



“SITI Cable Network Limited Q1FY15 Earnings
Conference Call”

August 13, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the SITI Cable Network Limited Q1FY15 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Goyal. Thank you and over to you sir.

Sanjay Goyal: Thank you very much. good morning, ladies and gentlemen. Quarter 1 2015 was an exciting quarter for us wherein the revenue has grown by 46% at 2,110 million as compared to the corresponding quarter last fiscal and the EBITDA has grown by 16% at 363 million as compared to the corresponding quarter last fiscal. Digital subscription base has also grown to 4.3 million. Major growth in revenue as well as in EBITDA has come from Digital subscription revenue wherein the growth has come to the extent of 229% versus corresponding quarter last fiscal. Thank you very much. Now I request you to ask the questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Sumeet Rohra of Silver Stallion. Please go ahead.

Sumeet Rohra: Sir I have got actually now once, so I have got like 5-6 questions that is okay. Sir firstly, I wanted to know is that how many boxes have we installed in this quarter and what is the upfront money that we have charged. Sir secondly my question is that where do you expect to end FY15 in terms of our subscriber base. I know analog base is 10 million but in terms of the set top box installed base, where do you expect that at the end of FY15 and sir assuming that in the worst case that if DAS is to be extended, so can we end the year with at least 6 million base. Thirdly sir, can you elaborate on what is your plan on the broadband side because if I am not mistaken you have launched your broadband operations in Delhi. So can you just highlight and do you have a pan India presence and what exactly you want to do on the broadband side. Sir fourthly, I wanted to just get a sense on the carriage revenue. So have you actually seen carriage revenues declined or have there been stable. Sir fifthly, on Bloomberg if I am not mistaken, there is an article which basically talks about SITI cable fund raising plan. So I just wanted to get sense on that as well. Sir just two more questions. What is your ARPU right now in the Phase-I and the Phase-II markets and sir also it will be interesting to get your thoughts and on billing in Phase-I and Phase-II cities. Thank you. Sorry to ask so many questions, but cannot resist to ask but.

Sanjay Goyal: Good morning Sumeet, this is Sanjay Goyal. I respond to your questions one by one. In this quarter, we have seeded close to 300,000 boxes. Second you have asked how much STB activation we have realized. We have realized 7%-8% of the total revenue from STB activation. Third you have asked how many STB we intend to reach by financial year end 2015? So taking a positive outlook and view that digitization would be completed by 31st December as has been



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mandated and if there is no change therein, we are targeting to reach minimum of 10 million plus Subscribers.

Sumeet Rohra: So sir you are saying that our installed set top boxes would be 10 million by 31st of March, is that correct.

V D Wadhwa: Sumeet, this is Wadhwa speaking. In case if there is no change in the digitization date, we will definitely be crossing the installed set top box number to 10 million plus. Work is on. All our expansion plan in terms of our readiness from the point of view of the availability of the boxes, from the point of view of getting the IP connectivity, from the point of view of ramping up of the manpower, all in progress and it is moving as per the plan. The only issue which you asked that in case if there is a change in the digitization date and now that is what at the current moment while we are regularly in touch with the Ministry and I think so there has been no indication about the change in the date. I do not think it is going to be beyond means it is going to be like whatever indications are there may be a quarter or so. So it is not that it is going to be a perpetual that it is deferred without a fresh date coming in. So at this moment even unofficially when we talk to some of the government officials, first of all there is no change and they are saying if at all it happens, about a quarter or so. If that happens, I think whatever our plan with 10 million plus subscriber base, that may get lagged by a quarter or so. It is not that it is going to push back indefinitely.

Sumeet Rohra: So basically sir on the worst case, if I can understand correctly so say 30th September 2015 which is sometime next year we should definitely be a 10 million subscriber base company.

V D Wadhwa: our Digital subs to be at ~5.3-5.4 mn by end of FY15. We are looking to scale up presence from 130 cities to 200 cities.

Sumeet Rohra: That is wonderful sir, helpful.

V D Wadhwa: The other question you had asked about the broadband, currently we are doing soft launch of broadband in the North market this quarter. The piloting is going on right now, the testing is being done. It is under progress in Delhi market and as I had mentioned in the last call that we are launching Docsis 3.0 broadband. So what is having established in Delhi, then we will be rolling it out into the rest of the cities across the country. That is as far as the broadband is concerned. Your one more question was on the carriage, we have not seen any significant declining trend. At the same time, we have not seen the carriage revenues going up also. So it has been flat as compared to the last year on an absolute basis. In some cases wherever because now most of the carriage deals are on a fixed fee basis, that is not on a CPS basis like content fee. So the effort is on from our side also to move the carriage also on a CPS basis so that as and when the consumer base is going up, we can see the upsize in the carriage revenue as well.



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Sumeet Rohra: So what is the absolute carriage amount for this quarter sir?

Sanjay Goyal: It is close to 30% of the total revenue.

