“SITI Cable Network Limited Q4 FY2016 Results Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to SITI Cable Network Limited Q4 FY'16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Saint -- Head Investor Relations. Thank you and over to you, sir.

Ankit Saint: Hi, Good Morning everyone. This is Ankit here from Investor Relations. I will briefly run you through our performance during the Fiscal Year FY'16. We had a profitable turnaround for the first time in the company's history, a Profit Before-Tax of Rs. 22 Crores. EBITDA was at Rs. 323 Crores, up 92% Y-o-Y. Revenue was Rs. 1,213 Crores, up 30% Y-o-Y. Subscription income was at Rs. 561 Crores up 6% Y-o-Y. Broadband income was at Rs. 49 Crores, it was up 83% and we had the highest ever customer acquisitions in a particular year at 2.7 million. We ended up with a total digital subscriber base of 7.9 million and we currently have the largest presence in the country at 312 cities.

On the broadband front we added 72,000 broadband subscribers. Out total subscriber base now stands at 1.32 lakhs and home passes are at 8.9 lakhs.

So with that, I open the floor for questions with the management which will be fielded by Mr. Wadhwa, Executive Director and CEO of SITI Cable as well as other Senior Management. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sumit Rohra from Emerging Market Advisors. Please go ahead.

Sumit Rohra: Sir I have about three - four questions. So I will just put them to you and then you can just help me understand. So sir, firstly I want to understand what is the update on this Phase-III DAS- because there are some court cases so, if you can please help us understand what is the status of that and when do you think all these things will be cleared and after that, what is your broad sense on I mean how many subscribers we can add like say from now to December 31st 2017, that is my first part sir. Secondly, I wanted to know on the collections, so how the collections have been in Phase-I, Phase-II and whatever of Phase-III we have done till now. And sir, you know of course this is pure media speculation or newspaper report that SITI Cable looking at some acquisitions, so are we looking at that route as well to grow or are we just focused right now on converting our analog subscribers?

V. D. Wadhwa: As far as DAS-III is concerned, it was deferred ….Some 40+ court cases across the country have resulted in stay orders and finally the Supreme Court has designated the Delhi High Court as the single court to decide and settle all cases.

In the Delhi High Court, Justice Manmohan has been appointed to decide on the cases. All cases are being transferred from across the country to the Delhi High Court.

Some of the Cable Operators Association from Karnataka had filed a petition in the Delhi High Court again seeking extension and this has been forthrightly rejected on the same day, which is a good sign. The unfortunate part is that the courts are going on summer vacation till 30th of June. We tried our best at the SITI Cable level, at the Federation level to club all the cases and we have met the Minister of State also in this regard, also we tried that if the file can be referred to a Vacation Judge so that in the interim itself, this matter can be heard and settled, but the general understanding is that the Set Top Boxes are not available or there was a delay in getting the Set Top Boxes, the stay was given for two -three months , sometime in the month of January or so. For all cases the period has been over and we do not expect any further relief or any further extension of stay.

We have also given a representation that all these cases have been filed by non-stakeholders. The majority of MSOs have sufficiently seeded the boxes and as per the MIB status, against 33 million Phase-III subscribers, 40 million boxes have already been seeded. So Phase 3 digitization as per the government data is 120% complete. Unfortunately, this got stuck into legal issues, which is impacting the monetization of the business for everyone. We expect this issue to get settled sometime in the month of July.

As regards subscriber additions, as you know because of this extension of digitization we are stuck with inventory….. As we speak, we are currently carrying 2.7 million boxes in inventory and as and when the stays will be vacated we think within the same quarter or within the succeeding two quarters, the entire 2.7 million will get consumed.

We will be more comfortable giving seeding guidance till March 2017, we are targeting converting the entire analog into digital .We are a 12.2 million analog subscriber base out of which we have done so far 7.9, so roughly 4.3 million is the gap which we intend to complete in the rest of the year, if there are no further extensions for digitization.

Sumit Rohra: Understand. And sir, sorry, if I can I just intervene here so, I want to ask you so this what is the total debt today because promoter has also infused some amount of equity right, so, what is our total debt today?

V. D. Wadhwa: Gross Debt is 1,116 Crores and the Net Debt is 743 Crores.

Sumit Rohra: Okay. And for this 2.7 million inventory have we already paid for that or do we have to…

V. D. Wadhwa: It is already paid for.

Sumit Rohra: Wonderful, okay. And sir, I mean my last one sir, can you just please I mean talk about the other things which is the collection and on the acquisition point, sir.

V. D. Wadhwa: We think the biggest delta is going to be the monetization of the Phase-III market, which is still paying analog subscription and it is going to have a major impact on us as compared to any other peer in the industry because we have the largest Phase-III subscriber base.

Sometime around July this matter is going to get settled…..we have already started raising the invoices and started putting pressure and are trying to collaborate with the other players in the industry. Regardless of the court matter, whatever the period it takes for the judgment to come through, we have started putting focus and pressure jointly so that we can start collecting the money. We feel Phase-III should happen from July onwards, once the Court sets aside all the stay orders.

