



“Siti Networks Limited Q3 FY17 Results Conference Call”

February 15, 2017



MANAGEMENT:

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Moderator: Good day, ladies and gentlemen and welcome to the Q3 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankit Saint – Head (Investor Relations) of Siti Networks Limited. Thank you and over to you, sir

Ankit Saint: Good morning, everyone. Good morning ladies and gentlemen, this is Ankit here. We welcome you to the Q3 FY17 Siti Results Call and I will just run you quickly through the highlights of the quarter:

The Q3 FY17 operating EBITDA increased 35% Q-o-Q. Phase-III realization jumped 46% Q-o-Q with an exit rate of Rs. 40 per subscriber. Revenue was at INR306 Crores up 5% Q-o-Q. Subscription revenue on net billing basis was at INR147 Crores up 35% Q-o-Q, Broadband revenue was at 26 Crores, up 79% Y-o-Y.... Operating EBITDA was at 15 Crores, up 35% Q-o-Q. If you look at the customer acquisition, we seeded 5.4 lakh boxes and our total digital subscriber base stands at 9.2 million. We have the largest presence in the country with 450 locations we have added 18,000 broadband subscribers and the broadband sub base stands at 2.13 lakhs. If you look at the 9 months basis, subscription income has jumped 40% Y-o-Y and broadband income has jumped 115% Y-o-Y.

We have with us our senior management, Mr. Wadhwa, the ED & CEO of Siti Networks, We have the CFO – Mr. Sanjay Berry, We have the Senior VP, Finance - Mr. Anil Jain, We have the Chief Business Officer- Broadband Mr. Munish Kanotra, We have the Chief Technology Officer – Mr. GR Shridhar and with that I would like to open the floor for queries with Senior management. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Jai Gandhi from Motilal Oswal Securities. Please go ahead.

Jai Gandhi: First of all just might to ask has monetization started in all Phase-3 market for Siti and if yes, then if you could just give me the phase wise breakup of collections that will be helpful.

V. D. Wadhwa: As we have mentioned in our press release, monetization has picked up, we closed Phase-3 with Rs. 40 subscription. Unfortunately, Phase 1 and 2 is still flat, with our realization in phase 1 at about Rs. 103 and phase 2 at Rs. 78.



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- Jai Gandhi:** And what is the subscriber split now, 1,2,3,4?
- V. D. Wadhwa:** In Phase 1 and 2, we have about 3.6 million, 3.8 million in Phase 3 and 1.7 million in Phase 4
- Jai Gandhi:** The other expenses line item kind of increase this quarter, is there a particular reason is there a one-off here or?
- V. D. Wadhwa:** It is a one-off increase due to some reclassification
- Jai Gandhi:** So, I could probably assume a 2Q kind of run rate going forward?
- V. D. Wadhwa:** Yes, we think that can be done in the due course of business, certain operational expenses will increase with increase in turnover.
- Jai Gandhi:** And last question sir, on the broadband front, the additions of kind of slowed this quarter, is this Jio effect or any other executional problem you could probably, so some light on ...
- V. D. Wadhwa:** On Broadband, we are operating in 5 markets, Delhi, 3 cities in Haryana and Calcutta. We have felt this impact only in Calcutta. In Delhi, we continue to grow at the earlier rate but in Calcutta, we lost some universe. So, difficult to say whether it is due to Jio impact or something else because we have not felt any impact of Jio on our business in Delhi market. Calcutta in any case is on an Ethernet on Cable (EOC) basis
- Jai Gandhi:** So, would you like to kind of may be perhaps revise your broadband additions for this year and may be for FY18?
- V. D. Wadhwa:** This is the first time ever that we have seen some drop-in Calcutta side; we have been witnessing only growth previously. We do not think it is going to change our growth trajectory significantly
- Jai Gandhi:** Sir, it is good to see that you finally kind of trying to revamp your prepaid model you have. You have 1 million subscribers now on it. Any internal targets you have for FY18, what is yours target, how many subscribers perhaps move to ...
- V. D. Wadhwa:** So, internally we would like the entire business to be on prepaid in 6-9 months period... I think, if not 100%, at least close to 100%we shall able to do in next 6-9 months' time.
- Moderator:** Thank you. Next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.



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Ankur Periwal: Continuing with the cable part first. On the prepaid model, if you can help us understand better, this is the same model on which we were operating earlier where in the LCO deposit some fixed amount with us and then that acts as prepaid recharge.

