



“SITI Cable Network Limited
Conference Call”

October 23, 2013



**MANAGEMENT: MR. V D WADHWA
MR. SANJAY GOYAL**



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Moderator: Ladies and gentlemen, good day and welcome to the SITI Cable Network Limited Q2 FY'2014 Investor Conference Call. As a reminder for the duration of the conference, all participant lines are in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to handover the conference over to Mr. Sanjay Goyal. Thank you and over to you Sir!

Sanjay Goyal: Good morning ladies and gentlemen welcome in the SITI Cable Q2 2014 Investor Conference call. SITI Cable recorded a revenue growth of 57% at 1629 million and EBITDA growth of 74% at 329.8 million in Q2 2014 versus the corresponding quarter last year. The DAS subscription has significantly grew by 2316% over the corresponding quarter last year. Now I call the session open for question answer.

Moderator: Thank you very much Sir. We will now begin the question and answer session. First question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra: Sanjay good morning. Sir just couple of quick question is one very heartening to see a 15% sequential growth in topline. Can you just share some highlights on billing particularly on gross billing and what is our subscriber addition for the quarter and where do you see it coming for the full year, can you also just share some highlights on what is the current ARPU and where do you expect it for the next six months of the year?

Sanjay Goyal: Good morning Sumeet. I will reply to your question one by one. With respect to ARPU, we have continued invoicing on gross basis in Delhi, but while you know other national peers competing MSO are still doing their DAS invoice on a net of revenue share basis, we are therefore seeing a challenges even in Delhi on gross billing basis but still we continued with what the practices og gross billing basis consistently and our collection are in line with our invoicing. Second what we see that in the event supposedly other peer national competing MSO does not switch over on the package base billing then the ARPU would continue to be somewhere close to 70 to 75 plus taxes for the next quarter. In terms of STB seeding, though STB seeding was low during the last quarter yet we have seeded close to over 200,000 STB and therefore our subscriber base is close to 3.6 million plus. We are holding our estimates and projection of seeding close to 5 million plus by end of fiscal since the Hyderabad Digitization has already been announced by the Honorable High court of Andhra Pradesh and seeding has started in the State of Andhra Pradesh wherein we are planning for expansions also.



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V. D. Wadhwa: Sumeet, just to add what Sanjay has shared in terms of the overall seeding today and as you would know that our company follows a strict commercial STB activation charges are higher amongst the industry player and our collection performance on the subscription is also highest on the industry player as percentage of billing. So talking on the STB activation because they did one part of the strategy that if we also start charging Rs.400-500 for the STB activation, which most other players are charging to show the higher subscriber base, I think we can seed 2 million boxes within this quarter itself but what our approach has been that we move slowly but at the same time bring in the cash flows because which has been the biggest challenge in this industry where the subscription revenue has always be in a concern area. The focus we are entering is to improve the subscription revenue and also keep on seeding the boxes and you speak to other good quality customers. If I were to add I think look at the way that we are currently having an inventory out of 1 million plus boxes with us. There is no problem in terms of the capex as well as availability of the boxes the only thing is we are not reducing the activation prices. We are still holding on to this. Whereas the other MSOs I am afraid that they are not committed for full collection of activation charges and focusing on the subscription collection. They are neither charging higher activation nor they are insisting on the subscription collection, which is creating concerns in digitization., first of all the discipline is far more important in this industry which has been largely dependent on the carriage seen historically whereas our approach is to go for the subscription based revenue model so that is what we have spoken in other strategy.

Sanjay Goyal: In addition to what Mr. Wadhwa has shared this quarter drastic changes has happened in the revenue contribution share from DAS SMS. the subscription had grew to the extent of over 50% of the total revenue contribution and activation revenue have contributed less than double digit this time, so the significant contribution has come out of the operational revenue and more importantly from the subscription side.

Sumeet Rohra: Absolutely, I get to understand that the TRAI actually ruling is that by November 15, phase II billing should happen so what is your sense on that? Do you think that I am sure that you can do that but do you think that the industry can do that?

V D Wadhwa : It is a question of intent. The industry is not carrying the intent to do that. Yes , he is giving the mandate like we have done the gross billing in the Delhi market in the month of July and August now because other players are not doing it, rather they are forcing us to go back to net billing again. So from the technology part of view the other MSOs in the country are not ready to do the customer wise billing, number two there intent to do the subscription wise billings and that is why on some of the other pretext they are asking for the extra date. Wherever we are ready from the technology point of view, from the intent point of view and we have done that billing also but unfortunately when you are part of the industry and we being the one of the four or five MSOs in the countries the others are not following. They have created some challenges for us as well.



