"SITI Networks Limited Q1 FY 2018 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Q1 FY 2018 Results Conference Call of SITI Cable Network Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit Saint -- Head Investor Relations from SITI Network Limited. Thank you and over to you, sir!

Ankit Saint: Hi, Good Morning, Ladies and Gentlemen. I welcome you to the SITI Network's Q1 FY 2018 Investor Relations Conference Call. I have with me the senior management of SITI Network's….. we have Mr. Sidharth Balakrishna -- Executive Director; Mr. Alok Govil -- Chief Video Business; Mr. Ashish Bhatia -- Chief of Broadband business; Mr. Anil Jain -- the Head of Finance; and Mr. Rajesh Sethi -- who is handling the Business Transformation.

I will briefly run you through the Q1 FY 2018 key numbers highlights. So, the total revenue for the quarter was Rs. 371 Crores; it was up 10% Q-o-Q and 35% Y-o-Y. Subscription revenue was at Rs. 170 Crores; it showed solid growth at 6% Q-o-Q and 35% Y-o-Y. Broadband revenue was at Rs. 26 Crores, it was up 32% Y-o-Y. Carriage revenue was at Rs. 77 Crores, up 6% Y-o-Y.

The EBITDA for the quarter was Rs. 107 Crores; it was up 54% Q-o-Q and 126% Y-o-Y. We had a profit before tax at Rs. 1.6 Crores. We added 1.6 million video customers as we continue to digitize our analog sub-base and our broadband subscriber base as of 30th June stood at 2.4 lakhs.

With this, I open the floor to queries. Thanks

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: My question will be related to your broadband strategy I am coming from this is current disruption in the broadband space from telecom players. And even your fellow MSO are giving higher GB plans at reduced cost. So, giving that I mean this is from question first is what is SITI doing to ring fence your existing broadband customers from competitors. And second part would be what are you doing to bringing new customers on board to your network?

Ashish Bhatia: The key thing what we are trying to do in terms of ring fencing our customers is improving our customer service because that is one thing which is very critical because that is what the customer is looking forward to when it comes to Broadband.

Number two, we have doubled the speed what are offering to our existing set of customers which actually improves the experience of the customer because rather than looking at mobility and other players, if we raise the bar, raise the experience of the customers…. we are in a better position to ring fence and safeguard the customer. So, the combination of customer service, technical support and overall experience that we are going to give to the customers to improve and with respect to GBs we also focusing more on unlimited plans. So, when it comes unlimited, actually we are giving more and more GBs to the customers to use as per experience.

Avinash Kumar: Yes, if I dig in a little further. Current telecom players the existing one they are already responding to the disruption in the market. So, I name Airtel they are already coming up with higher GB plans. Airtel recently announced their Broadband big bright offer where they are offering like 500 to 1,000 GB bonus data in their monthly plan which is starting from Rs. 599. If I name your fellow MSO they are also giving minimum of 25 MBPS speed irrespective of the plans the customer has. So, if you are higher data packages to your customers I mean both the MSO players and the telecom players are matching it and if you are talking about giving higher speed they are matching it. So, what I want to understand is going forward why I am asking this question in your current quarter your broadband addition has gone weak I mean it has come down to 12 K in this quarter from 15 K in 4Q 2017. So, I mean given the competitive pressure, how do you see that you will gain I mean new Broadband customers from your fellow MSO and also the telecom players and how do you save your existing customer base?

Ashish Bhatia: One is you know as I mentioned, we are focusing 50 MBPS 695 plan which is unlimited. So, like if Airtel offers 50 GB, we are giving unlimited and the customer can use as much as possible and number two there is lock-in for these particular plans. We are able to safeguard the customers and avoid them churning out to competition. And as we are retaining the customer, we can give him a good experience, so that is what will help us to pull back to the customers.

In terms of strategy what we are trying to do is leveraging our existing LCO base because we are having a huge LCO community spread across in towns we are operating, our objective is how we can leverage this entire community of LCOs because we are already having an entry through our Cable business in those particular households and how we are able to convert those set of customers to Broadband, so that is going to be the key thing for us to drive our broadband business forward. And**.** what we are trying to clearly develop is the indirect channel. Because currently we were focusing more on direct channels only but we are trying to also develop alternate channels through which we able to have a better route to market.