V. D. Wadhwa: Exactly Ankur, you are right. Basically what we are doing is that right now there has been a practice in the industry not to make 100% payment. So, we are putting a notional credit of one month. So, it is not an incremental credit what we are giving to the LCO. Basically let's say if LCO is supposed to pay about a lakh Rupee towards a month and we are just relating that the credit limit is one lakh in the systems ... so long as he is depositing one lakh, he can continue to recharge all his customer base for the next 30 days and the moment 30 days are expiring, he is supposed to again, recharge by putting in additional Rs. 100,000... assuming the customer base and the rate of per month is the same. If the customer base is increasing, decreasing or the rate is increasing then of course, the rate will be adjusted accordingly. So that, there is no short fall in billing and collection, we do not create any AR situation going forward and at the cable operator end, there is a total clarity and he gets the NOC.

Ankur Periwal: And sir, if you can share some earlier trend if at all, when we have been sort of trying to push this exercise, push this initiative across our subscriber base earlier as well. How has been the feedback earlier?

V. D. Wadhwa: You will be surprised to know that while this is good for the industry, the cable operators are generally not bullish about moving to prepaid. Because they know that in the prepaid model, they have to make full payment and if they do not make full payment there will be a system generated dunning/auto dunning. So, people do not want auto dunning, people want some grey area to be left open, people want some subjectivity and so that there is a room for them not to pay the full money. So, not glad in saying that but generally LCOs are not bullish about migrating to prepay.

Ankur Periwal: Sir, secondly on the HD upgrade, which we have mentioned in the press release as well. We are pushing for it and trying to convert as much standard definition into HD. Just trying to understand who bears the cost of this.

V. D. Wadhwa: The consumer bears the cost.

Ankur Periwal: So essentially the setup box has to be replaced with the new HD setup box and standard definition setup box right now will be, Rs. 1200-Rs. 1300?

V. D. Wadhwa: Yes, standard definition STBs cost roughly INR1200 and HD STBs cost about INR1500 right now.



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- Ankur Periwal:** So, the consumer has to pay 1500 bucks upfront, so that he gets its replaced?
- V. D. Wadhwa:** There are 2 or 3 different formats. If there is a new customer acquisition....he has to pay full value. If there is an existing customer who is upgrading from the standard definition to high definition we give him a discount on the costing because he has to surrender standard definition box and that the surrendered box has got some residual value
- Ankur Periwal:** Sir, lastly on the collections front, for Phase-3 around Rs. 40, which is still lower if I compare it to peers. Is there any specific geography because earlier also we had mention that Haryana has been giving us very healthy subscriber realization that ways. Is there any specific territory sort of an issue or it is a general trend across the states?
- V. D. Wadhwa:** No, I would say it is a general trend, Haryana is an outlier. If we are in a monopolistic position in a particular geography, we can command the price we want. Where ever we are in competition with multiple players, then there is a problem in that particular market.
- Ankur Periwal:** So, will be fair to say that Haryana we are still at that Rs. 80-Rs. 90 per sub realization.
- V. D. Wadhwa:** We are getting INR85 in most markets in Haryana
- Ankur Periwal:** But other cities will be probably Rs. 25 or Rs. 30, so the blended average is coming at around whatever Rs. 25- Rs.40?
- V. D. Wadhwa:** Haryana is not that big a market out of our roughly 4 million base in Phase-3, Haryana has got roughly half a million only. So, it is not that Haryana is most sizable population for us. Our biggest base of Phase-3 is in either in West Bengal, AP and Telangana.
- Ankur Periwal:** And the collections over there are in the similar ballpark? Rs. 40 odd?
- V. D. Wadhwa:** Yes, that is it. This 40 is a blended average obviously, it is ranging between Rs. 30 to Rs. 85 but the average is 40.
- Ankur Periwal:** What is stopping us to increase this realization? Is there a competitive pressure or some push back?
- V. D. Wadhwa:** For Phase-3 digitization, the government has come out with the deadline of 31st January. So, only after the digitization gets completed, analogue signals are switched off then only we can start improving the monetization. So the problem is when the analogue signals are running in a particular geography, nobody is willing to pay digital revenue. So, that has been the bottleneck, now today is 15th of February, just 15 days ago the digitization dead line got over. Now it will be



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picking up, as per the regulation analogue signals have been switched off and digitization has been done, LCOs will have to pay the digital revenue.

Ankur Periwal: Sir, any time line you like to share in terms of when uptick could be and what sort of a number are you looking at? Let say 6 to 9 months out.

V. D. Wadhwa: We are targeting that we should be averaging roughly about Rs. 65-70 for the next fiscal year in Phase-3.

Ankur Periwal: So, this is average for the next fiscal year?

V. D. Wadhwa: Yes right.

Moderator: Thank you. Next question is from the line of Ronak Shah from SGC Advisors. Please go ahead.

Ronak Shah: My question was on your OTT service which you just started offering and now you have almost 30,000 subscribers. How is the content pay out and carriage revenue to this work has that started happening already?