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- Sumeet Rohra:** Excellent Sir. Thank you very much and I will come back bit more Sir.
- Moderator:** Thank you. Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Hi good morning everyone. Sir can you give me a breakup of the subscription carriage fee and activation income for this quarter?
- Sanjay Goyal:** This quarter over 50% has come out of the subscription income; close to 40% is the carriage and less than double digit i.e. close to 6%-7% comes from activation, remainder comes from other petty revenue items.
- Mayur Gathani:** Any contribution from broadband is that in the miniature part?
- Sanjay Goyal:** In fact Broadband is covered in the petty revenue items because we have not rolled it out across the country and it remains in the eastern part of the country on test case basis. We have already finalized our broadband plans. It is yet to be approved in the board and once board approve we will roll it out in the way we desired on case-to-case basis.
- Mayur Gathani:** Sir this carriage sharing part that 65 CR what is that referred to in the expense column?
- Sanjay Goyal:** It is a presentational format which was been prescribed by the revised Schedule 6 so it includes basically the content cost and the revenue sharing cost, which we share with the distributors as we have agreed to share 5% of SMS and 25% of carriage with the distributor besides Rs.2 per active STB. Since we have started gross billing in Delhi so it includes the LCO revenue share on SMS i.e. one third of the SMS and 25% of the carriage share.
- Mayur Gathani:** All the sharing cost is part of this carriage sharing now?
- Sanjay Goyal:** Correct and that includes the content cost also because this is what the presentational format prescribed in revised schedule.
- Mayur Gathani:** It includes the content cost that you pay to the broadcaster also?
- Sanjay Goyal:** If you need specific detail, you can take it offline.
- Mayur Gathani:** Sir anything on the receivables that you would like to say the receivables have increased this quarter as in the balance sheet trade receivables?
- Sanjay Goyal:** No in fact we have arrested/holding on the receivables increase, which were happening before. Now since we are only doing the postpaid billing in DAS so only one month or one and a half



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month receivable of DAS is appearing as an incremental debtor because the DAS has a postpaid billing while Analog happens with the prepaid billing.

- Mayur Gathani:** So trade receivables have actually moved up from 96 Crores to 165 Crores in these six months?
- Sanjay Goyal:** In fact what has happened in the first quarter because since if you refer the quarter versus quarter you see that the trade receivable has grown by only 25-26 Crores and against which close to 23-24 Crores is DAS billing, which we are doing on a monthly basis.
- Mayur Gathani:** To understand correctly what you said in the previous discussion is you have been billing in Delhi gross billing though there are still some objections coming from that part of the city or that part of the country as well?
- Sanjay Goyal:** In fact, this is not the objection. Basically what we are sure, you must be knowing that all national MSO workout the common understanding and they agree for a common invoicing pattern and the collection pattern, unfortunately we have tried to align with what understanding we have arrived it but certain others clear National MSOs have not agreed to or they have not aligned and they played different plans and despite being understanding in place, on the basis of which we have done the gross billing in Delhi and others continue to raise on a net of revenue share billing. Which is leading to some resistance from ground but still our collection are aligned with we have invoiced.
- Mayur Gathani:** When do you see this MSO is getting their act together and over a period of time we can see actual billing happening now? You may be ready when do you see the other one the regional other national players also?
- V. D. Wadhwa:** I do not see them getting ready both from intent point of view and in the physical readiness point of view in the next two quarters.
- Mayur Gathani:** Sorry to disagree with that but why would they I mean they have also would be happy to collect the full monies upfront and then share it with the LCOs why would they delay the whole process what would be the intent if I would have understand?
- Sanjay Goyal:** Mayur in fact, historically if you see specifically in DAS area, the kind of commercial arrangement we as national MSO have is common kind of commercial terms and understanding with their partners be it LCOs or distributor, we do not have a varied understanding wherein other guys having multiple kind of understanding, which varies from distributor to distributor and the operator to operators. In order to enforce the transparency we have brought in OYC application, which is addressable subscriber management system wherein my partners know how



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much they are getting, how much subscriber they have and how much they are supposed to pay me so with these kind of technological advancement..

Mayur Gathani: Sir average gross billing for Delhi would be what is the price around Rs.180?

Sanjay Goyal: 170 is the popular pack and whosoever is taking a premium pack is being charged 267 plus taxes. Packages have already been announced. gross billing is their package base billing which varies from subscriber to subscriber.

Mayur Gathani: Correct sir, and any updates in the promoter funding that 240 CR that is due when do we expect that to come in?

V. D. Wadhwa: See right now we have not felt the need for getting the cash flow. So from the promoter point of view we do have a comfort that as and when the business requires further funding that money will come in. So we expect that money to be funded or to be put into the business before the end of the current fiscal year.

Mayur Gathani: Before the end of the current fiscal year so we will have the full money coming in by March 2014 end?

V. D. Wadhwa: We will have the full money coming in.

Mayur Gathani: Thank you very much and all the very best Sir.

Moderator: Thank you. Next question is from the line of Deepak Master from Enam Holdings. Please go ahead.

Deep Master: My questions are answered. Thank you.

Moderator: Thank you. Next question is from the line of Atul Soni from Macquarie. Please go ahead.

Atul Soni: Sir just a set of questions, what would be the rough breakup of subscription income in digital and non DAS areas?

V. D. Wadhwa: See if you see the total subscription close to a 15% comes from the Analog and remaining from out of the Digital.

Atul Soni: How is your experience in Kolkata shaping up?