V D Wadhwa: Well, I think you had another question in terms of the ARPU for Phase-I and Phase-II. As you know that we have already done the gross billing in Phase-I markets. In Phase-I markets, our ARPUs are averaging about Rs. 115 in Delhi, Mumbai, Calcutta put together. Phase-II markets, our ARPUs are averaging about Rs. 75 currently and as you know that Hyderabad there is a bone of contention right now because the signals are not on in the entire Hyderabad or Greater Hyderabad. So that is one big city which is still collecting analog despite being digitization. So this is progressing well. SITI Cable has already done the gross billing in the Central India which is MP, Chhattisgarh and as you know that TRAI has mandated gross billings in all across the Phase-II market as well. So there have been some concerns, some of the tax-related issues and I think to some of the other fellow MSOs are not ready with the launching the gross billing. So that is why there has been a delay because wherever we are into a leadership position whether we are number one, number two, we have already gone ahead and done the gross billing. Wherever SITICable is not the number two position, not number one or two in the market, so obviously we have to go by what the leadership of that particular zone is falling right now. But I think that also eventually should happen in the next 2-3 quarters, as has been directed by TRAI recently.

Sumeet Rohra: But sir just to intervene on the point you said that okay, if there is a delay in the DAS, the deadline by say couple of quarters, but at least is it safe to assume that we are 4.3 million today as you speak at this quarter. So hopefully at least by 31st December, can we at least be at about 5 million and 6 million by 31st of March?

V D Wadhwa: Sumeet, I would say there is no clarification from the Ministry on this issue and the work is progressing well. Let us say today/next week/ 10 days if there is an announcement by the government that DAS is getting push back by one quarter or two quarters, then the digitization will slow down because as you know culturally the people because the moment digitization happens, obviously the transparency comes in. So everything becomes open and transparent which there are still some vested interest in our business who are not so keen in the transparency part. So I would say that so long there is no clarity, the expansion is happening, the boxes are being seeded though at a slow pace but it is still happening. But the moment there is official announcement of changing the DAS date and obviously it will slow down further. So I do not wish that to happen, but in case if that happens, then it will be difficult to predict

Moderator: Thank you. Our next question is from Shobhit Khare of Motilal Oswal Securities. Please go ahead.



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Shobhit Khare: My first question is on the other expenses. We have seen a decline quarter-over-quarter and I can also see that revenues are also down quarter-over-quarter. So last quarter I think there was an accounting treatment for one time incentive to LCOs. So has anything changed on that?

V D Wadhwa: Good morning Shobhit, yes. Presentation outlook has been changed because while you are treating it as an expense, you are required to incur the service tax cost thereon. So instead of treating it as an expense, we have netted it off with the revenue and that perhaps could be one of the reasons why that is not being reflected in other expenses which was the case in the last quarter.

Sanjay Goyal: Shobhit, that is why you see that revenue has reduced in presentation, earlier we were indicating/showing gross revenue and Addl LCO Revenue share were accounted for in other expenses and we were paying incurring service tax liability on that value, which has now modified in order to be much more tax efficient, we are reducing those LCO addl payouts from the revenue itself. It has also resulted into reduction in other expenses, but as a company we are improving our profitability because of this.

Shobhit Khare: Sure and that would also be the difference between the subscription revenue which we have reported which is 1,057 million and DAS revenue in the notes to accounts which is 1,350 million.

V D Wadhwa: That is the difference.

Shobhit Khare: And sir my next question is how many of the Phase-I and II subscribers would be on gross billing now?

V D Wadhwa: All Phase-I subscribers are on gross billing that is somewhere close to 2.2 million and in the Phase-II, we have started billing only in Central India region, there are three locations in MP and Rajasthan. It comes out to be close to 300,000 subscribers. So overall close to 2.5 million we are doing gross billing.

Shobhit Khare: And sir so basically by when should we see gross billing being implemented for the balance 1.2 in Phase-I and II?

V D Wadhwa: Because that is an industry thing scenario, it is nothing perspective to SITI Cable. So SITI cable as on date if it is left to me, we would have done it almost I think a quarter ago. We are ready for the gross billing. In fact we were the first one to launch in the Central India also, but unfortunately as I mentioned, some of the other players are a) not ready in terms of infrastructure point of view and b) in terms of some of the tax issues also because the moment you do the gross billing, obviously the entire tax liability comes on the MSOs and because the collections in terms



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of the overall potential to collect the money from the ground from the LCOs, some people do not feel comfortable. So there has been some kind of representation going back and forth with the government in terms of rationalization of the tax structure. As you know service tax is uniform across the country, but when it comes to the entertainment tax in some of the states, it is zero entertainment tax and some of the states it is as high as 25% of the gross revenue. So tax has been one major issue and I think that is what is the bigger hindrance. So as MSO alliance also, a representation has been given to both MIB as well as TRAI to seeking their help in this regard but however, this is what is the major cause of delay right now. But once this issue is sorted out, I think we should be moving forward to gross billing across the country and that should happen sometime I think in the next quarter.

Shobhit Khare:

Sure. sir my last question is on the digital subscriber addition. So we have done similar to last quarter but now that the deadlines are approaching for Phase-III-IV assuming that there is no change. What kind of rampup should we expect on a quarterly basis. Basically wanted to understand based on our previous experience should it happen, should we start up seeing a pickup before the deadlines or you think it will be only after the deadline that we will see the rampup.