V. D. Wadhwa: Yes, we have done the deal at group level, so we do not take the content directly. We have got an arrangement with the parent organization, so they are organizing the content and we are marketing the product. So, the way the business model is that the revenue we generate from the consumer, we split the revenue 50-50 between us and the parent organization. All the cost pertaining to Siti networks or providing services to the consumers is borne by us out of our share of 50%. The entire content cost is borne by the parent organization out of their 50% revenue. So, you can say that whatever the revenue we are generating, 50% flows straight to our revenue line and this net of content cost.

Ronak Shah: Just to make sure I understand this correctly services right now provided only to your existing Siti Cable subscribers right?

V. D. Wadhwa: We have come out with the offer where we are giving it to all the non Siti Cable subscribers as well. Basically, you need to have some internet connectivity to take this service. It is not necessary that you need to have Siti connectivity.

Ronak Shah: But if I am Siti customer, do I get this free then? The way kind of Tata Sky and the few of the other DTH operators are now giving.

V. D. Wadhwa: That is right.



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Ronak Shah: And the plan is to keep that free over Siti subscriber going forward?

V. D. Wadhwa: For the time being, yes.

Ronak Shah: And then eventually will you roll out the content to other broadcasters as well. Will you keep it only for kind of a parent entity networks?

V. D. Wadhwa: No, let us clarify that our parent organization is sourcing the content does not mean that we are offering only our parent organizations content...we are providing 110 channels. This includes that the ZEE group channels, Colors, Sony, CNBC, Discovery and others except the Star bouquet. Because Star does not give their channels to any OTT platform ... they do it themselves, so other than that, all the major content is available in this bouquet. It is not restricted to Zee group only.

Ronak Shah: And I know it is early days so far but any kind of usage trends anything you like to call out?

V. D. Wadhwa: We have done a tie-up with BSNL. It is an exclusive offer to the BSNL customer base About 8.5 Crores fixed land line customers and about 1.6 Crores wireless connectivity. BSNL is promoting it very aggressively and we are quite bullish as far as OTT services are concerned. We are in the process of creating more partnerships besides BSNL ... we are having some discussions with Indian railways also. So, we think it has to be institutionalized and obviously as and when your own broadband connectivity goes up. So, the response for the OTT is catching up fast.

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

Vivekanand Subbaraman: Had a couple of financial questions. One was with respect to the quantum of gross billing in last year numbers. Was it around 37 Crores and the second financial question is with respect to the content deals. I see that we have managed to maintain content cost at more or less stable levels over the last year. Whiles our carriage income seems to be steady, now that some of your broadcast deals are coming up for renewal, is there anything that you want to call out in respect to the content inflation that one should expect for FY18 and also related question is how much would be the cost per subscriber, content cost, net of carriage?

V. D. Wadhwa: The 37 Crores figure is correct and on the second part can you just repeat the question again please.

Vivekanand Subbaraman: Sir, I wanted some clarity on the content cost, net of carriage of the last 3 quarters we have been seeing stability in that cost item but if I remember we have some deals with large broadcasters



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which are up for renewal, say in the month of March, ending in March. So, I just wanted your thoughts on how the content inflation would pan out and how regulations are impacting the same.

V. D. Wadhwa:

In this case first of all, for the current year, all our deals were through so this is not going to make any difference. Some minor difference will be there because as this only one bouquet The Sony bouquet deal is due for renewal, it expired end of November. So for 4 months, there would be some minor impact. As far as the next year is concerned, our strategy is very clear because when we took the fixed fee deal from the broadcaster, that time there was an idea of seeding of the boxes and then there was an expectation in terms of monetization of the boxes which have already been seeded And in the last 9 to 12 months period, because of delay in the implementation of Phase-3 ...the box seeding has been below the desired level and where it has been seeded also the monetization has been lower or delayed. So we have already requested the broadcaster that the entire digitization process has been delayed by 13 months instead of December 15, it has been now shifted to January 17. So, our approach is to first request the broadcaster to not ask for any growth for next 12 months because the digitization has been delayed by 12 months. Having said that, it is like any other negotiationthey have got their own growth aspirations, fortunately for us one of the big bouquets.... Star... is valid till 31st of December 2017, for all other broadcasters we are already, at least with Sony we have already started the dialogue. But we expect that on a conservative basis it should not be more than 15% on an overall basis, I have to give some guideline on that issue, whereas our effort is that if you can manage it in the less than 10% or not more than 10%. It would be somewhere in the range of 15%...that is my sense.

Vivekanand Subbaraman: And sir, this approximately 15% range that you are mentioning....is this content payout net of carriage?

V. D. Wadhwa: We always give guidance on net basis.

Vivekanand Subbaraman: And sir on a related note on the content side are analogue signals completely blanked out in Phase-3 areas or are MOSs still showing analogue signals.