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- Sanjay Goyal:** Kolkata is shaping up well we are continuing with the net of revenue share billing. We have started Rs.70 plus taxes billing and they are collecting somewhere close to 75%-80%.
- Atul Soni:** Sir this is 75% - 80% of the subscriber base is having bills raised as per packages or is this collection?
- Sanjay Goyal:** It is Net of revenue share billing not package based billing which has only been started in Delhi.
- Atul Soni:** Okay so right now there is no package wise billing happening in Kolkata?
- V. D. Wadhwa:** No other part of the country.
- Atul Soni:** Sir how do you I mean given Kolkata and Delhi are your key markets right now, how do you see this shaping up in the next from two to three quarter perspective?
- Sanjay Goyal:** See our gut feel is that this situation hopefully in the current quarter till December will not be moving to the package billing. As we have said earlier also both intent and physical readiness point of view for the last quarter of the current year, but I think the way the government is pressurizing and the way I think slowly and gradually the people are understanding their need and the importance of moving to the package billing there is a possibility 70% to 80% possibility it may happen before the end of current fiscal year but otherwise I hope that by first of April we should be able to move.
- Atul Soni:** Sir from experience point of view I mean are you seeing things moving differently or how different our things in Kolkata and Delhi and Bombay, if I have to compare the metros?
- Sanjay Goyal:** generally we are collecting Rs.75 plus taxes whereas in Kolkata right now the collection is somewhere between Rs.50 to Rs.60, so Kolkata is roughly 20% behind in terms of the per subscriber collection. So that is the only difference between Kolkata and Delhi.
- Atul Soni:** Kolkata you are saying is 60 or 70?
- V. D. Wadhwa:** Calcutta the billings what Sanjay said billing has been done at Rs.70 plus. Right now the collection have started coming in at the rate of about Rs.60 whereas in Delhi the billing is being done at Rs.75 plus tax and the collection is happening exactly Rs.75 plus tax.
- Atul Soni:** That is all from my side. Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Rohit Dokania from Batlivala & Karani Securities. Please go ahead.



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- Rohit Dokania:** Good morning and thanks for the opportunity. Just two three questions; one would be the DAS revenue invoicing as far as the footnotes that you have given in terms of DAS invoicing at least that has fallen from over 24 Crores in Q1 sequentially to about 20.5 Crores in Q2, which is September quarter so could you throw some light on that why should that be?
- Sanjay Goyal:** Sorry I couldn't get you, can you please repeat?
- Rohit Dokania:** Sir in the footnotes that you have given in the results, which is the footnote No.6, so that says that for the first half year you have collected around 44.3 Crores as DAS revenue whereas in the second quarter you have collected around 20.6 Crores as DAS revenue which means you know DAS revenue sequentially have probably fallen from 24-odd Crores to 20.5 Crores?
- V. D. Wadhwa:** No it is first quarter and a first six months. Rs.20 Crores was for the first quarter and on six month basis Rs.42 Crores.
- Rohit Dokania:** So the other way basically Rs.20 Crores was for the first quarter. Sir I was just wondering you know what has led to be sequentially growth of about Rs.18-19 Crores in revenue overall revenue so from Rs.142 Crores you have gone up to about Rs.160-odd Crores?
- Sanjay Goyal:** It has majorly come out of the subscription revenue and the carriage fees.
- Rohit Dokania:** Carriage fees for us have grown sequentially is it?
- Sanjay Goyal:** In fact same broadcaster the carriage is reduced but overall it has grown.
- Rohit Dokania:** Can you throw some percentage numbers by how much it is going on an annual basis on year-on-year basis?
- Sanjay Goyal:** What we anticipate that versus last year, carriage in absolute nos would grow somewhere close by 15%.
- Rohit Dokania:** Sir on the expenses side, on the other expenses sequentially there is slight bit of an increase in the admin and other expenses from about Rs.40 Crores we have gone up to about Rs.56-odd Crores so what is leading to this?
- Sanjay Goyal:** It includes close to 78 Million, 7.8 Crores of forex losses which has been recognized. and more importantly we have acquired some more locations include Patna, Guwahati and Ujjain so it includes the incremental cost on account of that.
- Rohit Dokania:** What is 7.8 Crores forex loss relating to?



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- Sanjay Goyal:** Forex loss, while the STB were imported there were two kind of transactions wherein initially 180 days LC was given and we could have subsequently convert it into the buyers credit, these transaction were logged in at a particular price let say Rs.55 considering the Dollar price at the point of time and later on at the end of the quarter book entry has been done by recognition of forex losses in compliance of accounting standard.
- Rohit Dokania:** Sir just one final question from my side, out of the close to 3.6 Million STBs that we would have seeded by now for how many STBs have we started collecting on a net basis approximately?
- Sanjay Goyal:** We have started collecting from close to 3.1 – 3.2 million. The DAS collection varies from location to location
- Rohit Dokania:** I am sure sir that would vary from location to location but we have started collecting at least from 3 million. That is a great number. Thanks a lot Sir. Wish you all the best.
- Moderator:** Thank you. Next question is from the line of Vinit Sambre from DSP Black Rock Mutual Fund. Please go ahead.
- Vinit Sambre:** Sir my question again coming back to this receivable issues I did not understand it really while you explained the incremental receivable on account of subscription is 25 Crores is that right what I have heard?
- Sanjay Goyal:** Yes that is true you have heard correctly. In fact what I have been comparing is with respect to the last quarter that is the quarter ending June.
- Vinit Sambre:** So with respect to June, it is gone up by Rs.25 Crores.
- Sanjay Goyal:** Yes that is the one month billing which you have done in the end of September for DAS primarily and some of the carriage billing which has also been done in end of quarter and collectable as on 30th Sept.
- Vinit Sambre:** So can you give the breakup of this receivable wherein how much is to be collected from the carriage fees and how much?
- Sanjay Goyal:** The entire money is collectable, the entire money is fresh collectable of less than 30 days and the entire money would be collected in Q3 itself.
- Vinit Sambre:** As far as subscription is concerned?
- Sanjay Goyal:** Yes that is true.