For Phase-I and Phase-II, TRAI has come out with some kind of formula that we have to sign a fresh agreement with all the cable operators, defining a commercial arrangement between both entities. So one is the standard inter-connect agreement…. basis that if the LCO signs, the entire responsibility of the taxation is on the MSO… we will be doing B2C billing and we will get two-third of the revenue share.

The second option is a mutually negotiated contract that is purely commercially negotiated. We have already cleared that contract and right now in the process of sending the letters to all the cable operator which is 55%-45% in their favor….we are saying for the first year you pay us 45% of the revenue and this contract is for 12 months' validity. As per the TRAI-regulation, they have no choice, they have to pick and choose between the two and if they do not choose any of these two within the limited time frame, then the current contract will prevail and our existing contract says that two-third of the revenue should come in our favor.

Sumit Rohra: And what is the collection sir, in Phase-I?

V. D. Wadhwa: In Phase-I, this year we are targeting about Rs. 10 increase. We have not been successful in the last three quarters to increase anything in Phase-I and Phase-II because of competitive reasons but we think this year with this MIA (Mutually Interconnect Agreement), we should be able to increase collections between Rs. 10 to Rs. 15.

Sumit Rohra: So it will be Rs. 110, correct, around that?

V. D. Wadhwa: That is right

Sumit Rohra: And sir, Phase-II Rs. 75 - Rs. 80 collection Phase-II.

V. D. Wadhwa: It is currently about Rs. 75, we are targeting that by the end of this year we should take it up to Rs. 90.

Sumit Rohra: And sir, lastly on the acquisition part?

V. D. Wadhwa: We have been in dialog with almost all the players and in the last two quarters, we acquired about 8-9 small networks. So this is an ongoing process, there have been some media reports about SITI acquiring DEN which we have already issued a denial because it was just a dialog and there is nothing concrete about it …. Being a listed company, as and when there is something concrete we will definitely inform the investors as well as the stock exchange.

Sumit, just to give the reason, we would like to clarify that single handedly SITI Cable is trying to bring a lot of discipline in the market place but we have been getting partial success and more success will come only when all the other players start collaborating .Either you need to collaborate with all the partners or maybe you need to consolidate by acquiring somebody, we have come to that conclusion that unless we collaborate or consolidate, monetization is not going to move in a big way so that is why our focus is to just play a Consolidators role in the industry and try to bring everybody under the same umbrella.

Moderator: Thank you. The next question is from the line of Shayon Chatterjee from Moon Capital. Please go ahead.

Shayon Chatterjee: Just two things, one on the activation revenue which seems like you know realization per Set Top Box was bit low if you can talk about that and also going forward, once you become fully digital so I am talking about end fiscal year 2017 hopefully what sort of CAPEX plans for fiscal year 2018 and going forward are we looking for as far as broadband and assuming a base case of consolidation of the sector. Just these two questions, thanks.

V. D. Wadhwa: Yes, in the current quarter we have seeded 1.1 million STBs and got Rs. 78 Crores activation, although it looks like our realization on the activation is low, but in fact recently, we have acquired two networks and in those networks the valuation what we are paying has been given to them by way of a discount on the Set Top Box pricing, which is a actually a capitalization and not a discounting on the Set Top Box…..the way the deal has been structured while acquiring , regardless of box price , i.e. The acquisition cost of the box, we give them the box at a discount to our purchase price and whatever we are selling, the price is getting booked as activation. So that is why it is looking lower if we do it on arm length basis, we sell it at the fair value, whatever is the purchase price… write a separate cheque for valuation, that we are paying for acquiring 51% stake, the activation revenue will look healthy. So there is no dip…. we are realizing on an average roughly Rs. 1,000 per Set Top Box.

Shayon Chatterjee: And your cost is how much?

V. D. Wadhwa: The cost net of CENVAT credit is at about 1,150.

Shayon Chatterjee: Okay. So 150 subsidy, okay.

V. D. Wadhwa: Yes. So this is your question number one. For FY'18 on the broadband side, for the next four years at least, we will be incurring roughly about Rs. 300 Crores CAPEX …. we are ready with our business plan for the next five years so broadband will consume roughly about Rs. 300 odd Crores year on year for next four to five years. As far as cable is concerned, besides FY'17, because largely the seeding will be over in the FY'17 itself and from next year onwards cable will be consuming largely maintenance CAPEX and there will be some incremental customers coming in but we do not expect that at any given point of time incremental customers will be more than 1 million in a year , so cable will not consume more than Rs. 100 Crores…… largely it will be a Rs. 300 Crores on broadband side, so you can safely assume about Rs. 400 odd Crores is the CAPEX requirement as we speak.

Shayon Chatterjee: And do you think you will be EBITDA minus CAPEX positive by then by fiscal 2018 - fiscal 2019?

V. D. Wadhwa: We should by FY 2019.

Shayon Chatterjee: Once all the digitization happens so I think…

V. D. Wadhwa: We should be definitely EBITDA minus Capex positive that is what is we intend to do because we cannot remain in the investment mode all the time.

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

Ankur Periwal: So couple of questions, first of all as you mentioned in terms of collections you know the Phase-III market is largely analog although the Set Top Boxes whatever we are seeding, they are digital in nature. So just want to understand how does the content cost relate to it because otherwise there could be pressure in terms of content cost going out but collections not coming in so, just wanted to have your thoughts on that.