V D Wadhwa:

No, it is I think as you know because there is a confusion majority of the people particularly among the LCOs, they are hoping and believing that digitization will get push back further whereas when I speak from the MSOs point of view at least I can speak on behalf of the national MSOs, all of us are in the state of readiness for the digitization in Phase-III and IV both in terms of funding aspect as well as in terms of the physical infrastructure point of view. But culturally what happens is that the moment digitization happens, obviously the overall transparency comes in and LCO has to start shelling out much more money because the entire universe comes to the light fully. So most of the time as we have experienced in Phase-I and II, also the major expansion happens closer to the digitization date. So assuming there is no change in the digitization, you can see that between November to February let us put 2 months before and 2 months after, these four months will be the major digitization happening

Moderator:

Thank you. Our next question is from Mayur Gathani of OHM Group. Please go ahead.

Mayur Gathani:

Can you give me the breakup of this 115 ARPU that you are collecting from Phase-I, the service tax, entertainment tax all are part of this?

V D Wadhwa:

It differs from location to location. Like in Delhi, we are collecting 135. Out of 135, Rs. 20 is the entertainment tax and out of the remaining Rs. 115, close to Rs. 102 – Rs. 103 comes to us as a net and the remaining goes to the service. So this is the breakup in Delhi. Similarly in Calcutta, we are collecting Rs. 110 – Rs. 115. In Bombay, we are collecting Rs. 90. So this is how the breakup comes in.



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- Mayur Gathani:** So Bombay you are collecting Rs. 90 that is you still have the minus entertainment tax from this?
- V D Wadhwa:** ET is an open issue because the matter is subjudice as of now. LCOs are depositing the ET. So 90 only includes the service tax.
- Mayur Gathani:** 90 only include service tax. And when can we see the broadband to contribute at the topline when you are launching in Delhi this quarter.
- Sanjay Goyal:** I think you could see that, major contributions start happening from Jan 15 onwards however you will see the revenues start flowing in from the end of September onwards.
- Mayur Gathani:** So quarter 4 of this fiscal year, we should see a significant jump.
- Sanjay Goyal:** There will be a gradual contribution made by broadband, not a sudden jump
- Mayur Gathani:** And what is upfront money that we are collecting for the set top box installation currently?
- V D Wadhwa:** It varies from market to market. Our weighted average is about 800 plus taxes.
- Mayur Gathani:** And sir are we geared up on the fund position for additional seeding of 6 million set top boxes and what is our inventory currently?
- V D Wadhwa :** Currently, we are holding 800,000 boxes. As far as the funding part is concerned, as you know that we received the warrant funding. So we still have the significant part of that funding available with us in our bank account and the balance as you know that we have taken the approval from the shareholders for raising \$100 million for QIP. So we are in dialogue with the couple of interested investors in terms of who will be infusing equity into the company. And most of the time, you are sourcing the boxes, you get the buyers credit which is ranging from about 12 months to going up to 30 months or so. So there is no upfront cash involvement when you are buying set top boxes and as you know that even if you are buying boxes and obviously at least 60%-70% of the box cost, you recover as execution charge from the consumer. So at best you need for about 6 months window in between when you procure the boxes and you seed the boxes at the ground. So at best you need some kind of short-term funding for that. So right now the majority of the funding is required in terms of technical up-gradation of infrastructure on the broadband. And once we raise this QIP, I think we are self sufficient to see us through for the entire Phase-III and IV with the 10 million plus subscriber base.
- Mayur Gathani:** And can you give me net debt position and cash?
- V D Wadhwa:** It continues to be the same as it was in March. No additional debt raised. 850 is the debt.



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Mayur Gathani: 850 is the net debt sir?

V D Wadhwa: 850 is the debt. Out of which, 300 crores is lying in cash. So it is somewhere close to 500 crores is the net.

Moderator: Thank you. Our next question is from Naval Seth of Emkay Global. Please go ahead.

Naval Seth: Sir as you highlighted in Delhi, you are already doing gross billing. So ARPU is at Rs. 135. What would drive ARPU going forward. Are we fully monetizing the packages what we have installed in Delhi?

V D Wadhwa: Not as yet. If we recover fully as per the packages, our ARPU in Delhi should go to as Rs. 170. So you can still say we are Rs. 35 short compared to the full realization of as per the package and the one of the major reasons why it is happening is that despite package billing is happening, despite that we are raising B2C invoices, some of the old practices are still continuing where in some of the pockets, LCOs are still collecting a flat rate from the consumers. So they rather than going and collecting the money from the consumer based on the different packages on the specific package what the consumer has chosen, they have been still collecting let us say, we do have three packages Rs. 220, Rs. 270, and Rs. 320. So whereas when at ground level some of the practices that LCO still collecting a flat 250 regardless of whether consumer has chosen package A or B or C. So this is where I think on the base pack, he is making more money and as against 220 probably he is collecting more that itself is not a good practice. At the same time where he supposed to collect 320, there also he end up collecting 250. So this is more of a, I would say introduction of some of the healthy practices and the training issue. So we have hired some of the brand promoters in limited geographies in Delhi. So we are ensuring that the consumer invoices are delivered to the consumers. Consumer is educated that whatever the package he has chosen, what all the benefits of that are there and we have encouraged the consumer to pay as per the package rather than paying on a lump sum basis to the LCO the way historically he has been paying and we have seen the positive results of this kind of consumer connect initiative being taken by the company. So this is what now we are currently in the progress of doing it across the entire city of Delhi and we are doing the handholding with our LCO partners so that they can start realizing higher revenues from the consumer. That is what will ensure because see, you will agree with me that if the consumers is paying Rs. 320 and if the LCO has to pay 170 to us out of 320, he will still be left with Rs. 150 for himself. So he would not mind that. Today his bigger problem is if he collects only 250 and he has to pay 170 to me, then obviously he is left with only Rs. 80 that is where the resistance comes in. So we are helping the LCO that how do you realize more and how do you just start collecting as per the package from the consumers.