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- Vinit Sambre:** And how much is to be receivable from the carriage fees as carriage fees?
- Sanjay Goyal:** If you want that I can discuss with you offline. If you want complete detail, we can work it out offline. We can speak anytime after this call.
- Vinit Sambre:** That is it.
- Moderator:** Thank you. Next question is from the line of Amit Kumar from Kotak Securities. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity. My first question pertains to the status of set top box seeding as far as phase I and phase II markets are concerned would it be fair to assume that the process in phase II also is practically finished or finished by the end of Q2 itself?
- Sanjay Goyal:** I am sorry, can you please repeat?
- Amit Kumar:** I am saying that, the seeding of set top boxes in phase II is completely finished in Q2 or are there still some market pending?
- Sanjay Goyal:** Hyderabad there was a stay by the Honorable High Court of Andhra Pradesh, stay has been vacated in the month of August with four weeks time given for Digitization so eventually if you seeing the Digitization in Hyderabad, it has started only in the month of September so we see that STB seeding will continue until the month of March 2014.
- Amit Kumar:** It would take six months for the process to be completed. I mean for one city that seems to be a pretty long time period?
- Sanjay Goyal:** For one city it is for the entire State of Andhra Pradesh, which covers various cities including Hyderabad, Vizag etc.
- Amit Kumar:** I am just trying to understand that from this 3.6 million STBs actually to begin with you know how much of this 3.6 million STBs pertains to phase I and phase II markets and how much would be coming in from the surrounding areas in phase III and phase IV?
- Sanjay Goyal:** Yes it is close to over 2 million, which is coming from Phase I and close to 1.2 million, which is coming out of the Phase II and rest are surrounding to Phase II and Phase III areas.
- Amit Kumar:** As far as the phase I and phase II numbers are concerned are you expecting any sort of an increment from Hyderabad or wherever they are gaps in phase II still by the end of the year?



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V. D. Wadhwa: Hyderabad our subscriber based Analog subscriber base is about 0.5 billion so right now Hyderabad we have started seeding and we have already sitting at close to about 250,000 seeding and balance to go in the next few days. So Hyderabad is one area then the Vizag, Vijayawada and even Guntur, Tenali, which are largely phase III towns so we have already finalized the plan for that also so put together between wherever we are currently present between let us say Hyderabad, Vijayawada, Guntur, Thenali we should be close to about 900,000 set top boxes.

Amit Kumar: Incrementally in phase II just about 0.25 million from Hyderabad and a few a little bit else from specific to phase II market just about 0.3 million or thereabout is what you might further look to add?

V. D. Wadhwa: Compared to what we have already done.

Amit Kumar: Yes. What is going to be incremental essentially?

V. D. Wadhwa: Incremental I am telling you Vijayawada, Tenali, Guntur is about 350,000 and 250,000 in Hyderabad so incremental is 600,000.

Amit Kumar: But part of the area would be phase III and phase IV also where the billing will not actually start for a very long time, I am really more concerned as far as the phase II areas are concerned?

V. D. Wadhwa: Just to put it in perspective in Vijayawada and Guntur market, which is currently a phase III market the Analog subscription is Rs.60 per subscriber so while we may say it is a phase III the billing may not happen but we are doing very well in Analog regime itself in that market because we are in a monopoly situation there. Besides that we have acquired the Guwahati network last month and now we are expanding into the seven sister states all the northeastern states as well so that is if you put together further opportunity in West Bengal, Guwahati, Patna all these three eastern states put together there the additional opportunity about 0.5 million roughly 500,000 to 600,000 before the end of the fiscal year. One more point in Haryana in Phase II there was four towns only now we have finalized our plan basically for as a part of our readiness of the Phase III as well so right now we are started our technical upgradation on the entire networking in Haryana and then we shall be targeting close to about 14 cities in Haryana so that work has also started.

Amit Kumar: What would be the potential of these 14 cities presumably this is all phase III?

V. D. Wadhwa: Potential is about close to about 800,000.

Amit Kumar: A couple of bookkeeping questions on this particular quarter. I mean given the fact that the Guwahati network has been acquired, the loans and advances in books of the company continue



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to remain very high and our view was that you know these are for acquisition of those networks in Patna, Guwahati etc, so has there been some further advances given by the company for acquisition of some other networks also or what is going on?

Sanjay Goyal: Certain due diligence process is going on which we cannot diverge details on the call, Amit probably we may be too much bigger in the Eastern part of the country soon with certain more expansion tied up.

Amit Kumar But can you confirm that Guwahati and Patna network transactions were closed before September 30?

Sanjay Goyal: Yes those transaction have been closed part payment have go to in Guwahati transaction and part will go in Q3 and accounting consolidation has already started for Patna but consolidation with guwahati financial will start in Q3.

Amit Kumar: That is it from my side. I will come back. Thank you so much.