V. D. Wadhwa: Analogue signals are not blanked out and it is the broadcasters who are doing it, we have already written letters to the broadcasters. We have already written a letter to the Nodal officers of the government. We have ensured at least all the leading MSOs have switched off their signal but the broadcasters are still continuing and there are some malpractices we have noticed where the people are given a declaration that they are running the signal in Phase-4, not on Phase-3 and that is being accepted on face value. So, there is some disturbance which is happening because of that. Because unlike December 15 the moment analogue signal is likely to be switched off, our own company has seeded 2 million boxes between December 15 and January 16, whereas now in



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the month of January when the analogue signals are supposed to switch off we are not seeing any demand or any momentum or any excitement. So, we think the problem lies somewhere between 31st January deadline and 31st March deadline because there is no separate head end for Phase-3 or Phase-4. There is overlap between 3 and 4, they are co-existing. So, we think this confusion to our mind will continue for another 2-3 months. We do not think this will get switched off immediately, it will get on till end March.

Vivekanand Subbaraman: But sir is it important for analogue signals to get switched off for you to improve your ARPU, in Phase-3 and 4 and you mention that there is a delay given that Phase-3 and 4 markets are largely fungible caters by the same head end. So do you really expect broadcasters to crackdown on their analogue feeds in the next 6 months?

V. D. Wadhwa: Yes it has to be done. Because if it does not happen then the monetization for the entire industry will get impacted Please understand the psyche of the middle man in the business. The moment the STB is seeded at the consumer location the consumers start paying higher subscription under the pretext of digitization and if there are analogue signals continuing in a particular city, that becomes an excuse for all the intermediaries not to pay the digital subscription. They are saying that because my neighbor is showing analogue and he is not paying subscription and he is not being charged, I am not able to collect my money from the customer. If I am not able to collect how can I pay you? It becomes more of an excuse for him not to pay the money. So, therefore it is important and wherever there are some, we think almost 85%-90% digitization has been done in Phase-3. The 10% becomes unnecessarily an excuse and if there is a blackout then whoseever is the fence sitter will also be forced to put the setup boxes. Then the excuse will not be there.

Moderator: Thank you. Next question is from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Actually my question is been broadly answered during the conversation with the previous caller. So, just one question, just one thought of follow-up on to that. Do you thought of when need the Phase-4 digitization dead line to also be implemented before your ARPUs and Phase-3 move up because this digital analogue confusion as far as Phase-3, Phase-4 markets are concerned, that will continue till this time that the entire country essentially comes into the digital region?

V. D. Wadhwa: We cannot disagree with you, this confusion will continue for some time and we believe that Phase-4 digitization completion will take almost a year, it is not that the government has set the deadline in the digitization will be completed just like that because our biggest apprehension is that the non-stake holders can go and obtain stay orders and delay it again closer to 31st March. We think there is some vested interest who will again repeat the similar process. So, it is unfortunate but somewhere we think this is what we are taking of the government, this shouldn't



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have 2 separate dates. Two separate dates will prolong the issue and it will prolong the entire pain point for the industry.

Moderator: Thank you. Next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: I just wanted to start with the basic question the subscription revenue number that you have reported in press release. Is this all net off the LCO share for all the quarter that you have reported in the press release?

V. D. Wadhwa: Yes, that is right. Net of LCO Margin and net of taxes also.

Sanjay Chawla: But has the similar approach been followed in the financial that you have reported that you have filed?

V. D. Wadhwa: Yes obviously.

Sanjay Chawla: what was impact of topline and the Opex being similarly ...?

V. D. Wadhwa: Let my finance team to answer this question.

Anil Jain: Sanjay if you recall we moved from gross billing to net billing in Calcutta market effective first April, however for Delhi and Mumbai it was done from first August 2016 therefore 4 months the billing is taken on gross basis in one pager, which is financials reported. At the same time the IR if you refer we have given comparative number on net basis in 9 months our subscription revenue is INR408 Crores as against 9 months of last year that was INR291 Crores, which is an increase of 40%.

Sanjay Chawla: Sir, this is like for like basis.

V. D. Wadhwa: Yes.

Sanjay Chawla: So, from third quarter you are saying there is no share of LCO in your subscription numbers if it in the press release or in the financials that you have.

V. D. Wadhwa: Yes.

Sanjay Chawla: And we have a seen a drop of 40% in our activation revenue Y-o-Y and this is both under the Ind As. So, I thought IndAS was supposed to the trend should have been smoother.