V. D. Wadhwa: Yes, Ankur, I think, you hit the nail on the head because our content cost in Q4 includes Phase-III as well…. our contracts in the last year were renewed for the expansion markets. Fortunately for us, the content cost has been largely on a fixed fee basis with majority of the broadcasting bouquets. So in content cost there will be marginal growth on a like-to-like basis ….probably about 15% but not so much for the expansion markets because those have already been covered in the deals

If we are going beyond the current 312 cities and entering any new cities where we are not present, the content cost will be over and above what we are paying right now. In our planning we were banking on Phase-III monetization from January 2016 onwards, currently we are in the month of May and we have not been able to monetize the business …..We are likely to start doing that from July onwards hopefully if the court comes out with a positive verdict

To that extent you can say our content cost has already been factored in our numbers but our monetization has not yet started. So there will be an increase of about 15 odd percent, this is what we have factored in our planning for FY'17 ….that should be the upside on the content.

Ankur Periwal: So just to keep things in perspective the Rs. 160 Crores number for Q4 has content cost, that is the only content cost that is not LCO sharing number inclusive?

V. D. Wadhwa: You are referring to our one pager?

Ankur Periwal: The Q4, Yes, the Q4 cost Rs. 160 Crores which we term as pay channel cost that is a core pay channel cost or you know pay channel is….

V. D. Wadhwa: This Rs. 160 Crores combines the revenue sharing with the cable operator; content cost within this Rs. 160 Crores is about Rs. 110 Crores

Ankur Periwal: Okay. So Rs. 110 Crores into four and plus let us say some escalation of 15% here and there that will be our aggregate content cost going ahead and which is covering fairly large amount of Phase-III subscriber addition as well.

V. D. Wadhwa: Yes, roughly that should be the case.

Ankur Periwal: Just a follow-up on that, this incremental subscriber addition in Phase-III will be including the inorganic expansion that we are doing as well the 50% JV or the 51% JV the acquisition whichever we have done. It is all inclusive or that is incremental?

V. D. Wadhwa: As we speak, probably if we complete the digitization of our existing network and all we have acquired recently, we think it should end up between 13 million - 13.5 million overall subscriber bases. So we should add 1.5 million subscribers beyond what we have been currently claiming…

Ankur Periwal: So that will be over and above the let us the normalized content cost.

V. D. Wadhwa: That is right.

Ankur Periwal: Fair enough. Now just trying to bring you know the TRAI you know directive in this scenario wherein we have already into a contract fee sorry, the fixed fee model. So how does it start-up with let us if TRAI comes with whichever side of the deal.

V. D. Wadhwa: Ankur, this was a largely an industry issue. TRAI has already come out with a lot of consultation papers, recently they have come out that broadcaster have to give content only on a-la-carte basis, on a bouquet price …. we have not studied the full detail what all offers have come out from the broadcaster but at the first look, it is looking like Star, ZEE are all available at Rs. 30

As per expectations, the broadcasting content shall be available at Rs. 120 ….if you take the full bouquet. At Rs. 120, MSO industry will die and only the DTH industry can survive MSO industry cannot survive at Rs. 120 content cost. So what will happen is effectively people will move to a-la-carte choices…… everybody picks and chooses one or two channels from the popular channel in the bouquet and rest is dependent on the customer demand… then the customers will pay.

So ultimately, regardless of what TRAI is doing, the market forces will play a role in this. In India, if there are ~800 channels available and consumers don't want to watch more than 50 channels…for the balance 750 channels, someone has to pay for …. Either the broadcaster has to pay in some form or they have to discount their bouquet prices if they want us to carry all the channels.

We think this is going to be a game changer but we expect that ultimately it will be largely in favor of the distribution platforms it is more likely everybody moves to a-la-carte billing and that will be quite positive for the distribution platforms.

Ankur Periwal: Okay, fair enough. And you know secondly in terms of connections, you did mention an expectation of Rs. 10 increase in Phase-I and probably Rs. 15-odd in Phase-II. If I recollect it right earlier there were again the competitive issues due to which we were not able to push up realizations that much as we wanted in both Phase-I and Phase-II any comments, you like to share any change in the industry dynamics or probably the way we are going into consolidation mode.

V. D. Wadhwa: Yes, there is a small change only, in what everybody is realizing so if you see in the last four - five quarters, this dynamic has not changed for anybody in the industry…

Ankur Periwal: But the collection number is still the same, you are right on that but the collections have not increase that is why.

V. D. Wadhwa: Exactly. So one thing we have done is at a Digital Cable Federation (AIDCF) level, we have hired a team of two - three people who are going to take care of the entire billing , collection and the dunning process commonly…. for at least Hathway, SITI and DEN. So these three companies are already funding the cost of this team which is more like a Credit Control & Revenue Assurance (CCRA) team working on behalf of three of us as a part of the Digital Cable Federation.

This ensures we follow the common billing, rate, we follow the common policy of dunning, and we take actions against all the defaulting LCO as well as the distributors. People are already on board since last two months, they have been given full empowerment to deal with Hathway, DEN and SITI revenue teams as well as the entire SMS system …. We have given them full liberty that you are independent of any of the operations teams

As far as SITI is concerned, we are 100% committed to this cause and we are providing full support ….there have been some glitches while getting similar support from the other players in the industry, we think this will go a long way if we are able to institutionalize this and have joint efforts in the market place…. this is what broadcasters have done historically and they have done wonders for themselves, we are also become disciplined. Forget about Rs. 10 we can increase even Rs. 25 - Rs. 30 also in next 12 months if this works.