Moderator: Thank you. Next question is from the line of Jay Doshi from IIFL. Please go ahead.

Bijal Shah: This is Bijal Shah from IIFL. I have two questions, No.1 is when we say in Delhi we are billing 75 net of tax we earlier has entered into some agreement to pass on carriage so passing on carriage is over and above the Rs.75 or when we bill at Rs.75 we do not pass on any carriage to the local cable operator?

V. D. Wadhwa: As per the carriage terms agreed with the operators once we move to the package billing or when we are invoicing at the package and we are getting the payment within the due dates, which is by 15th of the following months and then the carriage share is to be shared with that so long as these two conditions are met the carriage will be shared with them not otherwise.

Bijal Shah: Okay sir right now Rs.75 is what we get completely?

V. D. Wadhwa: Yes that is right. So whenever we are talking of a net billing basis obviously it is net billing there is no further pay out to be shared.

Bijal Shah: Second is you mentioned that your carriage income is growing some 15% so just if you can give us some color with respect to what proportion on this relates to increase in number or increasing our reach for subscriber base and what is actual increase for the same area where your are operating in the last period?



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- Sanjay Goyal:** Carriage is not finalized on month to month basis these are finalized on Annual basis generally so if I go and add addition half a million subscriber in the current period it do not mean that my carriage will go up from the same broadcaster so largely the carriage deals are going up because of more number of channels are being added to our network. The main increase is happening because of the addition of the number of channels because from the same broadcaster over the last year that there is a drop despite the subscriber base going up so largely the increase is happening because of the new channels getting added.
- Bijal Shah:** So sir when we get into FY'15 the incremental subvention we have built up this year will not have a material impact on carriage revenue is that what you are saying?
- V. D. Wadhwa:** No I am not saying that I am saying during the year it does not make much of a difference as we are getting into the FY'15 it will have a significant impact because right now for most of the carriage deals, the subscriber base have been taken at about 2.5 million or 3 million whereas when we are beginning and getting into the next year our base will be assuming that we are reaching the current fiscal year to 5 million base so for all the carriage deals for the next fiscal year the base will be 5 million.
- Bijal Shah:** Thank you very much and all the best.
- Moderator:** Thank you. Next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.
- Srinivas Seshadri:** Thanks for taking my questions. Sir my first question was on a subscription revenue growth on a sequential basis. Actually since you have moved to a gross billing structure from this quarter at least in Delhi so I guess what we report financially may not be apple-to-apple comparison so wanted to understand this better in terms of what is the quarter-on-quarter uptake in the subscriber revenues if we were to assume a like a net billing kind of structure what is the underlying growth in the subscription revenues?
- Sanjay Goyal:** In fact in this quarter if you compare the last quarter versus this quarter the subscription revenue has grown close to 60%-70% versus last quarter that is quarter ending of June in terms of subscription revenue.
- Srinivas Seshadri:** But Sir some portion of it will be happening because of the transition from net to gross billing if I am not wrong, right so what would be the underlying growth if we want to quantify that?
- Sanjay Goyal:** The gross billing has only started in Delhi as an impact of which the growth continues to be net-net billing if you compare the growth it grows to 35%-40% on a subscriber basis.



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- Srinivas Seshadri:** Okay so there is still a 35-40% growth in the net billing?
- Sanjay Goyal:** That is correct. This 35 to 40 is approximate because the gross billing has only started in Delhi wherein the growth is not phenomenal because the subscriber base which we are having in Delhi is close 0.6-0.7 million.
- Srinivas Seshadri:** Sir the large portion of this growth would have probably come from Kolkata or how is it distributed?
- Sanjay Goyal:** Kolkata in fact the billing is, the basic price of invoices is grown from 30, 40 and then 70 plus taxes now.
- Srinivas Seshadri:** Sir you also earlier mentioned that there is a resistance among the other MSOs to move from net to gross billing. So I just wanted to understand a role of regulators here so from what I understand TRAI is monitoring the kind of a customer application form and that process is going on so once it is done what is the role of regulators in enforcing that you are moving from net-to-gross billing and how that oversight is kind of there in place so are there tax authorities who are kind of behind this players to do it or do you see that even the regulatory action after that becomes a little lacks and that is why they are taking little it easy? If you can just explain?
- V. D. Wadhwa:** See as far as regulator is concerned they are very serious that because they are constituted to the subject that is the gross billing is not happening then digitization will not get implemented fully and if it is not happening in the phase I towns which is Delhi, Mumbai and Kolkata, it will become further challenges in the phase II towns as well. So regulator is highly concerned. A few weeks back they called a meeting of all the national promoters National MSO promoters also and they have given a strict message that unless you guys move to this gross billing do not come to the regulator for seeking for any support on all the problems for what the industry is facing. So from the pressure point of view I think it is very much there on the cards, both legally, morally and ethically in all which way but somewhere I think citing various grounds realities this region or that region the things are not moving that is where the problem has been. **Srinivas Seshadri:**
Sir on that front when you are saying that they are delaying it is the issue more because of a lack of preparedness on the back end as you mentioned or is it more to do with the mismatch in terms of expectation of kind of a revenue share between the LCO and MSO what is your reading of why it is not yet?
- V D Wadhwa:** See today let us say in Delhi 170 plus tax is the base price in gross billing and if we are collecting Rs.75 only so you divide 75/170 the MSO as a SITI cable who is more disciplined we are able to collect only 40% and 60% is left with the LCOs whereas as per the TRAI formula 65% should come to us and 35% should be retained by LCO. So we have a long way to go and that can



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happen only when keep improving this so because today if we are on a full package billing which is 170 plus taxes and we do a revenue sharing as per TRAI formula, our net retention should be about Rs.115 so from 75 the day we will reach to 115 per subscriber on net basis that will be the real I would say that we have arrived from the digitization phase.