Sidharth Balakrishna: This is Sidharth Balakrishna. So, I mean if you look at our results, we have seen that over the last few months, we have substantially increased the percentage of customers on a higher lock-in plans. So, there are 3 months kind of plan. So, earlier this was a very negligible amount of the total base but we have seen it go up to beyond 30% of the total plan. So, the churn would kind of come down due to that. In terms of the overall strategy, you spoke about the decrease in the total of the addition. I would say that we are kind of being a little selective you know it turns up our broadband expansion because we do recognize that it is a cash intensive business and we kind of are trying to make sure it is not kind of drain on our resources.

So, you would see a bit of selectiveness in our expansion in broadband and we would look at….. I mean the ARPUs have also gone up. So, broadly the target is to look at high paying customers with longer lock-in rather than expand in a manner which is unsustainable.

Avinash Kumar: Okay. Sir, can you just emphasize more on the lock-in period that is offering currently, I mean what change we have brought from the earlier strategy and also, I mean you mentioned you are focusing on indirect channel. So, can you just emphasis what are those indirect channels?

Ashish Bhatia: Yes. See, what is happening in terms of lock-in, our earlier lock-in was close to 30% of the acquisitions. Now, if you look at the last 2 months we are now getting around 50% plus of our business going forward on lock-in …in the month of July as well as in the month August, more than 50% of our acquisitions is happening on a longer lock-in plans, so this is a healthy sign because that is having a downward impact on the churn of the customer also which is happening, so which will at the end of the day result in positive net adds. So, we are giving value to the customer also when he is coming for higher lock-in plans.

And same time we are also recovering value because we are able to recover the revenue for a longer period from the customers. And with respect to indirect channel, what we are referring to like we are currently focused on the DSA channel which is going directly to the home. And what we are trying to develop in terms of the retail channel the DSA channel which are like the open market channel and variable channel depending on the acquisition, so that we do not incur any fixed cost. So, these are the alternate channels which will reduce our overall cost of acquisition and we will be able to get new set of customers coming on board and leverage our LCO community So, it depends on how we are actually able to leverage or use LCO base which is there in the market where we are already having a Cable entry and convert those customers into broadband.

Sidharth Balakrishna: Broadly the idea is to lower the cost of the acquisition of the customer and ensure that the ARPUs are kind of sustainable and the good thing is that the ARPUs of the new acquisition customers have seen a good increase.

Avinash Kumar: If you look at your current ARPU it has gone down from the previous quarter, if I mention that?

Ankit Saint: The DOCSIS ARPU for Q1 is at Rs. 630 right now and the new acquisition ARPU for June was around Rs. 754 and for July it was Rs. 756. The EOC ARPU was around Rs. 425. So, the EOC ARPUs are seeing a slight pressure but the DOCSIS ARPUs are going up.

Avinash Kumar: Okay.

Sidharth Balakrishna: Even in the month of July we have recorded 756 in new acquisitions.

Avinash Kumar: From new customers you are saying?

Sidharth Balakrishna: Because the lock-in plans are giving value to us as well as to the customers.

Ashish Bhatia: So, as you were saying that the customers are asking for more data and more speed and all, so that has helped the ARPUs to….

Avinash Kumar: Okay. And if I am correct, did you mention earlier that 30% of the customer base is now on the longer-term plan, if I got it correctly?

Sidharth Balakrishna: Yes, of the base it is 30%, but for the fresh acquisition it is 50% plus.

Avinash Kumar: 50% plus, okay. Second part of my question now belongs to the Cable thing. So, what is doing that the management sees in the Cable monetization going up especially in your Phase-I and Phase-II markets because these are already mature market and related to that how do you see your content cost and both content and non-content cost going down I mean in following quarters because your carriage revenue in this quarter has gone down by 4.1% and your content cost are down odd 3%. So, how do you see first the monetization going up in your Phase-I and Phase-II markets and your saving both the content and non-content costs savings in the coming quarters.

Alok Govil: As we are in the process of negotiating and finalizing the deal for FY 2017 and FY 2018, we are moderating the content cost for the financial year, some of the deals which are already there. But yes, we are looking at to reduce the cost as much as possible. And overall, if you look at it the content cost which is committed and which has been projected around 15%

growth over last year ….. At the same time we are looking to bring the carriage revenue also up which can compensate to an extent the content cost. Coming back to your first part of the question is about how we look into Phase-I, Phase-II which is a saturated market. We are just focusing on higher penetration and putting more boxes in that particular market because the price growth is comparatively very limited but yes, we are pushing to penetrate more number of boxes in the particular market to improve the revenue overall.