Naval Seth: Or is it the case that they want further more than what you have indicated about 150 LCO?



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- V D Wadhwa:** No, that is not the case. LCOs are saying so long as they get Rs. 100 plus for themselves, they are more than happy.
- Naval Seth:** And sir in Phase-II, what kind of packages like in Rajasthan and MP as you indicated. So over there also, mid level packages are more prevalent or it is the base pack which is getting more acceptance?
- V D Wadhwa:** No, it is I think there is not much of a difference we have seen between Delhi and the B class towns. Our base pack is leave aside FTH channel, otherwise the main pack one is popular at 180 plus tax, second one is 220 plus tax, third one is 270 plus tax. So our experience has been that 60% of our viewership is on 180 plus tax and upper two packs are catering to 20% each. So it is 60:20:20 is the ratio and more or less with the plus minus 2%-3% in similar ratio we have experienced everywhere.
- Naval Seth:** So would you see some kind of change in packages in Delhi. Has that started or it would still take much more time than what you are anticipating?
- V D Wadhwa:** I think it is a rebundling of the package because the way because of the placement revenue what the MSOs get, I do not see much of change happening right now because when you are getting the carriage fee from the broadcasters in order to get the higher share of eyeballs, every broadcaster insists that their channel should be given in the base pack so that they can have a larger viewership. So by default what happens is your base pack becomes the most, I would say attractive pack from the consumer point of view. So because the MSOs are earning the carriage revenue from the broadcasters and that is why the MSOs are least interested in pulling the channel out from the base pack and putting it to the next and the third pack. Ideally let us say most Indians for the entertainment purposes, you take out the GEC channel from the base pack and put them into the second or the third pack, we believe that at least 70%-80% of consumers will migrate to those packs.
- Naval Seth:** But will that happen sir because your other group companies also talking about the same that they are in talks with broadcasters where main channels would be or GECs would be moved into the mid level pack from the base pack which would drive the ARPU.
- V D Wadhwa:** See, we are also in dialogue with them, but this is something which is I would say that as a distribution platform, we are not in the commanding seat on this, we have to implement this. The call has to be taken by the broadcasters the way they want to place their channel.
- Naval Seth:** And sir have you seen any kind of pickup in HD in Delhi?



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V D Wadhwa: HD, there is a major traction. HD is being picked up and when it comes to the HD set top boxes, the consumer expectation is not to get the discounting also in the boxes. As a business strategy, we believe that we would like to have at least 15%-20% of our universe till next 1 or 2 years moving towards with HD platform.

Naval Seth: And sir any kind of ARPU, what you have on HD?

V D Wadhwa: HD ARPUs generally go to Rs. 300 because on an average if you are getting, I am talking net of the LCO margin because the moment HD content is given, so LCOs are able to collect the extra payout which is required for the HD. They have been able to recover that money from the consumers.

Naval Seth: And sir in month of May, TRAI had recommended about starting the gross billing where SMS, e-mail would be sent to the subscriber and bill would be home delivered. So where are we or industry progressing on that front?

V D Wadhwa: As I mentioned, we have started doing the gross billing DAS 1 on markets from January 14 onwards. In fact in Delhi, we have started doing it from November 13 onwards.

Naval Seth: No, my question is that as you rightly said that if consumer is not paying bill as per their package..

V D Wadhwa: I am coming to that. The way our system operates that we have given the OIC to our LCO. So all the invoices what we generated, obviously that LCO is supposed to take the print out and send it to the consumer. What we are doing now is we have started e-mailing the invoice to the consumer on his screen. Because you are going to the consumer household through the LCO, so either you have to courier it or you have to route it through the LCO. So we feel that it will be far more effective and it will be far more, I would say done you will save lot of time. So we have started e-mailing the entire invoice to the consumer on his screen itself and encouraging him to pay that. That is number one we are doing it. Second thing is in terms of the payment receipt, we have started doing it wherever because as per our OYC system, the LCO is supposed to update that whenever he is receiving the consumer invoice payment, he is supposed to update his records based on the individual consumer wise. Now as per the business practices until recently, LCO has been depositing their lump sum amount with the MSO without punching the detail of the individual subscriber. So that has become a hurdle for some of the MSOs because they are not able to send the individual confirmation because they do not know which consumer has paid. They have received the payment, but they do not know who has paid and who has not paid. Fortunately in our case because of the OYC software, our LCOs have been I would say that in our case also it is not happening 100% but it is happening more than 70% of the cases, they are



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updating the individual customer wise detail and wherever the details are being updated, we have started sending the confirmation to them in terms of the payment received.

Moderator: Thank you. Our next question is from Vinit Sambre of DSP BlackRock. Please go ahead.