Ankur Periwal: Fair enough, sir. Sir, and lastly your comments on broadband because this quarter the Q-on-Q addition in subscriber is encouraging so, you can put some light there.

V. D. Wadhwa: Yes, so as we mentioned in our previous calls also last year, we were grappling with teething issues in terms of rolling out the broadband and putting the backend in place. Now, the initial teething issues are behind us and our focus is entirely on putting up infrastructure and acquiring the customer. So that is what we have been doing in the last quarter…. you have seen how the results have been and going forward quarter-on-quarter. In the current year we are talking of addition of roughly +2, 00,000 customers incrementally.

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

Vivekanand Subbaraman: I had two questions; one was with respect to the cash collections and receivable cycle. So what I see is that we have done reasonably well in being able to curtail our trade receivables which have grown much lower than revenue that is quite encouraging. So is it are the result of a more disciplined approach by the industry in revenue recognition and which is more aligned with collections that is one. Secondly, with respect to the several regulatory changes that are playing out we get a sense that the regulator is very concerned about the consumers more than the industry stakeholders. So in that context do you also feel that there is an increased investment need that all industry participants will have to specially to meet quality of standard requirements and also you know in compliance costs? Thanks

V. D. Wadhwa: On the cash collection side, a) We were never following the practice of the industry of just inflating the revenue line ….we have been disciplined in terms of our revenue collection ….the only thing is since the last four - five quarters the collection rate has not gone up but collection to billing performance has gone up definitely

Earlier if you were billing Rs. 100 Crores and you were collecting Rs. 85, now at least against Rs. 100 you are collecting close to Rs. 95. So that is why there is no build up in the account receivables plus all our teams are currently on a variable pay and there is a clear cut mandate and KRA for everybody including at my level that debtors cannot go up.

Today the entire focus is, what you are billing …you must go and collect and in case if there is a nonpaying subscriber, we do not mind disconnecting that subscriber or taking that subscriber to court. We are being a tough task master in the market place. So far our collection performance has been much better as compared to the industry. Overall in terms of the subscription revenue also, you will see that we have a 7.9 million subscriber base whereas everybody else has a much larger base within Phase-I and Phase-II than us, but despite that our subscription performance is far better than the rest of our peers in the industry.

Number two on the regulatory changes, your point is from the consumer point of view. We think from the consumer point of view, the tools were already there. The bigger challenge on the cable side of the business is that the mindset is not there, the mindset of majority the players has been on a B2B model. Most of the MSOs believe that so long as they are providing the signal to the cable operator that is a completion of their job. They do not understand that ultimately the consumer is who is consuming your signal.

So there is definitely greater awareness in terms of a) giving better quality of signal, giving HD services, giving more local content, plus like we have taken a lot initiative that we have carved out an after sales service department separately b) we have invested heavily in our Call Center c) We have created after sales services because one of the biggest feedback of the customer has been the problem in the Set Top Box repair related issues which takes a lot of time. Unlike any other FMCG industry, TV, Refrigerator, where the repair gets done within no time, here the repair used to take between two to three weeks for repairing Rs. 1,000 or Rs. 1,200 boxes….. so that is where our focus has been that the moment the customer is facing any problem….within 48 hours we should be able to fix that problem.

It is largely to do with becoming customer oriented and sensitive to the customer requirement of the product and the services. So from that point of view, we think the mindset has to change like in terms of having the bandwidth, having the connectivity, giving good quality Set Top Boxes ….. All of that is already in place

Last year we took a major lead over every other player in the industry in giving MPEG-2 boxes to the customer…. we are providing MPEG-4 boxes as well which is next generation. Only the DTH industry is providing MPEG-4 boxes, in the cable industry no one else has been providing. So this results in the tools which ultimately will work for us in giving better customer services but also from a regulatory point of view.

We feel the Cable industry is not at par with the telecom industry and so far as the cable industry is concerned, the customer is overly pampered, nowhere in the world has customer paid $4 - $5 for watching 400 channels and we are also talking of providing extra services and without asking for extra money from the customer. So from that point of view we do not agree entirely with the TRAI recommendation on some of the issues at hand. If there is a good product that the customer is demanding, obviously he should be mentally prepared to pay higher value also and we do not think there is a mental block in the customers mind to pay higher value. The only thing is regulatory restrictions are there where we cannot increase the prices as per our whims and fancy.

Vivekanand Subbaraman: Sir, thanks for the elaborate response, I had a couple of follow-ups one was with respect to the PFDD (Provisions For Doubtful Debtors) in FY'16 versus FY'15 that is one. And secondly, with respect to some of the other changes that DTH companies are doing so they are upgrading their middleware, they are also upgrading their channel carrying capacity and have HD deals in place for being able to participate in up-selling. What is the level of preparedness of your company and the industry in this regard? Thanks.

V. D. Wadhwa: As you see that we have increased our provisioning and while we are improving on our P&L, we are taking from cost and trying to improve the balance sheet …. We are taking a more conservative approach in terms of cleaning up our past debtors as well.

