An Essel Group Company

"SITI Networks Limited
Q3 FY 2018 Results Conference Call"

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MANAGEMENT:
MR. RAJESH SETHI -- CHIEF BUSINESS TRANSFORMATION OFFICER, SITI NETWORKS LIMITED
MR. SANJAY BERRY -- CHIEF FINANCIAL OFFICER, SITI NETWORKS LIMITED
MR. ANKIT SAINT -- HEAD-INVESTOR RELATIONS, SITI NETWORKS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q3 FY 2018 Results Conference Call of SITI Networks Limited. 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. Should you need assistance during this conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Ankit Saint: Hi, Good Afternoon, Ladies and Gentlemen, this is Ankit here. I welcome you to the Q3 FY 2018 SITI Networks Investor Relations Conference Call.

We have with us Mr. Rajesh -- who is the Chief Business Transformation Officer for SITI and Mr. Sanjay -- who is the Chief Financial Officer for SITI.

I now hand over the call to Rajesh to brief us about the Q3 and the nine months results.

Rajesh Sethi: Good Afternoon. Thanks, Ankit. Good Afternoon, Ladies and Gentlemen, thank you so much for taking your time out and join us on the call.

Fantastic quarter for us. Some of the key highlights. Our Operating EBITDA have improved by 85% quarter-on-quarter taking it to Rs. 50 crores which is 225% increase on a year-on-year basis.

EBITDA margins have expanded by 614 bps going to 14.8%. Happy to share that our revenue, ex activation grew by 30% year-on-year and 8% quarter-on-quarter to Rs. 337 crores. Subscription revenue, which is a key driver within the overall revenue went up by 44% year-on-year taking it up to Rs. 212 crores.

Our expense ratios have significantly improved. When I look at my expense to operating revenue. My expense ratio has improved, it is 85% versus 91% which is used to be in last quarter, so an improvement of 6%.

Collection efficiency which has been a key focus area for us, it has been at 95% for SITI Networks Limited and Y-T-D average of 90%.

So these are the few key highlights and I leave the floor open for you guys to join us ..

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We will take the first question from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: My first question will be in two parts, I will ask one-by-one. I can see that your activation revenue is down sequentially and also on a Y-on-Y basis and also the pace of your net cable subscriber addition has slowdown in this quarter, it is down to 0.22 million from 0.50 million last quarter. So what I want to understand is the company facing any competitive pressure in the cable market and in which region if you can say is it Phase-I or Phase-II or Phase-III where is the competitive pressure coming from, that is the first part of the question. The second part is if I calculate your activations revenue per box I can see that it has come down on a quarterly basis. So what I want to understand is the company undercutting STB activation revenue due to the increased competitive pressure and still, it is not able to gain new cable subscriber. So, if you can answer this then I can move to next question.

Rajesh Sethi: So first of all, my activation revenue per box has gone up. My quarter-on-quarter activation revenue in Q2 was Rs. 743 and IN Q3 is Rs. 761.

Second, while we all were seeding as an industry we all were converting analog to digital, the pace of adding Set Top Boxes was much stronger compared to what it is today and the clear reason is that the whole digitization wave is at its last cusp**.** So, while we added up close to ~2.6 million boxes Y-T-D in nine months. But when I look at this quarter, we added up around 4.6 lakh boxes wherein we also had a churn of around 2.4 lakhs, leading to the net addition of 2.2 lakh boxes. Now, while you talk about competitive pressure obviously most of the seeding has been happening in Phase-III and Phase-IV

Avinash Kumar: Okay. If you see your activation revenue that is you have reported yesterday. Your Q3 activation revenue is Rs. 277 million whereas in Q2 it was Rs. 411 million. So, it is down sequentially around minus 37% and Y-on-Y 41%, this is where I got the numbers from.

Ankit Saint: See, Avinash the numbers that we report are IndAS numbers. Obviously, there is a bit of spreading out of the revenues over the active life of the customer as well as there is some backup revenue coming from the previous year's seeding, so what is the numbers that Rajesh has told you is based on the iGAAP revenue and on the gross boxes that we have seeded on a quarterly basis.

Avinash Kumar: Okay. So, I guess IndAS is the correct number to look at I mean going forward that will be on a comparable basis if I am right?

Ankit Saint: Yes, iGAAP would be the correct number to look at because that is like giving us a revenue that you have seeded x number of boxes and this is the amount that you are getting for x number of boxes and based on that you get the per box rate.

