotra:

They can continue with this plan because earlier this was based on some broadband penetration plan. We really don't know whether that would include cable at this moment or not. But they wanted to give a box which will have both hybrid structure which will deliver broadband and cable both. So we don't know whether this device is ready with them, this thing has started or not. It looks like one year ahead from now even if they go with the projected plan also. So by that time digitalization would be complete so we don't think it would impact us.

Moderator:

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

V D Wadhwa:

Thank you all for participating in the call. I think in case if there is a follow up question on any further clarification you need you can contact Mr. Ankit, our IR person or you can directly reach me also, my colleague will be more than happy to respond back to you. Thank you once again.

Moderator:

Thank you very much members of the management. Ladies and gentleman, on behalf of SITI Cable Networks Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.