Vivekanand Subbaraman: Sir, to quantify this?

V. D. Wadhwa: We provided Rs. 47 Crores for provision for doubtful debt and last year this number was I think half of this year. Coming to your next point, see DTH has got a problem of limitation in terms of transponders capacity that is why they have to work on increasing the capacity. Fortunately, for cable industry we are not subject to that kind of problems…. all our head-ends are across the country. All the locations are capable of carrying (+400) SD channels today and we are also currently in the process of enabling all our head-ends across the country to carry (+50) HD channels. Currently our capacity is 30 channels. We are increasing it to carry 50 channels on HD. For DTH this is a big challenge but not for us.

And secondly, we have already moved to MPEG-4 boxes. Some in the DTH industry is still on MPEG-2 boxes, so we are ahead of most…… only Tata Sky probably is giving MPEG-4 boxes and Dish TV has also started doing MPEG-4 so, we are at par or even better than most DTH players. As we said, our bigger problem in the cable industry was the frequent disturbance on the lines….. There used to be connection lost at times because our wires are lying on the street or on the pillars so that is what we are fixing and second thing is we are improving our customer orientation so that the response time to the customer complaints is much faster. From the technology point of view, the cable industry is far superior to the DTH industry.

Vivekanand Subbaraman: Right. Sir, lastly, a couple of financial questions one is on the variable cost per subscriber how do you envisage this to change or the servicing cost per subscriber excluding content how does this change with all the regulatory issues cropping up with respect to compliance. Secondly, with respect to your EBITDA margin excluding activation, it is around 5% this quarter and I understand that this is depressed because of you entering into new geographies how much would this be in DAS-I and DAS-II area?

V. D. Wadhwa: Variable cost will not change because of all these regulatory changes because we are already doing what needs to be done. Variable cost can change only because of the content or because of complying with any of the regulatory requirements, number one. Unfortunately, we do not track EBITDA margin separately for Phase-I, Phase-II, Phase III and Phase-IV. We do it a company level. So we will not be in a position to answer your question. You have rightly observed that it is depressed currently because we have already started booking incremental cost of servicing Phase-III customer in terms of the bandwidth, in terms of the manpower, in terms of the content cost where the monetization is still coming in an analog form. So EBITDA margin…. we are targeting that by FY'17…. we are targeting internally an EBITDA margin of close to 16%-17% which is currently at 11%.

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

Vikash Mantri: I just wanted to understand, sir, these 1.1 million subscriber addition that you have done this quarter and last quarter have they started paying us?

V. D. Wadhwa: Vikash, unfortunately, not right now

Vikash Mantri: Sorry, sir, I missed it because of another call.

V. D. Wadhwa: All of this is basically converting analog into digital in Phase-III market and unfortunately because of the various court cases pending in the courts of law, monetization is happening only in the analog form, not in the digital form. We expect the digital monetization of Phase-III to start somewhere around July onwards because currently Courts have gone in vacation and not before 1st of July, the Courts will be resuming. So July is the month when we expect some positive signs to fructify

Vikash Mantri: So whenever this digitization happens and I am happy to even give it on three-month delay. What kind of payment should start coming in from these markets on a per subscriber basis?

V. D. Wadhwa: You can safely assume minimum Rs. 50. We are pleased to share with you that in Haryana… in some of the markets we are already collecting Rs. 80 from Phase-III customers. So it will be ranging from Rs. 40 minimum going up to close to Rs. 60 - Rs. 70. Largely, the weighted average you can assume comfortably Rs. 50-60.

Vikash Mantri: Okay, fair enough, sir. Sir, on the activation revenue despite similar additions as to last quarter your activations for this quarter it is down can you help me with that?

V. D. Wadhwa: The majority of the boxes we have seeded in recently acquired network, so the drop in the activation revenue actually is the valuation that we have paid for them because the valuation is not being paid by way of writing a cheque in favor of the partner, it has been given to them by way of a discount on the boxes. So if we are procuring a box at Rs. 1,200 and giving it for Rs. 600 so obviously we are booking Rs. 600 as the activation, balance Rs. 600 going towards the 51% ownership.

Vikash Mantri: So this is over and above the money that we paid to acquire those companies?

V. D. Wadhwa: We never pay money for acquiring a network. We pay only in kind, when we acquire 51%-60%, we never write a cheque and acquire the network, we always issue boxes at a discount or we provide network material.

Vikash Mantri: Sir, what should have been shown up as investments in those networks is now showing you as lesser revenues because our activation has dropped to that account. Ideally it should be revenues and investment.

Anil Jain: So, you are right, when it comes to investment, if you look at the current quarter also, we have invested money in the form of OCDs, that is relating to these investments in the form of fixed assets which we have given to them.

Vikash Mantri: Okay, sir, I will take this offline. I needed a few more details.

Anil Jain: I would be happy to share more details.

Vikash Mantri: Yes. Sir, on a full year basis can you share the content cost and the share of LCO separately, you have given Rs. 70 Crores and Rs. 110 crore s for this quarter I believe.

V. D. Wadhwa: On a full year basis, our content cost is Rs. 359 Crores.

Vikash Mantri: Okay. And share of LCOs?