Avinash Kumar: I just want more clarity on the content cost going forward, if the management can answer that.

Alok Govil: On annual basis, we see content cost for this fiscal to be up by around 15% as compared to last fiscal.

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

Sanjay Chawla: what is the active customer base in Broadband both in DOCSIS III and also EOC? And when do you start seeing Broadband revenues growing sequentially for the last 2 quarters we have not seen any increase in the Broadband revenues? That is one. Secondly, what is your pay channel cost in second quarter? And also, if you could provide the phase wise DAS customer base and exit ARPUs?

Ankit Saint: The active sub-base is around 1.8 lakhs for us and out of this DOCSIS would be around 45,000 - 50,000. What was your second question?

Sanjay Chawla: Sir, when do you start seeing Broadband revenues to grow sequentially?

Ashish Bhatia: When it comes to Broadband revenue we want to take a very balanced approach, having high numbers in Broadband is an easier proposition compare to ensuring that what we are delivering is in line with our quality standards when it comes to customer service and other parameters and we are also able to manage the churn accordingly. So, in order to do that and as we all know the broadband also requires high CAPEX commitments. So, we want to go into a very balanced and systematic approach in Broadband and we really want to do very well in the markets where we are resilient

Sanjay Chawla: Sir, my question was not on the subscriber growth and net adds and gross adds but more on the revenues per say. Do we still see because someone of these ARPU adjustments which are happening in the market which you also mentioned, are they completely reflecting in our revenues or there is still more to go and we will probably not see our revenue increase in the net quarter as well?

Ashish Bhatia: See, when we look at month-on-month basis my quarter one ARPU was 630 which climbed up to 744 in June and 756 in July. So, yes, it will go up but it may not maintain the same pace.

Sanjay Chawla: No, revenue number. You got Rs. 26 Crores revenue for the last 3 quarters.

Ashish Bhatia: See, revenue is again an outcome of what; revenue is an outcome of ARPU as well as subscriber base. So, either you acquire more subscriber or we push the ARPU up

Sanjay Chawla: But you got in activity in our customer base, so these ARPU as we do not link-up to the revenues.

Ashish Bhatia: Sorry, come again please.

Sanjay Chawla: Sir, the Broadband customer inactivity also keeps increasing and changing, so these ARPUs actually do not link up to your revenue number, if I do simply customer into ARPU I would not get the revenues.

Ashish Bhatia: Yes, because average of the ARPU, the numbers will vary from mark-to-market.

Ashish Bhatia: The numbers will vary Sanjay, as I am saying and obviously as we have discussed before the EOC ARPU is separate and the DOCSIS ARPU is separate, we have to take that into account and then do the calculation.

Sanjay Chawla: My question is you know a lot of this adjustment and competitive responses that you have talked about, are they reflecting in the revenue numbers or there is still some more to go?

Ashish Bhatia: Sanjay, those are already reflected in the revenue numbers, revenue as compared to quarter four, it is looking flattish and that is on account of ARPUs going down in EOC markets. Our major expansion is likely to happen in DOCSIS technology, so that is where we do not see much of correction happening further in revenue numbers. So, it is likely to go up.

Sanjay Chawla: Okay, great. And the pay channel cost piece?

Anil Jain: Pay channel cost for the quarter is Rs. 142 Crores

Sanjay Chawla: But this is sequentially flat…

Anil Jain: Against Rs. 118 Crores same quarter last year, the content cost has been Rs. 142 Crores which translates into a 21% increase. The content cost was flat sequentially.

Sanjay Chawla: This is sequentially flat, could is it due to delay in finalizing the deals?

Anil Jain: Yes. Because quarter four had some impact of catch-up pertaining to full year agreements which were concluded in Q4 that is where I would suggest let us look at average number of last year which is Rs. 507 Crores for full year vis-à-vis Rs. 142 Crores in quarter one of this year ……that will give you a right perspective in terms of growth which is going to happen on content cost.

Sanjay Chawla: Okay. Can you share the phase wise number?

Ankit Saint: I would just like to add that as you know content cost is a lumpy line item and you need to look at it in an annualized basis.