Sanjay Berry: Avinash, Sanjay here. When we talk about iGAAP what we are looking at is the 100% of the collection under the activation head. But what gets reported under IndAS is a mix of 65% of current activation as well as you know there is some catch-up from the previous quarters.

Avinash Kumar: There is no extraordinary competitive pressure that company is facing and my point is there is no undercutting happening when it comes to activation fees per STB just to gain some extra subscriber

Ankit Saint: Nothing significant, Avinash

Avinash Kumar: Okay, that is all. The second question is I mean I can see that you net content cost I am talking about net content cost per subscriber has gone down this quarter which is a good thing. So, what I want to understand is this sustainable or this is a timing issue and where can we see your net content per subscriber let us say by this fiscal year?

Rajesh Sethi: Content cost is something which is one of the key focus areas for us. There have been deals which are open right now, under negotiation with some of the key broadcasters and there would be an uptick in content cost next quarter as those deals come into play.

Moderator: Thank you. We will take the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: I have got two questions. First one is on your carriage and placement revenue, which seems you have seen quite a good uptick this quarter. So, what is driving that and is this sustainable and on a full year basis how should we look at the growth let us say in fiscal 2019 from the carriage and placement? And the second question is on the content cost, you mentioned some deals are open and we should see some uptick up. So, can you just now share with us timeline or negotiations which are due in this calendar year, the calendar year 2018 and how much growth one could realistically factor for FY 2019 on the pay channel cost?

Rajesh Sethi: When you talk about the increase in content cost, content cost increase is pegged around 20% per annum and we maintain, there are some deals which are under negotiation and there will be an impact. Regarding carriage revenue yes, there has been an improvement because we have done a couple of new deals and there has been some impact of some carriage catch-up due to those deals. It is an item we have to look at on a yearly basis and there will be quarterly variations.

Sanjay Chawla: What is the exact pay channel cost this quarter?

Rajesh Sethi: Rs. 1,542 million.

Sanjay Chawla: Rs. 1,542 million. So even if we look at this number for let us say nine months of this year, we have seen a growth of more than 20% in the content cost Y-o-Y.

Rajesh Sethi: You are talking about Y-o-Y….. that is more of a timing issue.

Sanjay Chawla: I am looking at nine months

Rajesh Sethi: Obviously, because the content deals always happen anytime within the 12 months period. So, when you look at FY 2018 gross content payout cost it will be the same, it will be ~20%

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM group. Please go ahead.

Mayur Gathani: I am a just bit of consfused your reporting numbers says, the press release says Rs. 49 crores of operating EBITDA. So is that excluding the activation income.

Rajesh Sethi: Yes, it is operating EBITDA. Operating EBITDA is always EBITDA excluding activation

Mayur Gathani: Okay. And the total reported is around Rs. 78 crores so the difference is basically related to the activation income.

Rajesh Sethi: Yes, absolutely.

Mayur Gathani: Okay. Sir, any insights on the broadband how things are moving there?

Rajesh Sethi: In broadband we are at a gross sub level of 2.47 lakhs. We have close to 1.68 million home passes with us. DOCSIS ARPU is close to Rs. 605 while you see EOC ARPU is relatively lower at Rs. 441 and we are looking at blended ARPU of Rs. 481 for this quarter. Looking at this home pass base with 247,000 connections. Broadband is more of in a stable zone and we are internally working on various plans on the whiteboard. We want to redraw the thrust which can be brought into broadband as a business segment.

Mayur Gathani: Okay. So ARPU on an average basis Rs. 481, what was this year-on-year, sir?

Rajesh Sethi: Almost it is in the same range.

Ankit Saint: Mayur, we do not have the last year's number as of now.

Mayur Gathani: Not a problem, sir, I will revert on that. I will check on that later. What was the nine months content cost if you can share with us on the cable side?

Rajesh Sethi: Around Rs. 447 crores.

Moderator: Thank you. We will take the next question from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: Just a few follow-ups from my side. You can see that there are some cost benefits coming in this quarter. I mean employee cost is down and OPEX is also down sequentially. So, I mean if you can provide more color as going forward more benefit we can see cost-cutting benefits to flow down to the EBITDA let us say in next two quarters - three quarters. How much of EBITDA expansion can be expand coming from this cost-saving initiative?