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- V. D. Wadhwa:** IndAS only addresses the way you will recognize the revenue and that is over a period of time based on the life of the customer, which is not related to the actual numbers on the ground.
- Sanjay Chawla:** So, under IndAS the trend is much smoother, I mean we are seeing quarter on quarter definitely the activation revenues are fairly steady and not lumpy as it used to be but Y-o-Y basis, I am just asking why is there are lumpiness?
- Anil Jain:** Yes Sanjay, on Y-o-Y basis if you recall last year in 9 months we had seen huge seeding in Phase-3 market, therefore we had greater activation revenue during those 9 months and since some part is recognized upfront, that is why you will see higher number for activation last year as compared to the current year.
- V. D. Wadhwa:** And also coupled with the fact that there been slight delay in seeding because of Phase-3, Phase-4 roll out was also impacted.
- Sanjay Chawla:** And you collecting now almost Rs. 40 ARPU in the exit month in Phase-3 areas, what is it in Phase-4 areas where ever you have started collecting post the seeding of boxes and what is the retail ARPU in these 2 areas.
- V. D. Wadhwa:** The retail ARPU wherever the digitalization has been done..... Our sense is in analogue regime, people have been collecting about Rs. 125 to Rs. 150.... the moment digital boxes have been seeded. It goes up at least Rs. 50-Rs.60, so it must have been at Rs. 175-200 whereas the realization for the MSO in the Phase-4 is not more than Rs. 15-20 right now.
- Sanjay Chawla:** So, this is Rs. 175-200 that people are collecting now LCOs, is it net of taxes?
- V. D. Wadhwa:** No, including taxes.
- Sanjay Chawla:** So, is this based on you're, on the ground intelligence our LCOs actually collecting taxes from all the customers after the digitalization has happened?
- V. D. Wadhwa:** See, LCO typically do not give the breakup. So, today even in a slum area, LCO collects Rs. 350 and he does not give the breakup of this Rs. 350 this much will go towards entertainment tax and service tax
- Sanjay Chawla:** What is the setup box inventory end of quarter and how many do you expect to reduce in the fourth quarter?
- V. D. Wadhwa:** Total inventory is at 1.4 million boxes. In the fourth quarter, we are hoping that we should be exhausting all the boxes.



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- Sanjay Chawla:** Realistically since you said the momentum is a bit slow there as of now?
- V. D. Wadhwa:** Exactly momentum is bit slow, in fact we were thinking that not only we will be exhausting all these, probably we have to order again We can say that in January we have seeded roughly close to Rs. 250,000 boxes and we think in between February and March we should be able to utilize this entire inventory.
- Sanjay Chawla:** Can you share the pure pay channel cost in for this quarter and what it was on Y-o-Y basis previous year?
- Sanjay Berry:** Content cost for Y-o-Y if we look at it, it is about INR364 Crores and as compared to INR254 Crores which is without including the distribution expenses, on nine-month basis.
- Anil Jain:** If you asked for this quarter... it was INR125 Crores this quarter
- Sanjay Chawla:** What is the CAPEX this quarter and why are the employee expenses down quarter-on-quarter?
- Sanjay Berry:** So, bad debts provisions were INR10 Crores during the quarter and coming on personnel costWe had certain additional cost on account of increments and some outsourced employeesThat is neutral as now.
- Sanjay Chawla:** And what is the CAPEX, I had asked about the CAPEX in the third quarter?
- Ankit Saint:** So, the CAPEX is at 59 Crores for this quarter.
- Sanjay Chawla:** And lastly Mr. Wadhwa, on this prepaid billing since you have started almost 1 million underlying customers has taken it up. My question is this, is the LCOs are not bullish on this naturally Are you giving them any discounts or incentive to increase the take-up?
- V. D. Wadhwa:** No, because in our case Siti follows one policy that anyone who is paying on time and anyone who paying 100% of the billed amount... we do share a part of our carriage revenue with the cable operator. So, as a part of our agreement that clause is there.so; there is no incremental incentive to be given to anybody.
- Sanjay Chawla:** So, this is strictly not a prepaid thing but this is more of a credit limit that you have given for about a month?
- V. D. Wadhwa:** It is not a strictly prepaid..... in that case what we are saying is that if the industry practice is that for the monthly billing also there is a 5%-7% shortfall which industry witnesses. So, we are simply restricting him that yes, every month you have to pay regularly full money and if you



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have to refill your account then only you can charge because we have given the OYC to our cable operators. So, he has the freedom to add, delete, upgrade, downgrade his own customer base and plus he has the full visibility that how much of money is left in his credit. So, he can keep filling in and recharging the amount. We would like to move into auto dunning mode and that will help the cable operator also that between cable operator and consumer also there has some consumers those who are always in the default on the payment side. So, the idea is to bring the discipline and let the system move into auto pilot mode rather than getting into old malpractices.

Sanjay Chawla:

But you said LCOs are not bullish on this, so how do you expect that this take up would come close to 6-7 million customer base by September?