Srinivas Seshadri: My question was more linked to the competition and why they are behind you in terms of moving from net to gross so is this revenue sharing formula have they kind of is there a mismatch in terms of their expectation versus the LCO even now in terms of how the revenue should be shared or do you think it is more of a technology and other procedural issue which are getting?

V D Wadhwa: I do not think there is any concern on the revenue sharing formula at all. What we did, let me explain this to you, when we were doing net billing we were collecting Rs.75 plus taxes and because we were keen that this system should move from the net to the gross so we declared that you move to the gross billing, which is Rs.211 including taxes now do the gross billing but it was Rs.75 but at least take one step in that direction where you are migrating from net to the gross billing. Now the issue is the movement from net billing you move to gross billing you have to pay Rs.11 to Rs.12 extra service tax to the tax authorities. Our net retention for the first two months we said we will not change the net retention. We will retain only Rs.75. so there is no question that where you are asking LCO to share higher revenue with you, eventually that is what will be in force, but as a strategy we believe that first LCO should become habitual of paying the full money to the MSO and then get into the revenue sharing model. Now revenue sharing is not the issue. The issue here is somewhere I believe that people are still in an expansion mode they believe that by undercutting by not moving to the gross billing, by paying these kind of taxes they will be able to expand their base further.. So people are compromising and taking a hit in the short term. Anything starts cutting getting into short circuiting exercises like this, this will delay as well derail the entire digitization process because we will continue to operate with the Analogue mind set only then.

Srinivas Seshadri: That was very clear. Sir just one question on the balance sheet if I look at the receivables the standalone receivables are actually much higher than the consolidated receivables worth the full year as well as first half so just wanted to understand how does it work in are there any substantial inter party transactions on that front, between you and the other?

Sanjay Goyal: We have large subsidiary operating at Calcutta to which STB have been provided by us, hence it is no higher side. Similarly we have provided STB to our subsidiary at Hyderabad also, that is the reason why it is being bit higher on one side.

Srinivas Seshadri: Okay but there is no issue in terms of collection of whatever activation fees?



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- Sanjay Goyal:** Kolkata Subsidiary is a profitable company and Kolkata business of operation is being operated in 50-50 ratio wherein the 50% business is in the standalone and 50% comes out of the consolidated basis.
- Srinivas Seshadri:** There is no issue in terms of collectability in terms of the activation fees and the LCO and all that, that is not an issue right?
- Sanjay Goyal:** This is Zero debtor from activation fees perspective because we receive activation fees in advance that is the reason why our seeding is a bit low in the last quarter.
- Srinivas Seshadri:** Sir what is typically this whatever difference around if I am not mistaken around Rs.90 Crores is an extra receivables from these subsidiary so what is it pertaining to normally?
- Sanjay Goyal:** That basically the set top boxes we have provided to them.
- Srinivas Seshadri:** Okay so you are giving some kind of a credit period for?
- Sanjay Goyal:** Set top box has been imported by us and provided to them.
- Srinivas Seshadri:** So it is a kind of a funding for that?
- Sanjay Goyal:** Yes and since it is repayable so if it has been reflected in advances otherwise would have been converted into the investment from the accounting perspective.
- Srinivas Seshadri:** Thank you so much.
- Moderator** Thank you. Next question is from the line of Yuti Dalal from Corporate Database. Please go ahead.
- Yuti Dalal:** Good morning. I just have a few questions with regards to billing we talked to about Delhi gross billing happening from our end I just wanted to understand if the entire amount is being collected by the LCOs? Are customers paying this or is there any resistance in this from the LCO or the customer?
- Sanjay Goyal:** standard and normal practices were supposed to be that the entire 170 being deposited with us and then we refund the amount that was the primary model which we have worked out but because of the market practices i.e. net of revenue share billing done by our peer competing MSO. LCO's are not depositing their revenue share with us but they are depositing our share and the taxation and entertainment tax amount thereof. So they are retaining their revenue share in



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170 with them and balance is being deposited with us we are deducting TDS which will be set off with the carriage revenue share which will be sharing it.

Yuti Dalal: So what come into our revenues is actually not 170 in that case it is only the 170 minus their share?

Sanjay Goyal: Their revenue share is being reflected in distribution cost for the purpose of Delhi operations because that is a cost to us and in the rest of the cases is invoicing itself is being done on net of revenue shares being factored in revenues.

Yuti Dalal: Okay no but there has not been any resistance in terms of customers paying the higher amount?

Sanjay Goyal: From LCO or from the customer?

Yuti Dalal: From the customer point of view?