Vinit Sambre: My question is regarding relating to the last question which you answered. So as far as this Delhi market is concerned where some of the LCOs as you mentioned are following the old rates and asking the consumers to pay less and you have as you mentioned some of your brand managers to sort of change this, but what will sort of force the consumers to pay the higher amount because as it is today he is getting all the channels and LCO is assuring them you pay less. So why should the consumer change despite you taking the initiative?

V D Wadhwa: The consumer does not have choice because let us say if he has chosen my package of Rs. 320 and he was paying Rs. 250, this was an anomaly. So either he has to change the choice of his package and downgrade the package what he has chosen. There are only two choices. Either he has to pay 320 or he has to downgrade the package what he has selected earlier.

Vinit Sambre: No, but if the LCO is assuring him that you pay me 250 and you remain wherever you are, as a company what can you do? Can you black out some of these consumers who are not up to as per their packages?

V D Wadhwa: Yes, we can black out. We will black out. But just to correct your impression, LCO is not assuring him. LCO is ignorant about this. They are not taking a hard call. They are going ahead with the easy life that they will keep collecting Rs. 250 per customer, forget about it. So it is the question of educating the LCO also that if you start upgrading your customer and start collecting higher money as per the package, then you are going to get the benefit out of it. It is the question of educating the LCO also. So it is a training issue. It is a counseling issue. It is holding his hands also so that how to improve the consumer ARPUs. So I do not think LCO is going and telling consumers that I will show you more channels, you continue watching 250. No LCO does that.

Vinit Sambre: But what will force the consumers to ask the LCO to upgrade because the consumer is status quo, LCO is status quo, and you are training the LCO that you do it. But let us see if he does not do it, the force has to come from the consumer side.

V D Wadhwa: We are not talking of consumer to upgrade. Consumer is already watching the best of the channel packs in low cost. So we are simply saying that if you want to continue to watch the package what you have selected, then 320 is the price which you are supposed to pay.



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Vinit Sambre: So is there a deadline you have given to the consumer and if you do not pay 320 then there will be....

V D Wadhwa: It is a continuous process. It is not one deadline you give it to the entire universe of millions of consumer. It is a continuous process, we are doing it, and you cannot let us say I got 6 lakhs subscriber in Delhi, I cannot switch off 6 lakhs subscribers because out of that 20% of my subscribers are in the high pack. So with those 20% of subscribers on a random basis, we are picking up 5%-10% or particular geography and we are first approaching them and encouraging them and then there have been consumers those who have started paying higher money also and thereafter obviously switching off the consumer is the last tool which we are doing.

Moderator: Thank you. Our next question is a follow up from Sumeet Rohra of Silver Stallion. Please go ahead.

Sumeet Rohra: I think if I heard correctly, your inventory is 800,000 boxes, am I right sir?

V D Wadhwa: That is right.

Sumeet Rohra: And sir just coming to this, you might thought actually that most of the DTH companies actually have all raised the base pack prices. In fact our sister company also has raised prices recently a few days ago. But sir all the base packs of these companies are at about 220-230. But whereas our base pack is at 180 if I am correct. So sir is there a thought that we could realign base packs with the DTH industry and all the cable MSO should be at 220 because then that will actually lead to higher ARPUs for all of you, right? And sir secondly, you are touching base on the HD subscriber base. So out of the 4.3 million today, what is our HD base in the 4.3 million subscriber and sir lastly, there were some TRAI notifications which came on crossholding which actually stated again if I am right, I do not know, you are the best person to answer this, that one broadcaster cannot own DTH and cable whereas the Zee Group has DTH and cable both. So what is your thought on the crossholding on this TRAI notification sir?

V D Wadhwa: Okay, first question is when we are saying that why cannot we increase our base pack price, I think Sumeet in some of the cases our base pack price is higher than the DTH because whatever the price the DTH is having Rs. 220, they are inclusive of all taxes. They are not 220 plus taxes. So regardless of that different tax rates in different states, they are still charging 220 whereas if I am saying 180, so my 180 is plus taxes. So when I am giving my pack of 180 plus taxes in Mumbai, then this is Rs. 180 + 45 of entertainment tax plus Service tax of Rs. 20. So it goes beyond DTH prices also. That is one reason and this is where in fact we have been requesting DTH that if you increase your base price from 220 to 250, we will also respond equally and we will also increase by another Rs. 25-30. But overall including taxes, we are at par with DTH or may be higher than DTH in most markets. So this is to answer your first point. Second point is in



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terms of the current HD base, it is negligible. Our HD base currently is ~ 20,000 subscribers across the country. So this is what is being ramped up right now because initially HD obviously as you know that it has started gaining momentum now. So now we are expecting it should go to about 10-12% of the universe in the next 1.5-2 years period. That is number two. Number three on the crossholding. On the crossholding, it is currently being examined the entire nuances of the entire regulation and whatever recommendation has come in. But as far as when you say about the Zee Group is having DTH as well as SITI Cable which is a cable arm. So we do not qualify any of the criteria in terms of the cross directorship or the cross shareholding. So on that point of view, yes you can say that somewhere loosely we are part of the group. But otherwise legally speaking, there is no cross shareholding and there is no cross directorship. So from that point of view that we do not attract any of these crossholding criteria and the second thing also which is currently legally being examined. So it will be premature on my part to comment on that issue that when you talk about these things, I believe today also I was reading in the news article that when each of these things we have taken a separate license for each of the businesses and that was the law of the land at that point of time. So that also is being examined in what way this is going to help the situation whatever the government is trying to achieve. So this is as of now is my thought but this issue is being examined from all angles currently.