V. D. Wadhwa: Rs. 210 Crores is the distribution expense in the cost and Rs. 359 Crores is the content cost.

Vikash Mantri: Sir, I did not get the LCO share number.

V. D. Wadhwa: No, I am saying Rs. 359 Crores is the content cost and Rs. 210 Crores is the distribution expense.

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

Sanjay Chawla: I have follow-up question on the LCO share. Last year it was around Rs. 170 Crores - Rs. 180 Crores on a full year basis the share of LCO in your cable subscription revenues. This year it seems to have come down but you are indicating Rs. 260 Crores which is a significant growth over the last year?

V. D. Wadhwa: Let me clarify this because in the consolidated results, we are booking couple of expense item in one line which is showing Rs. 569 Crores. If you refer my full year cost which is carriage sharing, pay channel cost and related costs, Rs. 569 Crores. So I stand corrected. My overall cost of distribution expense and the content cost is Rs. 569 Crores out of which Rs. 359 Crores is the pure content cost. And the balance roughly Rs. 210 Crores is Distribution expense,

Sanjay Chawla: I just want to rephrase my question. My question is you are doing some gross billing related payments or invoicing in some of the Phase-I cities. So there if you are doing gross billing how much is you are allocating towards the LCO?

V. D. Wadhwa: No, this Rs. 210 Crores is on account of LCO, distributor expenses and carriage sharing because in Delhi, Mumbai, Calcutta, we are doing gross billing and whatever we are realizing in those markets based on the rates what we have already mentioned that in Phase-I we have realized Rs. 100, the balance we book as a LCO margin..

Sanjay Chawla: I am under the impression that some of the distribution cost is also included in this cost line items but probably I will take it offline because you are also paying some share on carriage also?

V. D. Wadhwa: That is factored in this itself. When we pay LCO margin and if we share 25% of our carriage revenue with the LCO, both of these cost lines are clubbed into this cost itself.

Sanjay Chawla: Right. Okay. So I was just looking at the pure gross billing related number but I will probably take it offline. My second question is can you give us the total CAPEX for last fiscal year and if you can break it down also in terms of cable business CAPEX broadband and also the acquisition related CAPEX?

V. D. Wadhwa: Total CAPEX last year is Rs. 636 Crores, on the cable side we have incurred Rs. 582 Crores and the broadband side we have incurred Rs. 54 Crores.

Sanjay Chawla: And this cable, can you break it down into your organic and inorganic numbers?

V. D. Wadhwa: No, when we are saying CAPEX, this is all organic there is nothing inorganic into this; this is towards the box purchases. This is towards buying of the boxes and not towards paying ownership stake for acquisitions.

Sanjay Chawla: So that purchase of these companies will be on top of that investment?

V. D. Wadhwa: No, as we mentioned, we do not write a separate cheque, we give the boxes. As the purchase price we give the boxes generally. So if I am buying a box worth Rs. 580 Crores out of which I give the boxes for the consideration also.

Sanjay Chawla: Okay, understood, sir. Third question is sir, some clarity on this OFCD you know how much money has come in on account of this and have all been converted, how much is yet to be converted into equity shares?

Ankit Saint: Yes. the money that has come in for the OFCD was Rs. 180 Crores…. out of that roughly around Rs. 108 Crores worth of the OFCDs has been converted into shares, Rs. 72 Crores is pending, so it is still in the form of OFCD as of now.

Sanjay Chawla: So where is this Rs. 72 Crores lying in your balance sheet in the equity side, liability side?

Ankit Saint: It is a part of the short-term borrowing.

Sanjay Chawla: Okay, it is a part of that, okay, that is great. And just last question on the interest cost, we have not seen the interest expense coming down in the fourth quarter despite these fund raising which happened and on a full year basis the average cost of debt seems to be 10.4% is that correct?

V. D. Wadhwa: Yes, that is correct. And the interest cost has not come down because we got the funding towards the end of the fourth quarter; we have started repaying only in the month of February and March. So you will see the benefit coming in the current year.

Sanjay Chawla: Okay. And what should we assume now as the average cost of debt going forward?

V. D. Wadhwa: The average cost of debt should be in the range of 10.5%..... If you see the prior period, we have been saying that it is close to the range of 12%. So we have been renegotiating and fortunately recently our ratings have improved to triple A minus (AAA-) from B plus (B+) so, that has helped us reduce the interest cost further and now because of this profitable turnaround … the ratings are going to change. So, we expect this to be somewhere around between 10.25% to 10.5%.

Sanjay Chawla: Okay. And just the last question, how much would be the proportion of foreign currency debt out of the total debt on balance sheet?

V. D. Wadhwa: Yes, so out of our total debt of Rs. 1,100 Crores about Rs. 328 Crores is the foreign currency debt. So, rest is all term loan…. rupee term loan.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

Arjun Khanna: Sir, my first question is in terms of HD, if you can give us some numbers of the pick-up we have seen in number of subscribers then what would our realized ARPU for the same be?

V. D. Wadhwa: In HD, we have closed the year with 50,170, we have added roughly 33,700 customers in the current year … given the state where HD was in the cable industry, this is improving significantly. For the current year we are internally targeting 200,000 HD customers, we have already placed our orders on the suppliers for procuring the boxes. In terms of the realization, net of LCO margin and the net of taxes, on the HD roughly Rs. 50 - Rs. 60 will be the incremental realization net of all other costs.

