



## “Siti Networks Limited Q2 FY-17 Results Conference Call”

**November 24, 2016**

### **MANAGEMENT:**

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*Siti Networks Limited  
November 24, 2016*

**Moderator:** Good day, ladies and gentlemen and welcome to the Q2 FY17 Results Conference Call of Siti Networks Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Saint – Head (Investor Relations), Siti Networks Limited. Thank you and over to you, sir.

**Ankit Saint:** Good morning, this is Ankit here. We welcome you all to the Q2 FY17 Investor conference call. We have with us Mr. V. D. Wadhwa, the ED & CEO of Siti Networks; Mr. Anil Jain who is the Head-Finance; Mr. Anil Malhotra, Chief Operating Officer, Mr. Vinay Chandok, Chief Operating Officer and Mr. Anil Jhamb who is the Chief Technology Officer for Broadband.

I will now quickly run you through the Q2 FY17 highlights. We had a good set of results in this quarter. Total revenue came in at Rs. 291 Crores; it was up 20% YoY. Total EBITDA was at Rs. 50 Crores, it was up 5% QoQ. The operating EBITDA came in at Rs. 11 Crores and it grew 6% QoQ. Subscription income, if you look at it on net billing basis, was at Rs. 135 Crores... it was up 7% QoQ and 34% YoY. Broadband income was at Rs. 25 Crores, up 28% QoQ and 168% YoY.

We have added 4 lakhs subscribers to our total digital subscriber base, taking it to ~8.7 million. We now have a presence across 400 locations in the country. Our total broadband subscriber base stands at 1.95 lakhs and the Home Passes of 14.6 lakhs.

With that, I now open the floor for queries. Thank you.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session.

The first question is from the line of Sonali Salgaonkar from Yes Securities. Please go ahead.

**Sonali Salgaonkar:** I have one question. Could you please outline your strategy on the broadband front as in what is your focus and how are you planning to expand this segment say over the next one to two years?

**V. D. Wadhwa:** Our broadband strategy is very clear. From the technology point of view, we are going ahead with a combination of DOCSIS-II and III. Our aim is to have at least 20% of our video base converted to broadband by 2020-21. So, on a current base which is at 12.2 million, if it converts at 20%, we are talking of a figure of approximately 2.5 million subscribers by 2021. Currently, our subscriber base is 1,95,000



*Siti Networks Limited  
November 24, 2016*

So far we have been busy with the digitization of Phase-3 as well. Once the Court cases get settled, Phase-3 digitization should be over in the current fiscal year and Phase-4 should be done by the next year. Largely from next fiscal year onwards, our focus is predominately going to be on the broadband business. We are targeting about 2.5 million customer base, if we can do that in 100 cities, so be it. The idea is to have deeper penetration in the same cities and that is our focus area. In cable, our focus is largely to improve the monetization of the business. That is our strategy.

**Moderator:** Thank you. The next question is from the line of Jai Gandhi from Motilal Oswal Securities. Please go ahead.

**Jai Gandhi:** Just on the Court cases – so it is now that you seem to be seeing the light of the day. Finally, a bit chunk of stays have been dismissed. So just wanted to understand which cities are they dismissed for and which cities do we have a presence in?

**V. D. Wadhwa:** The cities where the court cases have been dismissed are in UP, Karnataka, Kerala and yesterday a certain matter which was pending with the Delhi High Court, the AP case has been withdrawn by the petitioner himself. So, there are roughly four cities and we have a large presence in the AP market. So, that is going to be a direct benefit to us. About 18 cases are coming up for hearing in the near future.

**Jai Gandhi:** And sir, what is the lag that one could expect so it is not obviously going to be an analog switch off, right? It is probably going to be a little phased over a period of probably a month or two? I just want to understand.