Sumeet Rohra:

And sir if the time permitting I can just ask one more thing. But currently I agree that the set top boxes have been installed in Phase-I and Phase-II. But sir you know to touch upon gross billing and ARPU because ultimately the whole game is going to be based on gross billing and ARPUs. So do you think that say three months or probably 6 months or let us say 31st December could be basically a time where gross billing is actually sorted out in Phase-I, Phase-II markets and our 4.3 million which hopefully should get to about 5 million by December can actually see gross billing because then SITI Cable can actually get into the 1,000 crores mark in terms of topline. So just your thought on that sir?

V D Wadhwa:

See, I totally agree Sumeet. As I mentioned that our policies we are all for the gross billing and all the healthy practices in the industry even if it comes at some pain in the short term, but we believe in the long term all the players of the industry are going to get the benefit out of the gross billing. Now this is I think we have already given our view point to TRAI also and TRAI also recently called the meeting of all the promoters about 2 weeks' back and they have also given the ultimatum to all the MSOs to start doing the gross billing within next 3 months period. So that is the ultimatum. TRAI has also given to the MSOs and asking them to do this and failing which TRAI will come out with some regulation and they will come out heavily on the MSOs lobby. So this is where the issue is and from the MSO point of view, generally the concern has been largely on account of a tax issue. So when we talk to the government, obviously tax issue in the longer term it will get resolved once the GST comes into the picture. But till the time the GST comes into the picture, we need to find some via medium so that the tax issue is resolved. Otherwise that itself will eat into the profitability of most MSOs.



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Sumeet Rohra: But sir to ask you this, because SITI Cable is a part of the every MSO alliance. So are actually all the MSOs who are part of the MSO alliance cooperating and have they all come to gross billing?

V D Wadhwa: No, unfortunately. As I mentioned like we have started doing gross billing in Central, but no one else has done it and wherever SITI Cable is number one or number two in the market place, we are in the leadership position and we are dictating the terms and other MSOs are following in those markets. Like Calcutta, we are the leader, we have started gross billing. So Calcutta whosoever the player whether is GTPL, or it is Hathway or DEN or Manthan anybody, they have also moved to the gross billing. So I believe it is more than the fact that whosoever is the leader in the respective market if they are serious about introducing the gross billing, it will happen. So unfortunately like in Mumbai also, though we are not the number one or two player but we have still gone ahead and we have been doing the gross billing from the day one when the TRAI mandated it. But there are markets, let us say Bangalore market or Kerala market, or UP market, so we are not into the leadership position in these markets.

Sumeet Rohra: Understand. Okay and sir earlier I asked you one question on the fund raising. So of course you did highlight to one of the participants earlier that the total size could be 100 million. But sir what is your timeline on this fund raising?

V D Wadhwa: I think we are targeting in the next couple of quarters.

Moderator: Thank you. Our next question is from Amit Kumar of Espirito Securities. Please go ahead.

Amit Kumar: Just a bit of clarification on this change in accounting policy on a QoQ basis. I am not sure I understood this entirely. Basically what you are saying is that the LCO share has been netted off from the revenue itself?

Sanjay Goyal: No, good afternoon Amit, this is Sanjay. What we have done like just to illustrate to you, 180 is the amount at which supposedly I am billing to a consumer. Since I am supposed to pay one-third of it meaning thereby 120 is what LCO should pay us. We have indicated during the earlier replies that supposedly in Delhi I am getting 104, 105 plus taxes. Net-to-net, there is a Rs. 15 or Rs. 14 amount which I am not getting or LCO is retaining more. So that Rs. 14 amount in fact we were indicating as a rebate and discount or additional LCO revenue share which I am sure you must have seen in annual financial statement also and while it has been reflected in other expenses subjected to the levy of the service tax. Now in order to be tax efficient, this Rs. 15 has been reduced from the turnover itself.

Amit Kumar: Not sure I get it sir, but I will take it offline from you. Just a point on your other income and finance cost, despite that fact that you had 300 crores of cash balance at the beginning as well as at the end of the quarter, other income has just been 2 crores and against that 850 crores of gross



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debt again at the beginning as well as at the end of the quarter, finance cost seems very high, almost 30 crores.

Sanjay Goyal:

Finance cost if you compare versus the last quarter, it has reduced though marginally, number one. Number two, the money which were being acquired as a share warrant was lying with us have been utilized for certain acquisitions that is also in the process of because the money is lying with us in FDR and the amount which has been reflected here in other income is representing only the interest portion thereof. Whereas if you see the last quarter, there are certain write backs which have been considered. So that is the reason why you know differential is appearing as if it has been reduced.

Amit Kumar:

No sir, my only very simple point is that 2 crores on a 300 crores kind of cash balance on a quarterly basis would imply an interest rate of just 3%-4%. So I am not entirely able to reconcile this?

Sanjay Goyal:

I will share the detail with you again offline then. Immediate after this call, we will have a conversation on this point too.

Amit Kumar:

Sure. My final or rather just two small points. One is that this additional 0.3 million subscribers in this particular quarter, has there been any contribution from Phase-I, Phase-II markets. Also is this entirely Phase-III, Phase-IV?