Rajesh Sethi: The way we are looking at the business right now is that we are measuring expenses percentage of our operating revenue. So, like in Q2 it was at 91.4% to be precise wherein in Q3we have reduced it to 85.2%. Now effectively what has happened is that while our subscription revenue has gone up, we have made all the efforts to keep our expenses controlled. So, while you grow the revenue you keep your expenses moderate and this can only be done with various process optimization and cost control initiatives primarily driven by a lean, agile and focused team. So, productivity and disciplined execution is one of the key focus areas and I can assure you that this cost focus vigor will continue. You will see improvements here.

Avinash Kumar: Okay, perfect. So, when can we see if you can provide some colors EBITDA margins to be let us say next two quarters - three quarters to be. I mean your subscription revenue, the core revenue is going up, which is a good thing. You are keeping a good check on your costs. So where can we see the EBITDA margins to be in somewhere if you can provide some color on it?

Rajesh Sethi: You will see some improvement but it will be too early to give you the exact number.

Avinash Kumar: Okay, I completely understand. And just a follow-up, when are talking about Trai order for almost this whole of last nine months and last quarter when we talk you say, it will be out so soon. So, we do not see anything happening. Can you provide more color? Will it happen in the fourth quarter itself or get pushed ahead and how are the things?

Rajesh Sethi: We all as an industry per se has been looking forward for the tariff order to be implemented. But two things out there Avinash though there is no direct control anyone has because it is with the judiciary. However, there are efforts being made by all the constituents to appeal to get this tariff order announced and to give you the latest update. Around a week back collectively IBF, which is the Broadcasting Federation…. AIDCF, which is All India Digital Cable Federation and TRAI. There was a joint mention made by all three of them in Chennai High Court saying that let the order be declared. And judiciary at that time last week had mentioned in response to the mention which is brought in out there that you can expect it to be announced shortly

Avinash Kumar: You know if I remember our conservation last quarter this is exactly what we heard within a week or two we can expect the order. I mean I remember our conversation last quarter so that’s how it is

Rajesh Sethi: I know from where you are coming from, no control on that only thing we can do is keep on pushing the constituent and that is where at Indian habitat center, led by the TRAI Chairman himself, there was a joint meeting between IBF, where all the broadcasters were present…. AIDCF, where all key MSOs were there and DTH operators were there and TRAI themselves were there. And there it was jointly decided that why do not we go collectively as a single forum and request for the judiciary to announce it. Hence this mentioned happened last week, collectively by all three bodies.

Avinash Kumar: This will be a big boon for the industry, I should say that. And if I squeeze in a few bookkeeping questions here. I mean what would be your CAPEX for third quarter 2018 and your CAPEX guidance for the next quarter and the full year?

Sanjay Berry: What we are looking in Q4 … close to about Rs. 50 crores of CAPEX outlay for next quarter and for the next full year we are in the state of drafting out our annual operating plan, so probably that we can discuss it later.

Avinash Kumar: Sure. And can you provide a break-up of this Rs. 50 crores …. I mean how much will be broadband and how much will be CAPEX?

Sanjay Berry: For Q4 we are expecting about 15% to 20% to go into broadband business and the balance would be required for video.

Avinash Kumar: Okay. And what was the CAPEX for this quarter 3Q 2018?

Sanjay Berry: This quarter is about Rs. 50 crores. Again, ratio was the same

Moderator: Thank you. We will take the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Just coming back to the pay channel cost or the content cost. For the first nine months, it was Rs. 447 crores and on the Y-O-Y basis this is a little more than 20% growth and given system uptick in the fourth quarter as well. So, I guess we will probably end the year at 20% plus on a full year basis. So, my question is what is changing in the environment or in the negotiation that you are doing that we are confident of having a mid-teen kind of a growth in the content cost going forward. That is one. And secondly, your net finance costs are down quite sharply on a sequential basis even the debt has gone up. So, what has happened there is there any FOREX benefit that you got?

Sanjay Berry: So, finance cost, there was some buyers credit which was there so there were some high interest loans have been repaid so that was one of the big constituent and there was some foreign exchange loss which was there last time around which is not there in this quarter.

Rajesh Sethi: And coming to content element Sanjay, as we have said there is no fixed timing of content deals to happen. So, a lot of content deals are undergoing negotiation. We have taken some bold stances in case of few negotiations which were happening to the extent of going on RIO with some of the key broadcasters. So, we are into very active negotiation with a complete focus that content cost is something which must be curtailed.

Sanjay Chawla: Okay. No, I was under the impression we are looking at not more than 15% growth based on my past interactions but I guess that is the new reality.

Moderator: Thank you. The next question is from the line of Krunal Shah from Enam Investments. Please go ahead. Krunal, your line is unmuted. Please go ahead.