**V. D. Wadhwa:** Last month when the order came in, the Judges had given time till 24<sup>th</sup> November. They said within three weeks, please complete the digitization and switch off the analog signal. So, if anyone is carrying analog signal after the Court order has been passed, it is an illegal activity. It is a contempt of Court also, be it on the part of the broadcaster or on the part of the MSO or LCO. This is what we are propagating. (a) We are creating awareness among the consumers; (b) We are running scroll and TV advertisements. C) We have already written letters to all broadcasters asking them to switch off analog signal; Simultaneously some of the MSOs who are running analog signals in certain markets....we are talking to them and whosoever is not going to switch off analog despite having a sustained dialogue.... we are going to complaint against them to the Regulatory Authorities.

**Jai Gandhi:** I just wanted to understand obviously there has to be some lag right, consumer experience could probably be affected if it is a switch off, right? So obviously, no one can afford to have a switch off?



*Siti Networks Limited  
November 24, 2016*

**V. D. Wadhwa:** With regards to Phase-3 of digitization, it is more than 80% complete. If there is a city where about 100,000 boxes had to be seeded, roughly 80,000 to 85,000 boxes have already been seeded. Only a small portion is left over and there is no shortage of boxes. We understand theoretically that if you switch off, within next two hours the boxes cannot be seeded. We think for two to four weeks of overlap, the authorities are not going to intervene on this particular issue.

But if you start switching off analog, then only the customer will wake up, LCO will wake up and they will start demanding boxes...it will accelerate the process.

**Jai Gandhi:** Sir, just one last question if I may slip in? So, you have done decently well on a broadband piece. It is just that so you have added around 62.5 k in the first half. Still there is a lot more to kind of tap so I think we had an initial guidance of probably in north of 150 k additions. That is not going to happen, is it?

**V. D. Wadhwa:** No, it should happen. We are closing the gaps on this particular issue. We have been consistently giving the guidance that we should be at around 2.5 lakhs by the time we exit.

**Jai Gandhi:** And what is the inventory right now for the set top boxes?

**V. D. Wadhwa:** 1.4 million boxes.

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

**Ankur Periwal:** Sir, continuing with the earlier question in terms of the incremental opportunity for Siti Cable. If I got it right you mentioned incremental 100,000 subscribers more to be added within the Phase-3 cities, is that right?

**V. D. Wadhwa:** You are talking cable or broadband?

**Ankur Periwal:** Cable.

**V. D. Wadhwa:** So incremental how much you said?

**Ankur Periwal:** I think you have mentioned 100,000 subscribers incrementally to be added within Phase-3 cities for Siti Cable?

**V. D. Wadhwa:** No, 100,000 is nothing. We are talking of adding millions.



*Siti Networks Limited  
November 24, 2016*

- Ankur Periwal:** Yes, that is why I clarified?
- V. D. Wadhwa:** Right now we are at about 8.7 million and our universe is 12.2 million. To complete the entire universe, we need to seed 3.5 million out of which roughly 60% will be seeded in Phase-3 and 40% will be seeded in Phase-4.
- Ankur Periwal:** Assuming Phase-3 and contiguous Phase-4 areas, this 8.7 odd million subscribers will reach what odd number?
- V. D. Wadhwa:** 12.5 million roughly
- Ankur Periwal:** And now secondly coming to the content cost here – so in this quarter we have seen 16% year-on-year rise on the consolidated basis. But if I look at standalone numbers, the rise is marginally higher at 18% but the subscription growth is relatively smaller. So, is there some mismatch here in terms of the standalone content cost outgo over the CONSOL?
- V. D. Wadhwa:** We have signed fixed fee deals with broadcasters. The meaning of fixed fee is that anywhere in the country, you can go and add any number of subscribers. The concern is that having negotiated the content availability, we have not been able to (A) seed the boxes because of stay by Courts on implementation of Phase 4 and (B) Monetize the business wherever we have seeded the boxes due to running of analog signals/ stay order
- In December 15, Phase-3 was supposed to be over, we are in the month of November and still we are collecting analog in certain areas. Leaving aside one or two states like Haryana, all over the country, Phase-3 subscribers are paying us mostly analog subscription right now whereas we are giving them digital content and paying to the broadcaster in a digital form.
- It is a double whammy that our monetization is not happening the way we wanted, whereas our costs have started flowing into the P&L based on the digital subscriber base.
- Ankur Periwal:** And sir lastly, in terms of de-monetization now I understand it may be too early to comment. But because most of the collections done by LCOs is on cash basis, if you can put some qualitative statements there or you can help us understand how things are happening operationally right now or it is more like a postponement of things?
- V. D. Wadhwa:** We are cognizant of this fact that there could be some problem, so we are expecting that over the next few months, there could be some shortfall in the collection because of the cash situation. However, we are deploying card swiping machines & mobile wallets for Cable business. For broadband, we have already taken mobile wallet connectivity...online payment and cheque collection mediums already exist.