Moderator: Thank you. The next question is from the line of Vikram Kotak from Crest Capital. Please go ahead.

Vikram Kotak: Actually, my first one of the question has been answered already. But you mentioned in one of your Press Release that you have a great quarter and you want to monetize from here on this base. So, my question is that what kind of growth you expect in next few quarters that is one. And at what CAPEX level, what CAPEX you need to do in next 3 - 4 quarters and what kind of debt level because now you are in a situation where you are able to kind of come into the profitability mode plus you are able to get the higher ARPU and higher kind of utilizing a base. So, do you need to really increase the debt level in proportion of your turnover? I just want to understand your capital structure and the debt strategy going forward? Thank you.

Anil Jain: Vikram, there is 3 questions in overall statement. One is relating to CAPEX for the full year, other one is relating to gross and net debt. First part of your question which is about growth on revenues, so let me pick the easiest one. Current level of gross debt Rs. 1,335 Crores, so against that Rs. 1,335 Crores our net debt are Rs. 1,221 Crores, so that is on gross and net debt.

Vikram Kotak: No, my question that I have Anil that data I have. I just want to know that suppose we grow this year by 50% what kind of debt level. So, are you able to kind of get that leverage on the current debt level from the upcoming growth or you need to kind of keep on borrowing to grow your sales? That is the question, so what is the strategy on the debt side?

Anil Jain: Yes, I understood your question. Our net debt level is going to remain roughly same.

Vikram Kotak: Okay, sure, Anil. And what kind of growth you expect this year? Will this kind of growth which you achieve in first quarter, will be sustained?

Ankit Saint: Firstly, we are looking at digitizing our analog base, so we are looking at anywhere between around 3 - 4 million customer additions this year in video and in Broadband we are looking to add about 1.5 to 2 lakh Broadband subscriber on our customer base. So, that is the growth that we are looking at.

Vikram Kotak: Okay. And you do not need to borrow for; you do not need to increase your debt for such a high growth, right? Your net debt level will remain the same?

Ankit Saint: Correct.

Vikram Kotak: And what is the CAPEX going forward in next 9 months approximately?

Anil Jain: That would be in the range of Rs. 300 Crores to Rs. 350 Crores.

Vikram Kotak: Okay.

Anil Jain: This will cater to the growth for both Video and Broadband.

Moderator: Thank you. The next question is a follow-up from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: I mean following the last participant question, you said your net debt will remain the same, right? And your CAPEX will be something in the range of Rs. 300 Crores to Rs. 350 Crores. So, where do you see the funding coming in? I do not think; the market will be ready for any follow-up from SITI Cable at around Rs. 30 price. So, where do you see the funding coming in? Do you see promoter bringing in more funding or can you throw more light on the funding source?

Anil Jain: So, Avinash, there would 2 - 3 factors which we are will be working on this. One definitely, definitely we will be getting good activation revenue during the fiscal year because we are talking of seeding of roughly about 3 million to 4 million boxes that is one point which will come in play. Two, we are going to leverage on vendor credit. We are negotiating on credit terms. Third, we will be looking at increasing in collection efficiency also.

Avinash Kumar: Yes. But I mean, I appreciate the measures that you plan you will take care. But I mean to fund your broadband expansion, you require a good amount of CAPEX and I mean you are not planning to raise any debt as you have said. So, to maintain your run rate in terms of expansion because you have to be aggressive given the current market scenario, I am really not sure the three measures that you mention like activation revenue or vendor negotiation, the collection will rally give you additional funds to put it in the growth. So, you either have to go for any debt raise or you have to bring in equity funding is what my understanding is.

Anil Jain: Yes, Avinash, you are right to certain extent. But at the same time our broadband CAPEX involves a lot of imported material. So, we will be working on extended vendor credit terms that is what I meant here when I said we are negotiating with vendors.

Ankit Saint: Yes, I would just like to add to that of the proportion of buyer's credit has gone up Y-o-Y; if you look at the composition of the gross debt and we continue to increase that portion to slightly moderate the cost of debt.

Sidharth Balakrishna: So, Avinash let me just add to that. As we said, on the Broadband part we are looking at a slightly revamped model in which we are very going to be a little conservative on the CAPEX and make sure that we are not spending indiscriminately. We are kind of looking at an optimization there. And also I would say that going forward you would see us doing something in terms of optimizing cost across the board whether it is personnel cost or some of our overheads. So, all these measures would kind of help us to kind of make sure that we do not probably need to increase the net debt.