Arjun Khanna: So what we are stating is that said from that 110 we would be Rs. 170 is that a fair understanding in Phase-I markets for HD?

V. D. Wadhwa: Yes, that is right. Assuming we are doing HD in Phase-I market.

Arjun Khanna: No, I am just saying the realization for HD would be roughly Rs. 170 for HD subscribers.

V. D. Wadhwa: 110 is our realization going to be in Phase-I, we are not giving guidance for Phase-II and Phase-III so we will be realizing 110. So whatever is the realization, if HD boxes are being seeded in the Phase-III market, we cannot get Rs. 70. So whatever our realization is in the different Phases, we will get incremental Rs. 60 realization on account of HD customer.

Arjun Khanna: Fair enough and In terms of content deals, are we signing deals say for HD in Phase-III also considering that our realizations will be lower?

V. D. Wadhwa: Yes, all our deals are consolidated in nature. Our content deals are regardless of the different phases of digitization and all our deals are including Phase-I, Phase-II, Phase-III, Phase-IV as well as HD.

Arjun Khanna: Sure. Fair enough. And in terms of CAPEX per box so what would as subsidy be for the HD boxes?

V. D. Wadhwa: No, we do not give any subsidy on the HD box. The good part is on HD box we realize full value.

Arjun Khanna: Right. On your website there is offer of Rs. 1,800 as the final cost of installing an HD box so our costs are within that?

V. D. Wadhwa: Our costs are within that, there is some margin for us within Rs. 1,800.

Arjun Khanna: Right, fair enough. Secondly, sir could you help with the ARPUs for our broadband incrementally we are looking at scaling up this business spending Rs. 1,500 Crores over the next four years - five years so what kind of ARPUs do we envisage?

V. D. Wadhwa: Initially, as you know that we have launched broadband, on the DOCSIS platform so, firstly in order for faster acquisition of customers, we kept the entry prices low. Our current ARPU on DOCSIS is at around Rs. 600. We expect his Rs. 600 ARPU to stabilize between Rs. 750 to Rs. 800 in next two to three years' period.

But till the time we reach a critical mass, have a million plus kind of customer base, we do not intend to play a pricing game and start jacking up the prices because right now the acquisition of the customer is far more important rather than taking the prices up.. Today as well, whatever customer base we have acquired, we are seeing the customer might have entered at a rate of Rs. 550 - Rs. 575. But within three to six months' time, we are up-selling and the customer has started using higher bandwidth and the price points are moving up post that. So that is our strategy: To acquire the customer at the entry price and thereafter up sell our proposition.

Arjun Khanna: Right. In terms of customers so, how many customers would we be having currently, probably at the end of this quarter?

V. D. Wadhwa: we had 1, 32,500 customers at the end of 31st March.

Arjun Khanna: And how many did we add this quarter, sir?

Ankit Saint: We added 25,500.

Arjun Khanna: Right. In terms of contracts customers signing-up with us what the general length is of contract that customer signs?

V. D. Wadhwa: No, customer does not sign any time bound contracts with us.

Arjun Khanna: Right. So we do not have the six month and one year long packages?

V. D. Wadhwa: We do provide options to the customer for one month, three months, five months, but there is no such time bound thing. The only thing I can tell you that for us the customer retention is close to 92%. Anyone who has come on our network, 92% remains with us.

Arjun Khanna: What period of time is this we are saying on a month-on-month level or? How do we define this metric of 92%?

V. D. Wadhwa: Yes, so currently on a month-on-month basis ….our churn is not more than 3%, so this 92% is that consistency of the customer who has joined

In a one-year period let us say somebody who joined us who was with us from 1st of April, 2015 …….on 31st March, 2016 we have 92% out of them with us. So in between we may have added, we may have lost something but there is consistency in the customer longevity.

Arjun Khanna: Sure. And lastly sir, with this IndAS accounting how would we announce for the LCO issue is there any change or things would appear similar to what they are now?

V. D. Wadhwa: Now that TRAI has given the option that you can do either gross billing or net billing, we are also giving both options to the LCOs right now with margin sharing structure. So if the cable operators are opting for net billing, obviously we will also be doing net billing and that means that our invoicing will be to the LCO only and that is what will get booked as our revenue. Probably if we move to a net billing then there will not be any revenue sharing coming in to the cost line

Moderator: Thank you. The next question is from the line of Sumit Rohra from Emerging Market Advisors. Please go ahead.

Sumit Rohra: I just wanted to understand a bit on the carriage aspects so for the you have just concluded what was the carriage figure in absolute term and how do you basically see this going ahead? Sir, also of this 7.9 million what we have got subscribers can you be help understand how much is Phase-I, Phase-II and Phase-III? And you said about the debt being about Rs. 750 Crores odd, so I mean assuming there is no acquisition or you know anything of that sort. What is your thought process on debt level so what is the optimum debt level which you are thinking?

V. D. Wadhwa: On the carriage side Sumit we have got roughly Rs. 257 Crores on a full year basis which is about 3% growth over the last year. In the current year we are targeting we should be able to improve by another 8-10% or so because we have expanded the market and converted majority of our analog into digital.