*Siti Networks Limited  
November 24, 2016*

Most LCOs have got a credit card or some other payment mechanism. We are providing additional tools to recover the money through different means. So, we will take cheque, cards and mobile wallet transfers as well. But yes, for the coming months, there could be some challenge. But this is temporary phenomenon and not a permanent situation.

**Ankur Periwal:** Sir, just a follow up on that. Is there a possibility that this initiative by government can help us as an industry also to move pre-paid versus postpaid model earlier or will it be too early for that?

**V. D. Wadhwa:** It can but unless the government comes out with a regulation that compulsorily customer has to pay through the MSOs, then only it can shift to prepaid. We think cash transactions in general will come down with the passage of time and stricter enforcement.

We have given a representation to the government and we are encouraging consumers to pay directly to the MSOs proposing to pay them incentives for direct payment.

**Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

**Vikas Mantri:** Sir, I think just trying to recall the numbers. Out of the 3.5 million that we have analog you said 60% are in Phase-3?

**V. D. Wadhwa:** Yes.

**Vikas Mantri:** Sir, out of the 8.7 million can you help us what are the payouts that we are getting from Phase-1, Phase-2 and from the Phase-3 whatever?

**V. D. Wadhwa:** Vikas, Phase-1 is approximately Rs. 103, Phase-2 is approximately Rs. 78 and Phase-3 is under Rs. 30 right now.

**Vikas Mantri:** Okay and what is the breakup of subscribers in each of these?

**V. D. Wadhwa:** Roughly 2 million is Phase-1, 1.6 million in Phase-2, 4 million is in Phase-3 and about 1 million is in Phase-4. This is the breakup of 8.7 right now.

**Vikas Mantri:** Sir, in the draft tariff order comments that you have, you have mentioned that share of distributor should be 55% that is what you have recommended based on the CAS order earlier. Now just wanted to understand I thought the economics work very fine with the 20% itself. So, are you hinting that that is not good enough and only 55% will make economic sense, how does it stand?



*Siti Networks Limited  
November 24, 2016*

**V. D. Wadhwa:**

We feel 20% is not sufficient because the government has prescribed Rs. 130 plus a 55:45 percent ratio sharing between MSO & LCO and 20% as distribution fee. When you take a split, the LCO who is currently getting 150 (if the consumer is paying Rs. 250 plus taxes) and MSOs are getting Rs. 100 in Phase-1 markets. Tomorrow the situation will be that LCO will get only Rs. 75 - Rs. 80 as against Rs. 150 earlier.

Unless it is made prepaid, the problem will continue because LCOs continue to collect the money from consumer on prepaid basis and suppose he does not pay the money because today also the law says two-third of the revenue should go to MSO and only one-third should be retained by LCOs but that is not happening and the regulation is not being enforced on the ground

It is not going to happen unless the economic factors are taken care of. So broadcasters do not get more than Rs. 40 to Rs. 45 in subscription, net of carriage. Now all of a sudden you are saying broadcasters should start getting Rs. (+90). So we believe that unless the ecosystem is ~~balanced, there~~balanced, there will be a disturbance.

**Vikas Mantri:**

So in case we happened to end-up with this 20% what is the choice for us as an industry? Because at least if you look at the mathematics of DTH it works out to be fine even at Rs. (+130) that 20% share?

**V. D. Wadhwa:**

Vikas, you know it very well that in DTH, there are limited stakeholders in the value chain. Whatever consumer pays directly reaches the company's account. If the same money comes to us in our account, and there is no middleman in cable then we are happy with even Rs. 100.