Avinash Kumar: Yes. I think is something I was coming to. So, you have already mentioned your consent cost will go up by 15% Y-on-Y. How do you see your non-content cost like employee cost and other expenses through the next 2 -3 quarters the trend?

Anil Jain: As I said you will probably see some significant actions on that front being undertaken. I would not like to say too much right now because it is early days yet. But I think the positive effects of this would manifest itself in the last quarter particularly. I think Rajesh can add to that.

Rajesh Sethi: So, as a part of Avinash, the transformation activity we are trying to go through all our general expenses and administrative expenses and we are trying to find the areas where we can leverage cost optimizations by either demanding productivity or by cutting down cost which we can. But it will be too early to give any number.

Avinash Kumar: Okay. And you said Rs. 300 Crores - Rs. 350 Crores CAPEX for the whole FY 2018?

Anil Jain: This is for the remaining 9 months period.

Avinash Kumar: And how much would be towards the Broadband side?

Anil Jain: Broadband roughly about Rs. 150 Crores.

Avinash Kumar: And rest Rs. 150 odd Crores will be your CAPEX, so it will be a 50-50 ratio?

Anil Jain: roughly.

Moderator: Thank you. The next question is from Vivekanand S. from Ambit Capital. Please go ahead.

Vivekanand S.: Can you give me a split of the subscribers phase-wise and the number of active subscribers. Secondly, can you discuss about the ARPU trends across the various phases and the competitive activity because last quarter also you had pointed out that there was an increase in competition in Phase-I and Phase-II and right now also in the call you mentioned that the pricing growth is limited and you are looking to penetrate Phase-I and Phase-II despite these markets being saturated, any commentary on the competitive front will be very helpful. Thanks.

Ankit Saint: Our gross base was around 10 million last quarter and we have added 1.6 million, so about 11.6 million is the gross, the net sub base is around 10.6 million. And if I look at the phase wise spread it is about 1.7 in Phase-I; 1.5 in Phase-II; 4 million in Phase-III and 3.4 in Phase-IV. I would just like to add these 1.6 million customer additions that we have seeded …..The monetization was expected to start from Q2 onwards and you will see that uptick happening. With regards to the forward-looking guidance, do you want the numbers for the current quarter as well or do you want the guidance?

Vivekanand S.: The current quarter and the guidance.

Ankit Saint: So, the current quarter was around 105 for Phase-I; 82for Phase-II; 50for Phase-III; there has been a marginal increase in Phase-IV by Rs. 3 to around 28, as I said that 1.6 is going to monetize from Q2 onwards. Regards to the forward-looking guidance for the full year and what are the trends going to be, I will just refer to Mr. Govil.

Alok Govil: For the guidance purpose for Q2 or the remaining quarters, we are looking at the revenue part of ARPU level will go up by say Rs. 110 to Phase-I, it is around Rs. 85-90 to Phase-II, around Rs. 55 to Rs. 60 in Phase-III and around what Rs. 40-odd for Phase-IV.

Vivekanand S.: Right. And your thoughts on the competitive environment in Phase-I and Phase-II because that is something that you had highlighted before as well as a challenge, any update on that would be appreciated because the ARPU levels have remained flat in Phase-I and Phase-II.

Alok Govil: See, as a strategy what we are trying to do is we wanted to defend our turf when it comes to Phase-I and Phase-II because there is no incremental seeding per se which is happening industry wide in Phase-I and Phase-II and generally, in Phase-I and Phase-II it churns either through DTH to MSO or within the MSO community. So, for us the complete focus right now is that either we gain back everything which we have lost in Phase-I and Phase-II or in the markets where we have not lost anything we stabilize our position and we try to push our position in those markets.

When it comes to Phase-III and Phase-IV primarily this roughly 1.6 million of net additions which you see in quarter one it is all focused on Phase-IV for us and we definitely see another 2 million plus going again this quarter and onwards put together. So, Phase-III and Phase-IV has to now add up to our going forward ARPU increases and the proper billing has to happen now in this quarter when it comes to Phase-III and Phase-IV which will add to incremental revenues for rest of the year…..Phase-I and Phase-II we have to hold on to our turf and wherever we feel they are having some kind of dent in our market share, we have to recapture that back. That is the strategy we have for the complete year when it comes to phase wise seeding plans.