Sanjay Goyal: Unfortunately in our country you know the consumer normally does not ask for the invoice they continue to be on the card system which is being maintained by the LCO so irrespective to the fact whether we have invoicing @ 75 or 170 the consumer happily continues to pay 200 – 250 or 300 as the case maybe on the basis of the card irrespective to seeking the invoices.

Yuti Dalal: The other question I had was with regards to Calcutta, which is our largest base in Phase I. I understand that the gross billing has not started but then since SITI cable has the highest share in Calcutta does it give you an advantage to be able to start gross billing over there or if that also likely to get further delayed since Bombay also has not started as yet?

Sanjay Goyal: In fact because since we are following certain discipline the common understanding among the national MSO so it is only because of our persuasion and our dominance in the market we have started and we pushed them and pursued them for billing at Rs.70 plus taxes as against of the desire of other MSO billing at Rs.30 or Rs.40 in Calcutta market.

Yuti Dalal: But you would not be able to pursue them to then shift to gross either?

Sanjay Goyal: Gross billing I see that would take another quarter. Even in Mumbai wherein a lot of MSOs are operating and then two big national MSO heading, having a major substantial share gross billing could not be pursued and even in Delhi we are now forced to go back on a net of revenue share billing because you know others have decided doing net of revenue share billing that is why their commitment despite our understanding to do a gross billing we continue for last two/three months.



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- Yuti Dalal:** Just one last question could you just share your gross debt amount which would include the current maturities as well?
- Sanjay Goyal:** Gross debt is somewhere close to 750 Crores this quarter we have taken somewhere close to 45-50 Crores as a short term advances which will repay in Q3.
- Yuti Dalal:** What do you see this at by year end?
- Sanjay Goyal:** I think because since we have enough inventories available with us unless we go for larger expansion or aggressive expansion for phase III and phase IV within this quarter we do not need any fund or we will mobilize our promoter equity part or funding.
- Yuti Dalal:** So if that comes in and would debt reduce since that is expected to come in by end of the year?
- Sanjay Goyal:** That will partly utilize for expansion and partly towards the debt repayment.
- Yuti Dalal:** Thank you so much.
- Moderator:** Thank you. We are going to take a follow up question from the line of Jay Doshi from IIFL. Please go ahead.
- Jay Doshi:** Sanjay my question in absence of gross billing do you see your ARPU in phase I market especially Delhi go up from Rs.75 over the next one or two quarters and if not our MSOs contemplating taking the meaningful package price increase in the next one or two quarters?
- Sanjay Goyal:** Unfortunately what happens despite the fact that other MSOs continues to bill at net of revenue share, still their collection is lower then what they are invoicing and we are impressing upon, insisting and pressurizing our partners to deposit the entire amount what we have invoiced so there is a gap in terms of understanding on ARPU because ARPU is something which is not only the invoice you do but it should be collected too. So there is a problem.
- Jay Doshi:** Are we contemplating, are MSOs contemplating the package price increase in next one or two quarters?
- Sanjay Goyal:** I do not think. We have agreed way back basis which we have started gross billing in Delhi in the month of July followed in August so on so forth but unfortunately sooner we may be forced to go back on net of revenue share so while a good decision taken is being rolled back I do not see that matrix and intent or technologically they will be able to push it on.



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- Jay Doshi:** Secondly you mentioned your able to collect entertainment tax also so is that just Delhi or across all phase I markets you have been able to do?
- Sanjay Goyal:** Barring Bombay across the market including phase I, phase II we are collecting entertainment tax, depositing with the government barring Mumbai because we are not have been much of the majority stake there in Bombay and the other national players are since not collecting the entertainment tax from the market we are also unable to collect. In Delhi, Calcutta and rest of the market we are collecting and depositing it regularly.
- Jay Doshi:** Thank you so much. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Thank you for the opportunity again. Sir just wanted to check on your carriage fees what was it for FY'13 in absolute figure?
- Sanjay Goyal:** It was close to Rs.204 Crores.
- Mayur Gathani:** This if I understood correctly would mean an increment of 15% on this year will grow this by 15%?
- Sanjay Goyal:** Yes you are correct.
- Mayur Gathani:** Do we see this tapering off in FY'15 or we still see this staying stable because of the new additions from broadcasters?
- Sanjay Goyal:** Yes in fact what has happened as we shared in the call itself, the same broadcaster carriage revenue has declined by 10% to 15%, however due to broadening of the spectrum and availability on multiple channels on the digital platform we are getting more and more carriage from the new broadcasters. We are maintaining and targeted for the carriage revenue what we have projected in the beginning of the year.
- Mayur Gathani:** I am looking at next year FY'15 do we also see this being stable or can we see a drop or can we see a further increase?
- Sanjay Goyal:** There will not be any drop. It could either be flat or maybe bit a growth because next year wherever we will enter into the carriage kind of deal with the broadcasters the subscriber base will be at higher level of beginning next year.
- Mayur Gathani:** Sir FY'13 can you give us a subscription number also?