**Vikas Mantri:**

No sir, I agree with this. So that is what I am saying. In case this 20% order stays what is the choice that we have because I clearly understand that we will not be well off?

**V. D. Wadhwa:**

**Even** if the 20% order stays, we will be better than what we are today. First of all, there are two advantages; (a) the broadcaster who used to negotiate the deal with us and thereafter whether there is a recovery or there is no recovery, we were paying to the broadcaster... it will be delinked. Now, if anyone is subscribing to a channel, only then you are supposed to pay to the broadcaster. So one problem is sorted out and even if we get 20% and we share with the LCO in the prescribed sharing ratio given by TRAI, we are happy

(b) On an average our realization, if the current recommendation of the government is implemented and payment is collected as per that ratio, we will get at least Rs. 20 per subscriber per month extra on a weighted average basis.



*Siti Networks Limited  
November 24, 2016*

- Vikas Mantri:** So that is what I thought that why should we even worry about what are the LCO, the LCO will make his own battle with TRAI. What is now regulated is what we should pay and therefore the 20% is good enough for us?
- V. D. Wadhwa:** Vikas, LCO is a channel partner. The channel partner pays the gross revenue which goes to Rs. 75; Within Rs. 75, he has to incur at least Rs. 50 as cost of servicing the customer. There is no business model left for him. So if you do not leave any business model for anybody that business will die. Today with demonetization 70% of the business at the Customer to LCO end is happening in cash.... they are all struggling today. We just cannot ignore this situation, which shall have an adverse impact on the industry.
- Vikas Mantri:** No sir, I think we have always argued that the LCO for many, many years has made good money when they have not paid taxes and not paid to the MSOs?
- V. D. Wadhwa:** That is why our recommendation has been on revenue sharing and payments. Just the government should add one more clause that customer should pay this money to the MSO and MSO will pass on the LCO share to him the day we will get credited..... then we have no problem. Then we will drop our demand for 55%.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** My first question is can you provide the actual pay channel cost which is included in the carriage sharing and pay channel line item for this quarter and also for the same quarter last fiscal year? And second question is, can you provide the CAPEX number for this quarter?
- Anil Jain:** Sanjay, in this quarter, the pay channel cost is Rs. 122 Crores. If we look at six months' basis, it is Rs. 240 Crores and last year it was Rs. 160 Crores for six months' period.
- Sanjay Chawla:** And what is the CAPEX for this quarter please?
- Ankit Saint:** Hi Sanjay, this is Ankit here. The CAPEX for the quarter is Rs. 71 Crores...
- Sanjay Chawla:** Okay and are you on track to expand Rs. 500 Crores of CAPEX this year as you had indicated earlier?
- V. D. Wadhwa:** No, it would not be because from the broadband side we are trailing behind our internal plans. So on the cable side we will go ahead and incur but on the broadband side there will be some saving. The breakup of Rs. 500 Crores was – Rs. 300 Crores on the broadband and about Rs. 200 Crores was on the cable





*Siti Networks Limited  
November 24, 2016*

- Sanjay Chawla:** And the broadband will be less this time compared to earlier?
- V. D. Wadhwa:** It will be more than last year's Capex
- Moderator:** Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Sir, you have been talking about this monetization not happening but the content cost continues to increase this mismatch. So, if we assume that by March end we will be done with the Phase-3 digitization then from quarter 1 do we see mismatch drastically cut down?
- V. D. Wadhwa:** Mayur, like we have been saying that 4 million boxes have been seeded in Phase-3 where we are getting less than Rs. 30 right now. The moment we will start collecting digital revenue, at least it will go to Rs. 50. So Phase-3 will start paying Rs. 6 Crores every month extra.
- Mayur Gathani:** Right, no but again at that point of time we may not see someone increasing prices or not collecting let us say UP market if someone else is more stronger than you or other markets and you will have to follow them, again the prices may not move up or collection may not increase?
- V. D. Wadhwa:** It does not happen that way. Rs. 50 is the bare minimum. We are collecting currently in most of Haryana cities.... about Rs. 85 in Phase-3 markets. And to respond to your question, this time our expansion majorly has been happening in AP and Haryana markets. So we have not expanded majorly into UP market knowing that UP will have different challenges. We do not see any such problem in our key markets. Our main markets are Eastern zone, AP-Telangana and Haryana.
- Mayur Gathani:** Okay so quarter 1 FY18 we should see this mismatch reducing big time?
- V. D. Wadhwa:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Utkarsh Khandelwal from Morgan Stanley. Please go ahead.
- Parag:** This is Parag here. Mr. Wadhwa just wanted to check on monetization. And if I look at your Phase-1 and Phase-2 collections at Rs. 103 and Rs. 78 they are not too different from what you had indicated at in January. Your numbers were about Rs. 103 and Rs. 76 even at that point in time. So there is not been any significant change on the monetization in Phase-1 and Phase-2. Can you just give us a sense of what is causing the numbers to kind of stagnate and how do