Vivekanand S.: So, on the content side you mentioned that the content cost has stabilized and one should look at it on a year-on-year basis, if I see the deals that we have with Star and Zee, I think the deals are till end of this year or end of calendar or end of fiscal. I guess Sony and India Cast were pending, right. So, any update on the new deals that you are signing? What the number of customers that you are committing to the broadcasters, just to understand how much scope is there in the business in terms of phase wise profitability?

Rajesh Sethi: We cannot discuss our content negotiation strategy and go on deal-on-deal basis negotiation on investor call. And I do not think your numbers are accurate when you talk about with whom we have signed the deal and with whom we have not. Having said that the previous comment made by my colleague, Anil, was that when you look at what is the content cost involved in our P&L, the comparative should be an annualized basis rather than picking it up on quarter-on-quarter basis because a lot of deals, lapse or get re-negotiated at different intervals. And all the four big content players you have spoken about I do not think your data is correct.

Vivekanand S.: All right. So, you are saying instead of looking at it one-by-one I should look at the Rs. 570 Crores number and that growing to Rs. 650 Crores - Rs. 660 Crores as you have guided is that I should see it?

Rajesh Sethi: Yes.

Anil Jain: Sorry, I am just interjecting Anil this side. Rs. 570 Crores you have picked from where? Last year content cost was Rs. 507 Crores.

Vivekanand S.: Sorry, Rs. 507 Crores my bad, I am sorry.

Anil Jain: It is not Rs. 650 Crores.

Vivekanand S.: Sorry, Rs. 590 Crores, I got my numbers wrong; Rs. 508 Crores and Rs. 590. And in terms of carriage how should we see that you mentioned that there is scope to increase carriage. So, is that attributable primarily to the new subscribers that you are adding in Phase-IV markets is that what is getting you a new carriage or from your existing markets itself you can eke out more carriage?

Anil Jain: It is a mix of both. As we are expanding and we are having a higher number of subscribers, definitely would be in a better position while negotiating for the carriage fee. As Rajesh mentioned earlier that things are happening over the year, it is not happening in any specific particular month. So, a lot of deals which are pending which are yet to finalized, so we are factoring all the things that with the numbers which are coming up and the projection keeping things we will be able to extract more from the broadcaster from carriage perspective.

Vivekanand S.: Right. Sir, reason I probing so much is the net content cost from around Rs. 100 Crores in FY 2016 increase to Rs. 208 Crores in FY 2017, that is the number I wanted to understand which way that number is moving?

Anil Jain: See, you are looking at the content cost but it is attributable to the acquisitions, more subscribers gone up compare to 2016 - 2017 vis-à-Vis 2017 - 2018 and you know everything has to percolate down to that.

Moderator: Thank you. Next question is a follow-up from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: So, the thing is that what is the management view on STB interoperability? TRAI has recently come out with the white paper asking from the industry participants on their view on STB interoperability. So, what does the management think on it?

Rajesh Sethi: Avinash, we do not see it happening in the near-term or medium-term first of all. It is not a simple process from implementation and execution perspective because both MSOs as well as DTH entities we have spent millions of dollars on STBs and each of us may have STBs with different specification and these Set-Top-Boxes run on different CAS and different subscriber management systems. So, I do not think purely from execution play perspective it is that simple a strategy to be adopted industry wide across by anyone especially when you look at CAPEX and OPEX being incurred everyone day in, day out. So, there are investments which have been made there are concerns which industry players have and apparently, they have to be taken into account before TRAI really goes ahead with implementing.

Avinash Kumar: Yes, I understand it. So, you are saying from the technical side it is not easy to implement or the whole cable industry the DTH and MSO will be not very eager for it to happen given the CAPEX you have invested in STB. So, is hindrance coming from the technical side implementation or to safeguard your CAPEX that you have spent on the current STBs?