V. D. Wadhwa:

No, basically LCO is not bullish, but we have to work hard like we have been able to reach up to about a million base. So, one is that you need to work with the LCO. Second thing is what we are doing is we are partnering with the other MSOs like Hathway, which is also quite bullish on prepaid, so when there are 2 big players and in many of the markets, we are co-existing when everybody is pushing for itthen the industry starts moving into this direction. And in prepaid we are not asking the cable operator that if a cable operator is supposed to make one payment in a month so our pitch with him is that (a) generally you will have a clarity because this cable operator you need some kind of a counseling with him for 2-3 sittings are required to convince him because (a) he will get that no-due certificate that nothing is due. So, he has the clarity and peace of mind that the company will not come back and ask for the money again from him after 1 year, 2 year, 3 years.

Number two –many cable operators want to be disciplined and follow regulations. Number three, some cable operator for different reasons, many people believe it is better to move to prepaid and clear all the old issues, so that there are no outstanding issues. So, whenever if we are not happy with Siti, we can migrate to some other competitors if there are no dues available with me. So, rather than having the old issue and then migrating, so many people look at migrating to the prepaid model positively. And fourth one, we are not asking them that if you are somebody sitting let us say today my average collections period is 2.5 months. So, we are not asking them to first clear 2.5 month outstanding and then only move to prepaid. So, whatever he had been paying, he will continue to pay only that much of amount, nothing changes. The nomenclature is prepaid but he has to make one payment every month at 100% collection level. So, it required some kind of counseling, so we have to push our team also, we have to push our associate also and that is where we are saying which we said that the carriage sharing is there in certain Phase 1 & 2 markets.



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- Moderator:** Thank you. We take the next question from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** As per your Broadband business, you have already laid out a long-term strategy of 2021-22 having 20% of your video subscribers on broadband. So, can you talk about any immediate target from FY18 perspective if we have any plans to enter into new cities and also any target for the home passes to be covered in FY18?
- V. D. Wadhwa:** For next year, we are targeting about 1.5-2.0 million home passes and we are targeting 5 new cities and the overall consumer base of about 250,000 customers.
- Yogesh Kirve:** So, this is the incremental, right?
- V. D. Wadhwa:** That is right.
- Yogesh Kirve:** So, in terms of our incremental home passes, is it mainly beyond by DOCSIS-III or even DOCSIS-II would be playing a crucial role?
- V. D. Wadhwa:** It is a combination of both and our current experience is we have got 70-30 ratio in favor of DOCSIS-II.
- Yogesh Kirve:** And should the ratio incrementally shift towards DOCSIS-III or how is it?
- V. D. Wadhwa:** It depends on the consumers. We do not think we are in position to predict. We go to the consumers with both the offerings
- Yogesh Kirve:** Sir, in terms of CAPEX, what is the plan for FY18 in terms of broadband specifically?
- V. D. Wadhwa:** As we speak we are in the budgeting stage, but we can give you broad guideline that home passes are costing us less than Rs. 800 per home pass and the DOCSIS CPE is costing us average about Rs. 2200.
- Yogesh Kirve:** So this includes modem and last mile?
- V. D. Wadhwa:** Yes, that is right.
- Moderator:** Thank you. Next question is from the line of Nawal Seth from Emkay Global. Please go ahead.
- V. D. Wadhwa:** My question on this prepaid model or credit limit, so basically you are incentivizing LCOs to be more disciplined. So, the realization what has been envisaged that increase will happen but will



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come with the additional cost because as you are saying the LCOs will be lured to implement this because they will have additional LCO share coming to them?

V. D. Wadhwa: No, there is no additional share that we are paying even today also we share something as per our policy.

Nawal Seth: So, you are paying 20% to the LCOs who are paying on time right now but for the LCOs who need to pay on time incrementally you will be sharing 20% carriage share, am I correct on this?

V. D. Wadhwa: No, we are not paying 20% to LCO for paying on time

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

Ankur Periwal: Sir, just one clarity. If I got it right you mentioned the earlier dues will stay as it is and incrementally the LCO can move to prepaid model is that right?

V. D. Wadhwa: No, We are not saying it will remain as it is. But the point is prepaid does not mean that if somebody owes us for 2 months of outstanding or 3 months of outstanding first he has to clear 3 months of outstanding before he moves to prepaid. If we get in to that situation we do not think anyone will move to prepaid. So, the issue is we will be collecting for the past dues as well simultaneously. See, there are two formats of doing it. Let's say, if somebody owes me about a million Rupees and his monthly billing is only Rs. 200,000. Now, out of that monthly billing of 200,000 also is giving 90%. So, by fixing the Rs. 200,000 notional limit in his account and by putting him to auto dunning model, so the entire 200,000 is ensured every month and if let's see he is paying 250,000 in a month, so 50,000 will go towards the past outstanding and 200,000 will be the rolling credit which will be continuing in the books. So, every month he has to pay minimum Rs. 200,000anything over and above 200,000 will go and get adjusted against the prior outstanding. If there is any shortfall in the Rs, 200,000 then he will be subject to auto dunning and some of his customers may get switched off. So, we are setting a threshold that minimum per month of billing has to come in. So, right now he can get away by not paying 100% also.