*Siti Networks Limited  
November 24, 2016*

you see this improving going forward without assuming that TRAI order coming in to the picture?

**V. D. Wadhwa:**

See these numbers have been stagnant and we have been saying that in all our calls for the last four quarters, five quarters ....these numbers are more or less in Rs. (+/-1) or Rs. (+/-2) range only. The major reason has been that there have been competition and some new players.... those who are currently operating at least at these prices or lower than these prices. Among the major players....we generally do not bother about the marginal players but if the national players are not working together, that becomes a challenge.

A good development is that with the change in the management, DEN has started putting focus on the improvement in collections which was never the case in the past. So DEN is asking for more money in the Delhi and UP market right now and in the next quarter results, you will see improvement in that area because when the national player's starts collecting much more and we do not cut each other to size, then things start improving.

That was always the problem that when we were collecting x, y, z revenue...we have always said that despite being the smallest digital subscriber base, our subscription revenue is highest amongst all other national players. So what we mean by when we say that we are collecting Rs. (+100) and Rs. (+75) whereas when you do the math, the numbers do not add up for most of the players. So the point we are making is that others who are way below these numbers for the last one year or so, they are catching up with this number, they have also started collecting at par with us now. So then there is a possibility now that this number can start looking up.

**Parag:**

And could you give us some indication of how do you see these numbers say exit of March 2017?

**V. D. Wadhwa:**

Phase-1 will not be significantly better, Phase-2 will be close to Rs. 90.

**Moderator:**

Thank you. The next question is a follow up from the line of Sanjay Chawla from JM Financial. Please go ahead.

**Sanjay Chawla:**

We have seen that the broadband ARPU seems to be moving up now this quarter also, my estimate is Rs. 460. So the question is how is this going to pan out? Are you how many months of free period are the new customers getting or promotional ARPUs in the initial period and how is this ARPU is going to shape up in the coming quarters?

**V. D. Wadhwa:**

Sanjay, we do not have any free period for the customer. What we would like to share with you that our current offering to the consumer is highly competitive as compared to what Airtel gives or what any other cable company gives. At Rs. 899, we are giving you 50 MBps speed



*Siti Networks Limited  
November 24, 2016*

with unlimited data download...which is a hot seller. So, the new incremental customer acquisition is happening at roughly about Rs. 700 ARPU per month weighted average.

**Sanjay Chawla:** So which are your most popular DOCSIS-II products in terms of the price point?

**Anil Jhamb:** It is 5 mbps band at Rs. 599.

**Sanjay Chawla:** So this is most of the new customers are also getting added and which is?

**Anil Jhamb:** Yes, most of the new customers prefer a **DOCSIS-III** product which is 50 MBPS plans at Rs. 899. We have about 33% of the new customer acquisitions in that.

**Sanjay Chawla:** So this ARPU should continue to increase going forward?

**Anil Jhamb:** Yes, our acquisition ARPUs is increasing as we are adding more and more customers on this plan.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. V. D. Wadhwa for closing comments.

**V. D. Wadhwa:** Thank you everybody for participating. We think we have addressed all the questions. If anyone has any follow up questions or any subsequent clarification they need, they can write to me or to our Investor Relations Department. We shall be more than happy to respond back and thanks once again for participating in the call.

**Moderator:** Thank you. On behalf of Siti Networks Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.