Rajesh Sethi: I think it is related in fact, no point breaking it into two. One, purely from technical capability where you pick-up a box supplied by, let us pick an example by X DTH player and which is running in someone’s house and you want it to be replaced by a box by a Y MSO player which you wanted to place. It is not technically possible; you will have to find the solution because it can really be done. Because there is an integration of CAS and SMS when you look at the whole process how it works. It is not only about the box, it is also about the related infrastructure and support systems virtues the box really is the content on your television set. So, it is more of executing of what is already there connected across this country in hundreds of millions of homes. But when you talk about going forward how have to be done then some common norms have to be arrived at which have to followed by everyone industry wide which is more to do with specifications of the boxes which have to be on interoperability basis then only it can be done. A lot has to be thought into this before really strategically moving ahead on the idea

Avinash Kumar: Okay, fair enough I got your point. And the second question is what did the risk you see on the additional STB that you are planning to come in especially Phase-IV so what is the risk per se from the management side you see it?

Rajesh Sethi: We do not see any risk right now.

Avinash Kumar: Okay, so you do not see any risk, okay. And in Phase-IV if I get my numbers right, you are planning to add additional 2 million subscribers in FY 2018?

Rajesh Sethi: Phase-III and Phase-IV put together.

Avinash Kumar: Phase-III and Phase-IV put together. Okay.

Rajesh Sethi: We are saying in this is per annum per sub-base and it will be spread across Phase-III and Phase-IV.

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

Rohit Dokania: Just want to know your sort of overall active video subs and if you can break that down on phase wise basis also the net of tax ARPU phase wise?

Ankit Saint: This is Ankit here. So, our net sub-base is around 10.6 and the break-up is 1.7 million in Phase-I; 1.5 million in Phase-II; 4 million in Phase-III; and 3.4 million Phase-IV. In terms of ARPUs Phase-I was around Rs. 105; Phase-II was Rs. 82; Phase-III was Rs. 50; there is some improvement in Phase-IV Rs. 28.

Rohit Dokania: Okay. And Ankit is this all the subscribers of the active sub-base that you are giving me?

Ankit Saint: Yes, this is the active sub-base. I would just like to add that, we have added 1.6 million customers this quarter but the monetization will start from Q2 onwards

Rohit Dokania: Sure. And just one last question, where should one look at as far as exit ARPUs again phase wise is concerned for this fiscal FY 2018? Where should this 105 moves to and H2 move to so on and so forth?

Ankit Saint: So, Phase-I I think we can add around Rs. 5 it should move up to about Rs. 110. Phase-II will go around anywhere between Rs. 85 to Rs. 90 I think it will be in that range. Phase-III it will be closer to Rs. 60 and Phase-IV it is going to be closer to around Rs. 40.

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

Sanjay Chawla: Hi, just two more questions. One is, what is your Set-Top-Box inventory at the end of the quarter? That is one. And secondly, I did not quite understand the CAPEX break-up you mentioned about Rs. 350 Crores of CAPEX this year and Rs. 150 Crores would be broadband, so that leaves out only Rs. 200 Crores for the video business. But as you are talking about 3.5 million boxes that alone would be Rs. 400 Crores. So, can you just reconcile the CAPEX numbers?

Rajesh Sethi: When you said, 3.5 million to 4 million boxes, 1.6 million net number is already added up. So, you are talking incremental 2 million numbers.

Sanjay Chawla: Right. So when are you referring to CAPEX for the remaining 9 months not for the full year?

Anil Jain: Sanjay, You are right, I stand corrected, those numbers which I refer that is for 9 months.

Sanjay Chawla: Okay, now that makes sense. Yes.

Anil Jain: Our inventory on quarter end is roughly about 3-4 lakhs STBs.

Sanjay Chawla: Just a quick housekeeping, I have your tax expense and minority interest actually going up quite a lot, so what really explains that this quarter?

Anil Jain: So, this tax expenses is pertaining to 2 -3 of our subsidiaries and in those subsidiary markets we have seeded boxes in good amount. So, substantial activation revenues have come during the quarter, so it may not be right to say that we will have similar tax numbers for rest of the year. It will not be Rs. 15 Crores in Q4. So, this could be one of the quarters wherein we had this additional tax expense coming in place.

Sanjay Chawla: Got it. And the minority also is corresponding to those…

Anil Jain: Yes, it is corresponding to that only.

Moderator: Thank you. Next question is a follow-up from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: As there are no other participants joining, I just thought I will clarify a few things. I am bit confuse you said around Rs. 590 Crores it will be a net content cost excluding your carriage revenue or it will be you are as you were saying your…

Management: Avinash, it is a gross number. Last year gross content cost was Rs. 507 Crores, we had given guidance of roughly about 15% it was during the year.