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- Sanjay Goyal:** FY'13 we can share Mayur offline.
- Mayur Gathani:** Thank you sir all the best.
- Moderator:** Thank you. Next question is from the line of Paras Mehta from Goldman Sachs. Please go ahead.
- Paras Mehta:** Thanks for the opportunity. Just a couple of questions on your ARPU outlook more from a medium term perspective, firstly where do you see your average net ARPU is under DAS regions about 12 to 18 months from now and secondly what could the ARPUs be in cities versus phase III and IV areas?
- V. D. Wadhwa:** If you are talking of about a year's time from now I think our ARPU will be definitely moving to the package billing I see no reason in one year's time why SITI should not be on the package billing so as I said that on a starting package we should be getting on ARPU of about Rs.125 and that is what we believe it should be.
- Paras Mehta:** Thanks and how about cities versus Phase III and Phase IV areas?
- V. D. Wadhwa:** In phase III it is not too much different on the cities. Phase IV is a real challenge. I expect that ARPUs in phase IV we need to revise the strategy because right now we do not have much of an experience of phase IV on that issue but out of that this is because it is yet to be firmed up my feeling is that the ARPU in phase IV will be at least 20% lower.
- Paras Mehta:** Thank sir this is very helpful and all the best.
- Moderator:** Thank you. Ladies and gentlemen we are going to take a last question from the line of Pratish Krishnan from Antique Stock Broking. Please go ahead.
- Pratish Krishnan:** Just wanted to clarify I mean see what I understand is while you are shifted to a gross billing in Delhi but given the circumstances you were still continued to be on net billing mode, is that right?
- Sanjay Goyal:** What we are doing Pratish just to be on clarification side we are doing gross billing in delhi and the LCO revenue share, the modus operandi in principle was that they should deposit a net 170 +taxes with us and then we will issue the cheque towards the LCO revenue share to them, now this is exactly what is not happening. We are generating an invoice let us say our pack is 170 plus taxes they are retaining their revenue share with them and they are depositing the balance amount with us.
- Pratish Krishnan:** In terms of the taxes what is the situation I mean in general term tax is been paid by the LCO?



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Sanjay Goyal: Entire Rs.20 towards ET and Rs.21 which is a 170 multiplied by 12.36% is a service tax is being deposited with us and we are depositing with the respective government be it the central government or the state government, as the case may be.

Pratish Krishnan: There is no service tax being paid with LCO?

Sanjay Goyal: No it has always been a responsibility being discharged by the MSO we continue to follow the same practice and we are discharging it on regularly basis.

Pratish Krishnan: So can the TDS that you referred to I mean that was?

Sanjay Goyal: Yes TDS is something basically whenever you have to pay the revenue share we have to deduct the TDS on the revenue share which you are deducting /depositing with the government.

Pratish Krishnan: But I believe one of the difficult is an MSO face like lot of LCO did not have they are not TDS compliant or we do not have certificate and so?

Sanjay Goyal: If you give your PAN numbers then you will be deduct TDS @ 10% if you do not have PAN number then you will be deducted @20% flat for that matter and that has been shared with our partners also and they are comfortable with.

Pratish Krishnan: Just wanted to understand the management view in terms of the overall market share what would be your overall market share today in terms of Phase I, Phase II and is that something that you have a target for that post Phase III rollout?

V. D. Wadhwa: Our approach currently is that because we lost out little bit in the DAS II because in first Phase I our market share was about 26% and both phase I and II put together we would like to whatever we have lost in phase II I think we would like to go back and retain our market share in the Phase III and IV so right now we are just seeing that from the overall commercial viability point of view it concerned because gaining market share in this industry is not a big deal, one can easily deal it in the market share. Now as I already mentioned as a strategy we would like to grow and our growth has to be a profitable growth. So we are not too much into the growth was a sake of so just to show the valuations only so eventually that will happen when the business is getting monetized and there is a profitability in the business. So we are evaluating that should we be choosing the correct market share or should be we increasing our market share because of the opportunities in phase III and IV because we believe that phase III and IV are much bigger opportunities on phase I and II and not too many players have got the financial muscles and the support to go and grab the market share. So largely it will be a game being played between the top three or four players only and which the funding is going to be the major issue. So while we



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do not have an issue from the funding point of view because of the promoter funding and unlike other fellow MSOs we are not gone for the third party funding because we as a group as a promoter family we are self sufficient so whatever the money is required whether it is 500 Crores, 1000 Crores we have all self sufficient to get the funding but we are seeing that whether it makes the commercial sense to go into each and every city or no and right now we have firmed up our plant to a larger extent we are evaluating that we are sharing this and taking the consent from the Board of Directors also later during sometime in the month of November. So we will be I think by the time we will get into next quarter's call we should be able to share more in detail firmed up plan on this issue but we will definitely be you can take it as of now that we will not be loosing the current market share we will be trying to grab the share further.

Pratish Krishnan: So overall probably including all phases like Phase I to III, I mean excluding the phase IV I mean you probably can be like may be 20% kind of number would that be bit ambitious?

V. D. Wadhwa: I think somewhere around 15% would be more realistic and phase III and IV opportunities close to about 75 million for the cable of business.

Pratish Krishnan: Thanks a lot.

Moderator Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Sanjay Goyal for closing comments.

Sanjay Goyal: Thank you very much. Ladies and gentlemen if anything left out we can talk offline and we will be pleased to provide you the relevant information as and when so asked. Thank you very much. Have a nice day.

Moderator Thank you. On behalf of SITI Cable Network Limited that concludes this conference call thank you for joining us you may now disconnect your lines. Thank you.