Ankur Periwal: And sir, just one slightly book keeping especially to Mr. Jain, last year Q3 we had 38 Crores other operating income. If you can just highlight what is exactly was that income for?

Anil Jain: So, in last year Ankur, if you recall we had done certain acquisitions during the period. So, before acquisitions date if we are done some cross charge which is technical support fee, etc., and that is taken as other income because at consolidated level if that subsidiary is there now in current scenario that will get knocked off in consolidated results.



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- Ankur Periwal:** So, it was more of one-time sort of a revenue that we had?
- Anil Jain:** Yes.
- Ankur Periwal:** Secondly, on the interest cost in this quarter, there is a Q-on-Q increase despite the fresh infusion of fund from the promoters?
- Sanjay Berry:** So, there is been fresh inflow of loan in this quarter roughly to the tune of about INR40 Crores and there are certain other bank charges also which constituted that increase.
- Ankur Periwal:** So, this number is more or less it will continue in the coming quarters?
- Sanjay Berry:** Yes and also some minor FOREX adjustments as mandated by GAAP.
- Moderator:** Thank you. Next question is from the line of Jai Gandhi from Motilal Oswal Securities. Please go ahead.
- Jai Gandhi:** Sir, just one thing I wanted to ask you, so if the home passed CAPEX is around Rs. 800 at 15% conversion the CAPEX is around Rs. 5300. You add another 2200 effectively you are doing a CAPEX of Rs. 7500 per subscriber, right this may go down if your conversion rates improve what I am suggesting is, is there a business case for GPON especially in the densely-populated markets that you have and bring the CAPEX down. Correct me if I am wrong GPON is relatively cheaper in a densely-populated area, right?
- Munish Kanotra:** So, Jai, right now as Mr. Wadhwa said we are in three cities so to say. We are in the East side, we are in Delhi and we are in Haryana and we are going to expand in other cities as the financial year rolls out. So, we are evaluating all these options, we are doing POCs (Proof of Concepts) of various kind of technology options across various locations to figure out what is the optimum model. Currently, we are dominant on DOCSIS 2.0 and 3.0 but GPON is an option we are evaluating as POC case, if we find that there is some network architecture in a cost point of view that is more efficient we will take those calls. But theoretically speaking it may not give a great benefit over what we are currently riding on but as we said as we expand next phase of growth we are looking at various options for optimality of the cost and customer adoption.
- Jai Gandhi:** Just a follow up on that why would GPON not be cheaper is my case theoretically speaking why do you think that it is not going to bring your CAPEX in densely-populated areas?
- Munish Kanotra:** I think, as I said I did not say it is going to be conclusively more or less as I said we are doing POCs across different technologies. We will take a call as soon as the POCs get over any be in



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the next 30 days and then we will see that which the optimal way forward is. So, it may not be one focused technology, it may be a mix of technologies.

Jai Gandhi: Just one more thing. The promoter infusion is all through ...?

V. D. Wadhwa: Yes, Rs. 150 Crores is yet to come in.

Jai Gandhi: And sir what is the debt levels you would probably be targeting over let's say '18 or perhaps even '19?

V. D. Wadhwa: In next 2 weeks' period we will be done with our budgeting for the next year and the overall CAPEX required both for the cable and broadband looks like that there is no equity infusion in the next 12 months' period Probably we may be needing roughly about Rs. 200 to Rs. 250 Crores. And this is on a net basis, this is what is the requirement like, so now whether this can be done through debt or through equity, we have not been able to decide on this issue.

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

Vivekanand Subbaraman: Just had a couple of question. One is in Phase-I and II areas can you give some color on the churn in or churn out that is happening in your network from either other cable MSOs or from DTH that is one. Secondly, on the recent acquisitions I noticed that your catchment area in subscriber terms has not expanded, so what has the recent acquisition been focused on and lastly on the partnerships that you spoke about the Ditto TV, BSNL, etc., here in the AP market I remember sometime back we were discussing about the government fiber roll out plan and how it competes with the private sector any update on partnerships and especially the BSNL partnership and the interplay between the government roll outs of fiber? Thanks.

V. D. Wadhwa: See, as far as the churn is concerned overall, we have gained in Phase-I. There are cities in Phase-I and one of the city we have lost some customer base and other 2 cities we have gained customer base. Net-net we have gained some market share.