Management: It is gross.

Avinash Kumar: It is gross, okay. And how do you see the corresponding trend in carriage revenue? If you can add some color to it?

Anil Jain: As you know we do not get carriage from all the broadcasters, there are certain pay channel broadcasters who do not pay carriage and there are certain FTA broadcasters from whom we get carriage, so it may not be exactly reflected in carriage revenue percentage growth.

Ankit Saint: Just like to add to that, we are expanding in Phase-III and Phase-IV so that analog base is getting converted to digital. So, I think that carriage revenue will come in but it will be delayed. So, as I said similar kind of last year it was a strong growth, this year we expect around 6% - 7% kind of growth in the carriage revenue.

Avinash Kumar: Okay. And secondly, was related to your tax expense, as you mentioned it was a higher tax in the current quarter. For the full year if you can provide some guidance or your view how the tax rate will pan out it is related to your subsidiary.

Anil Jain: So, tax rate is standard it would be 30% on a profit of those subsidiaries. But it is very difficult to tell you effective tax rate at this juncture. I take your question, we can come back to you offline.

Avinash Kumar: And you do not see any equity funding coming in the current year, I just wanted your views on it.

Anil Jain: Not at this juncture, no, we do not have any immediate plan for that and we do not even envisage that need also.

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

Sanjay Chawla: Can you tell us how your receivable level is moving because last year you were able to control the absolute level of receivables. How is it moved in the first quarter? And secondly, what is the thoughts and any updates on the TV tariff order which is being litigated, do you see it happening this year?

Anil Jain: So, receivables stand at about Rs. 438 Crores as of 30th June.

Sanjay Chawla: So, that is a significant increase from Rs. 360 Crores in March, Rs. 360 odd Crores in March?

Anil Jain: In March?

Anil Jain: So, major contribution would be from carriage debtors because generally carriage and content payout settlement happens towards the end of year. Generally, first quarter is lean that is where we are seeing increase in carriage debtor at the same time on cable side which is subscription side, yes there is increase. So, almost a 50% of the increase I would say is attributable towards carriage and roughly about 30% - 40% would be towards subscriptions apart from other revenue streams.

Rajesh Sethi: See, this tariff order is expected to be implemented there are various dates which are floating around with regard to tariff order 1st December, 1st March, 1st April a lot of dates we are hearing. We presume that we internally have to prepare for tariff order implementation latest by beginning of quarter four, January this is what we are presuming. The pricing of packages based on the tariff order which we have to formulate is currently being deliberated, we have done our internal system health check as well as we are working along with our strategy team on what are the easy to go to market kind of packages which have to be decided upon because right now the content cost will be getting linked with subscription as well as in the consumer choice and there is a lot of strategic input which has to flow through to the market place with regard to how do we package these packages when it comes across to tariff order implementation.

So, in short, it is about go-to-market strategy as well as to ensure that our systems and processes internally are geared up strongly enough in order to sustain this new change. In fact, we are aggressively working around on that and we see it as a big opportunity which is not baked in the numbers but if it done properly and if it happens in January, February, March it could be a good upside.

Moderator: Thank you. The next question is from the line of Shounak Chakravarty from Aditya Birla Finance. Please go ahead.

Shounak Chakravarty: I have a question regarding the activation revenue which has come in at Rs. 84.9 Crores during the quarter. So, this is as per IndAS number. So, now per IndAS I think you have to book 65% of the activation income upfront and 35% is deferred over the next 6 - 7 years over the useful life. So, what was the actual activation income during the quarter like the total cash inflows on that front?

Anil Jain: So, that was roughly about Rs. 134 Crores.

Shounak Chakravarty: Okay. So, this excludes the deferment revenue on account of activations done earlier?

Anil Jain: This Rs. 134 Crores I am talking of cash inflow on account of activation revenues.

Moderator: Thank you. As there are no further questions, I now hand the floor over Mr. Ankit Saint for their closing comments. Over to you, sir!

Ankit Saint: Hi, everyone. This is Ankit here. I hope all your queries were answered. And if you have any further queries, you can get in touch with Investor Relations or if you feel the need for some meetings with senior management, we can arrange that as well. Thanks and have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of SITI Networks Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.