Sumit Rohra: And sir, to ask you on content, so you said your content cost is about Rs. 350 Crores - Rs. 360-odd Crores, right. So how do you see content cost sharing up over this next year?

V. D. Wadhwa: Content cost on a like-to-like basis will grow by ~15% plus and whichever the new market we will be expanding will be over and above this. So on a like-to-like basis content cost is not likely to go up by more than 15-20% and that too we are taking on a conservative basis because our subscription has not gone up ….. This is going to be a big challenge with the broadcaster that when our subscription revenue is not growing, how we can give you growth on the content cost.

But still we are factoring that there may be some growth Third one, your question was on the debt levels; currently debt is at Rs. 743 Crores. Given the current financials of the company, whatever cash generation we are planning for the current year and out of the promoter funding…. roughly Rs. 150 Crores is yet to come in. So, debt levels may go up another Rs. 150 Crores - Rs. 200 Crores by March 2017 because our overall CAPEX requirement for the current year is about Rs. 600 Crores.

Sumit Rohra: Okay. So sir, if Rs. 600 Crores is the total requirement of your CAPEX so, Rs. 750 Crores debt we have so, if you install Rs. 2.7 million even if you realize 1000 so, incrementally you will get about Rs. 270 Crores from there as well so that is why you are saying that I should not cross Rs. 1,000 Crores like in the best case that is what you are saying, right?

V. D. Wadhwa: That is right. Because this 2.7 inventory is already paid for, if we are looking to seed another 2 million, only that we have to buy.

Sumit Rohra: Fair. And sir, just lastly on the 7.9 million so, in Phase-I we have how many sir, 2.5 million - 2.6 million?

V. D. Wadhwa: 2.15-2.0 million Phase-I, 1.5 million Phase-II, total 3.7 million between Phase-I and Phase-II and the rest is all in Phase-III. So we think a little bit of spillover is there in Phase-IV.

Moderator: Thank you. The next question is from the line of Zeeshan Bagwan from JM Financial. Please go ahead.

Zeeshan Bagwan: I have one question, can you please provide us with the break-up of DOCSIS subs and EOC subs in the broadband segment?

V. D. Wadhwa: Yes, our DOCSIS subscribers are at about 28,000, balance 104,500 are on EOC. Total 132,500.

Moderator: Thank you. Our next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sir, my question is that in broadband since we do not have a truce with the other players especially with DEN and Hathway, and all three of you are operating in Delhi. So is it that you people are going into each other’s areas for broadband and is that allowed? And second is that do you think having a box gives you any advantage for broadband?

V. D. Wadhwa: Gautami, I did not understand the last part of the question, having is a box is advantage meaning?

Gautami Desai: Means if you already have a box in a house does it help you in getting a broadband as well in the same house?

V. D. Wadhwa: Yes, first of all, there are no regulatory restrictions. Unlike cable, broadband is a new line of business, the preference is always to go into the area wherever your existing infrastructure is and your existing relationship with the consumer is. So like in Delhi, we control 22% of Delhi market share so, our preference is to first give broadband connectivity to 22% of the universe but theoretically speaking …..Technically speaking we are free to go anywhere in the city and same thing applies for Hathway and DEN as well …. There is no regulatory or legal restriction on that. You are providing your services; let the consumer pick and choose whichever services he wants to take.

Gautami Desai: Is that the LCOs will help you if you already have cable TV is that LCOs could be of any help in broadband?

V. D. Wadhwa: No, the LCO is definitely a big help…. without the help of the LCO ….we cannot do broadband.

Gautami Desai: Okay, sir. And sir, my second question is that you say that your average activation is say about Rs. 1,000 so especially in some very smaller towns of say poorer states of Andhra Pradesh or Telangana; you think that your subsidy will be higher in those very small towns?

V. D. Wadhwa: No, in fact you will be surprised the maximum expansion of SITI cable has happened in AP and Telangana and there we are comfortably realizing under Rs. (+1,000). It is a myth that the smaller towns do not have the paying capacity.

Gautami Desai: Okay. And sir, out of broadband, how many how many are in Kolkata and how many are in Delhi?

V. D. Wadhwa: The entire DOCSIS customers are in Delhi, the entire EOC customers are in Kolkata so Delhi has got about 28,000 customers and Kolkata has got about 104,500 customers.

Gautami Desai: Okay. And sir, which are the next towns you are thinking of rolling out for broadband?

V. D. Wadhwa: We are rolling out broadband in the states of Haryana and MP, so Haryana will be in order of priority…..In Haryana we are rolling out broadband within this quarter itself. So total in the current year we shall be adding another 15 cities for the broadband.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions. I now hand the floor over to Mr. Wadhwa for closing comments. Thank you and over to you, Sir.

V. D. Wadhwa: Thank you ladies & gentlemen for the patient hearing and we think we have tried to answer all the questions. In case if any of you have got any follow-up question or anything which is still not clear, please feel free to connect with me directly or any of my colleagues including my Head, Finance & Head, IR …. We will be more than happy to answer and revert back to you. Thank you.

Moderator: Thank you very much. Ladies and gentleman, on behalf of SITI Cable Network Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.