Sanjay Goyal:

Majority of it has come out of the Phase-III and IV market and wherever we have done little around 50,000-60,000 subscriber by replacement of the set top boxes in Phase-I, Phase-II. So that contributes overall close to 300,000 boxes.

Amit Kumar:

Sorry, what do you mean by replacement of set top boxes?

Sanjay Goyal:

That is basically wherever the consumer was not getting the quality services, they have returned the boxes of the other MSO and we have put in/provided our set top boxes.

Amit Kumar:

Alright, got it. My final point was sir with respect to your content cost, how do you sort of expect that piece to move on from here and specifically with the breakup of MediaPro, Star and Zee as they have to sort of renegotiate again with all the distributors, that issue is hanging fire with Hathway. So when do you sort of expect that renewal to happen?

V D Wadhwa:

See, in our case the renewal has already started and we are not experiencing any difficulty in terms of the renewal because obviously it is a commercial transaction and obviously once this understanding is there that as a distribution platform, we do need the content. Similarly if the content provider gets a feeling that distribution platform is must for them to get the viewership.



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So we are moving ahead in the healthy business relationship. At least 60% of our content renewal deals we have already closed. Balance 40% are different stages of negotiation and all our content deals will be closed before 30th September for the current year and we are not expecting more than 10%-12% increase in the content cost in the current year on the existing sub base.

Amit Kumar: Sir just to sort of clarify this point that the 60% of the deals that you have done right now, these are annualized deals or longer term?

V D Wadhwa: Annualized deals. Most of our deals are annualized deals, not longer term deals.

Moderator: Thank you. Our next question is from Rohit Dokania of IDFC. Please go ahead.

Rohit Dokania: Just two-three questions from my side. One is sir, if you are collecting let us say about Rs. 135 odd in Delhi, how much is the LCO really keeping in Delhi?

V D Wadhwa: Our belief is that consumers ARPU in Delhi is ranging between Rs. 200 to Rs. 300 with weighted average book is somewhere around 250-260. So LCO was retaining about Rs. 115 – Rs. 120 in per sub basis.

Rohit Dokania: In the market of Delhi, okay great. And sir also when we are saying that our subscription revenue is about 106 odd crores that we have booked, does this include entertainment tax or we net it out while booking this revenue.

V D Wadhwa: This is net of all taxes.

Sanjay Goyal: And eventually you have to indicate that way only. Taxes are receivables or payable being balance sheet item.

Moderator: Thank you. Our next question is from Balwinder Singh of Prabhudas Lilladher. Please go ahead.

Balwinder Singh: Sir regarding this, what is the current price of set top boxes? Cost of the set top boxes?

V D Wadhwa: Currently the box is costing about 1350 at the base level. It has come down compared to the earlier prices. Earlier it used to cost us about Rs. 1600-1650. Right now it is Rs. 300 lower.

Balwinder Singh: And you were collecting (+800) taxes on the subscriber?

V D Wadhwa: That is right.

Balwinder Singh: So subsidy of around \$10 per box.



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- V D Wadhwa:** Approximately, yes.
- Balwinder Singh:** And what is the currently EBITDA per subscriber in Phase-I and II?
- V D Wadhwa:** It varies from location to location. If you see, it comes out to be in DAS Phase-I it has come out to be somewhere close to Rs. 15 – Rs. 20.
- Balwinder Singh:** 15-20 in Phase-I and II?
- V D Wadhwa:** ARPU somewhere it is running EBITDA neutral, somewhere it is may be Rs.(-1-2) and somewhere it is coming Rs. 10 – Rs. 12 and still they are continuing with the net of revenue share billing.
- Balwinder Singh:** And lastly on this TRAI recommendation that vertically integrated broadcaster can have only CPS agreements with various DPO platforms. So in that case, how do you see the content cost for SITI Cable moving if these recommendations go through?
- V D Wadhwa:** No, we do not see, because even today also the content cost what the SITI Cable pays to the broadcasters or to our group companies at an arm's-length basis. So there is not going to be any impact because of any of these regulations because as a corporate policy, all the group companies within the Zee Group, we do commercial transaction with each other on an arm's-length basis only. It is not going to make any difference.
- Balwinder Singh:** So that is in line with the other DPOs?
- V D Wadhwa:** That is right.
- Balwinder Singh:** And lastly if you could just throw some numbers on the opportunity assuming that Phase-IV digitization happens 2 years down the line or whatever one year down the line and total subscribers moved to say 10 million digital. So if you can throw the potential for digitization in terms of numbers for you?
- V D Wadhwa:** I would like to answer in two parts. First of all, as you know that our sub base, both digital and analog sub base is currently about 10 million. The moment digitization is happening, the bare minimum we should be targeting that we convert all our existing universe to digital universe. So that itself will take us to about 10 million digital sub base and then when you are talking of Phase-III and IV opportunity, it is roughly about (+90) million is opportunity assuming 40% of that will be catered by the DTH industry, the cable industry is still left with more than 50 million subscriber base to be converted to digital. Now when you are talking (+50) million household to be converted into digital by the MSOs, it is a huge number and I think it depends that what is your appetite, what is your ambition to grow and basis that you can like we are saying 10 million