Vivekanand Subbaraman: Sir my question was on the acquisitions that you are doing is that primarily to increase your subscriber reach because in the press release you mentioned that you have entered into new markets through this. So, I was just curious why is it that your total cable subscriber reach has not increased after these acquisitions or is that so that we are acquiring incremental stake in subsidiaries?

V. D. Wadhwa: We think what all the acquisitions we have done in the past, if you noticed that we have been maintaining our cable universe at 13.2 million. So, actually in the industry when you look at until



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and unless you can seed your boxes analog universe is just an estimate because the same universe is being claimed by everybody. So, what we do is that we go and seed the boxes and then we say that is what the customer, analog customer he may be your customer for last 20 years but the day the boxes being seeded, let say instead of Siti box if he is seeding competition box then it will look like that he never was with you.

So, we believe that let's keep doing the digitization and keep claiming because right now at 9.2 million that is what is the most sacrosanct number and analogue universe if you ask me today our plan is to seed at least 4.5 to 5 million more boxes to complete our universe. So, it will go to roughly 14 million... The whole idea is when we get into acquisition it does not happen from that point of view that we have to expand the number of cities. It happens like we are relatively weak in the West part of the Country. So, we have gone and acquired the stake in SCOD Network in Mumbai. We were relatively weak in Mumbai market. The acquisition happens mainly because of the geographical need / strategic need like AP in Telangana... the taxation has been low. The national players are only in Hyderabad city, outside Hyderabad city only Siti Cable is a national player there is no other national players. So, it makes strategic sense to expand in a particular state like that. So, once you have decided AP is the lucrative market for our business we will fire all our guns, whether it is acquisition, non-acquisition, organic, inorganic everything will do in that market like they are market leader in East part of the country. So, we are going ahead very aggressively in the entire Eastern geography to consolidate further our position. So, those are the compulsions and the reasons for why we expand.

Your third question was the partnership with BSNL and other thing, with BSNL, the partnership is on 2 major things; First of all it is the partnership on the OTT platform which has already begin but the much bigger partnership with BSNL is on the VNO side. It is a basically tying up with BSNL on the virtual network. So, that we can use the entire infrastructure of the BSNL across the country and today it will take ages for us to put up the underground fiber and connect the 200-300 cities for our broadband expansion. The moment we have closed that VNO transaction with BSNL, whatever the number of cities presence BSNL is having, theoretically speaking, we can go and connect the broadband services in all those cities using BSNL infrastructure on a cost sharing basis. So, that is the overall benefit of partnering with the BSNL, where there it is a low CAPEX model and it is more OPEX sharing model.

Vivekanand Subbaraman: Sir, in this model are we the only company with which BSNL is having discussions or is it so that BSNL will have deals locally with various MSOs?

V. D. Wadhwa: We are the first company with which they have signed the MOU, to the best of our knowledge they are not in dialogue with any other MSO. Are they in dialogue with any other Telco's or any



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other thing, we have no visibility into that but right now on this VNO platform, we are the first company.

Vivekanand Subbaraman: And sir, competition from the government utility, fiber utility in AP is that a credible threat or is it, so that, that project is not as big as what we think?

V. D. Wadhwa: No, it is a cause of worry to an extent but at the same time it is not that there is a free flow for them also because the people have invested and all of us have taken the license have invested heavily and done the digitization. So, all of that cannot disappear or cannot go with like that... Today if Hathway, Siti, DEN, INCABLEmore than four player can co-exist in a market, same thing if AP government has started doing a fiber project they will also co-existthey will also have some consumer base. So, we think there should be a fair play and there should not be any unfair play or they should not be preferred treatment for the government agency. That is the only thing which we are fighting and we will fight tooth and nail to whatever extent is required.

Moderator: Thank you. Next question is from the line of Rishendra Goswami from Locus Investments. Please go ahead.

Rishendra Goswami: Just a quick clarification on the subscriber base, could you just tell us again what the total subscriber base is in Phase-I, II and III?

V. D. Wadhwa: The Phase-I base is 2 million and Phase-II base is 1.6 million.

Rishendra Goswami: And what would be the Phase-III base?

V. D. Wadhwa: 3.8 million.

Moderator: Thank you. Ladies and gentlemen this was the last questions for today. I would now like to hand over the floor to Mr. V. D. Wadhwa for his closing comments. Over to you, Sir.

V. D. Wadhwa: Thanks everyone. We have been able to answer all the questions. In case still anyone has got any follow up questions ...any clarification requiredeither me or Ankit who is in the IR or my colleagues in the finance team, you can approach anyone of us and we shall be more than happy to clarify your answer or any of your queries on this. Thanks once again for joining the call.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Siti Networks Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.