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is the bare minimum, but internally we are targeting that to go as high as about 14-15 million also. But we do not want to unnecessarily because for us growth formula is that the growth has to be profitable growth. I do not want to get into that situation that where we are just increasing the subscriber base without much of a subscription in those markets and the cost of acquiring the subscription is so high that you do not recover your money ever. So we are very prudent that definitely I think as a first stage we are going for minimum 10 million subscriber base to convert our existing subscriber base and second, wherever we are saying that wherever the payback period and our thumb rule is wherever the payback period is less than 2.5 years, those are the markets where our tax regime is friendly it is not having adverse impact on the financial of the business and see if there is not much of a competition, so you are not getting into any hostile entry into a new market. Those are the few criteria basis which we are simultaneously evaluating that how to increase from 10 million to more than that also. So it all depends that to what is your appetite and what are your business plans to grow but we do not see that from looking into the Phase-IV market because Phase-IV is the very low ARPU market and when you are getting into Phase-IV towns, you do not get more than 5,000-6,000 household average in a particular town and when you are going for the wire connectivity, it does not make business plan viable. There are only 5,000 availability, 5,000 consumers can be added. So one basic thumb rule is that at least whichever city you are going, that city should have at least 20,000 households to be connected with the cable. Then only, there is a viability comes in of taking your fiber there and getting IP connectivity and putting the infrastructure. So those are the several other criteria basis which we simultaneously keep on evaluating and we will definitely be working with, achieving as I said that we have always been stating minimum 10 million. So we are not putting an upper cap on the maximum part because constantly we have growing concerns and we have been looking at opportunity and as we are progressing, our first priority is to have a 10 million digital sub base and then go beyond that as well.

Moderator: Thank you. Our next question is a follow up from Mayur Gathani of OHM Group. Please go ahead.

Mayur Gathani: Sir can you throw some light on this 25% sharing with LCOs, how is it going because long back you had mentioned that you share the carriage fees with LCOs.

V D Wadhwa: So it is progressing well because we are committed we will share 25% of our carriage revenue with the LCO and obviously it comes with the ifs and buts wherever the LCOs have cleared their past dues, wherever the LCOs are paying for let us say for the billing invoicing for the month one, our condition is that by 20th of the following month, the money should come in and there should not be any old outstanding with the LCOs. So wherever LCO is meeting these two criteria, we have been crediting the revenue share of the carriage part in his account.



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Mayur Gathani: And couple more is I am not sure of this, but there was some TRAI regulation which stated about local channels being played by the MSOs. So how many channels do you play and what do you feel on that?

V D Wadhwa: TRAI has asked us for some representation. We have already given the representation because in cable industry, it is vied thing. I think one of the major plus point for survival of the cable in the country has been the local channels being inserted at the local level because like DTH industry, all the channels across regardless of the different geography, they transmit all the channels and this is one becomes one USP for the local channels in the cable industry. So we very strongly believe that this is the blurred line for the cable industry and it has to continue, it must continue. As far as SITI Cable is concerned, at local level in different geographies we are showing, I think the smaller sub base is about 2 channels going up to about 12 channels or so in different geographies.

Mayur Gathani: And sir couple more things is any bad debts or provisions that you are creating for non-receivables on the LCO side?

Sanjay Goyal: No, in fact we have a policy of providing the non-recoverable debtors which are exceeding one year. Those have been provided, but none of the provisioning which has been done in this quarter pertains to the LCO or the DAS subscription revenue. It is primarily carriage revenue wherein litigation has already been decided in our favor, but the award is yet to be provided to us for the recovery against the broadcaster named Mahua.

Mayur Gathani: And any updates you can provide me on the E&Y thing that was being done in Delhi that the consortium...

V D Wadhwa: It is not E&Y, it is McKinsey in Delhi. So it is progressing well. See, SITI Cable took that initiative way back in January because in January we were collecting Rs. 90 and fellow MSOs were collecting less than Rs. 50 in Delhi market which was putting a pressure on us that while you are the most aggressive MSO in terms of the subscription collection whereas others are not. And this is despite the fact that we were number three players in Delhi market. So we felt that if we bring in some third party, it will support us to take the leadership position in terms of bringing the discipline in the industry and once the other MSO also start collecting the good subscription and that will encourage them to follow the similar policies in the different geographies of the country also. So from our point of view from Rs. 90, we have moved from Rs. 90 subscription in the month of let us say December to about 130-135 now. In 8 months, 90 has become 135 for us. But the good part is for other MSOs also those who are collecting less than Rs. 50, one of them has come up to about 120 and the second MSO has come up to close to about Rs. 100 in the last 7-8 months. So that reduces the pressure on SITI Cable that we are the only one who is the torchbearer for all this stringent policies which are LCO community believe



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that these are not LCO friendly policies. So it is working well. They taking encouragement from the Delhi market. In couple of other markets, we have introduced Ernest & Young also which is in Calcutta, Central India and we are planning to introduce even McKinsey for Hyderabad market also because now every MSO has, I would say tasted the blood and they have seen that yes, in what way it improve their revenue and the profitability by following a disciplined approach and focusing on the subscription revenue. So this is working well and I think we get good payback on what we paid them at the end of the day as fees.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Sanjay Goyal for closing comments.

Sanjay Goyal: Ladies and gentlemen, thank you very much for your participation in the conference call. If there remains any other question or query with respect to the financial or operations, we will be in touch to reply the same asap.

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