Krunal Shah: Sorry, sir I joined the call a bit late. The question may be repetitive. Have you given the phase-wise ARPU's this quarter?

Rajesh Sethi: No, we have not, Krunal but can. So, we have seen ARPU improvements in Phase-III and Phase-IV, Phase-I and Phase-II it remains the same. Phase-III has gone up marginally by 4% from 55 to 57 and Phase-IV has gone up from 40 to 43 which is around 8%.

Moderator: Thank you. We will take the next question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Sir, I am just trying to understand on a Q-O-Q basis exactly why the debt level has gone up? Because when I look at your depreciation, you have a depreciation of just around Rs. 80 odd crores and the CAPEX of about Rs. 50 odd crores, it is not coming on the CAPEX side of it. Could you explain between 2Q and 3Q increase in debt level what are the two or three key line item driving it?

Rajesh Sethi: So, one was the CAPEX which was about Rs. 50 crores and the other one, the increase of another the additional Rs. 50 crores was an account of working capital.

Amit Kumar: Sorry, Rs. 50 crores because working capital?

Sanjay Berry: Yes.

Amit Kumar: And what is the key line item in this working capital which is driving this?

Sanjay Berry: Basically, there was certain payouts which were happening to broadcasters. It was more so in the fag-end of Q3.

Amit Kumar: So, I am sorry, the liability side has gone down is what you are saying?

Rajesh Sethi: What Sanjay is saying that there was a Rs. 100 crores increase in debt, broadly it can be divided into Rs. 50 crores because CAPEX and Rs. 50 crores because cash flow related stuff. Within cash flow related stuff, it was more to do with some content payments to be made to broadcasters which was done in December.

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

Sanjay Chawla: If you could share the receivable level at the end of December compared to September end?

Ankit Saint: The receivables is around Rs. 458 crores as of 31st December.

Sanjay Chawla: Okay. So, this just like a pretty steep increase, it is driven by your cable subscription revenues mostly?

Rajesh Sethi: We generally measure it as a percentage of our DSO, our day sales outstanding and it remains flat. In fact, when I look at our collection efficiency, our collection efficiency is one of the key measurables we are monitoring and I look at my collection efficiency in month of December it is 95.4% on a standalone basis and when I look at my collection efficiency for Q3…it is close to 92% whereas Y-T-D was 88%. So, what you are seeing is because our subscription revenue is also growing up. We generally measure the account receivable as a percentage of subscription revenue in terms of days of sales outstanding.

Sanjay Chawla: I mean, in terms of the overall revenue that you have reported in the third quarter if I annualize it. This is translating to roughly 117 days whereas in September end we were looking at 106 days what you reported. So there seems to be some uptick here in terms of days of sales.

Rajesh Sethi: I think, we can exchange our calculation so that…

Ankit Saint: We can take your calculations later Sanjay. I think there has been carriage receivable**.**

Rajesh Sethi: We can look at your calculations offline Sanjay.

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

Avinash Kumar: Just a small follow-up, I mean it was like in continuation with what Sanjay asked. I mean I can see your debt level going up sequentially I mean you gave the reasons why it went up. So, FY 2018 end where can we the debt levels to be I mean can we expect any increase given the CAPEX outlook?

Rajesh Sethi: Next quarter we are not expecting any major movement in the debt levels

Avinash Kumar: Okay. So, I mean constant at what we saw at this quarter?

Rajesh Sethi: Yes, plus-minus Rs. 20 crores - Rs. 30 crores that would be there.

Avinash Kumar: Okay, okay. Fair enough and if you can share what will be your FCF I mean until now I mean nine months FCF generated?

Rajesh Sethi: Ankit can you just share it separately with him?

Ankit Saint: Yes, I will share it with you separately Avinash.

Moderator: Thank you. The next question is from the line of Krunal Shah from Enam Investments. Please go ahead.

Krunal Shah: What would be our HD ARPU?

Rajesh Sethi: We can get back to you on that Krunal.

Krunal Shah: Okay, sure. And in terms of other expenses was there any write-off of receivables this quarter?

Rajesh Sethi: No. Not at all.

Krunal Shah: Not at all. Okay. And in terms of broadband what would be the number of customers on the DOCSIS platform?

Rajesh Sethi: On the DOCSIS platform we have around 106,000 customers?

Management: Yes.

Krunal Shah: Okay. And any vision or in terms of the broadband business in next two years or five years can you share?

Rajesh Sethi: That is a very interest question Krunal. In fact, we are very bullish on broadband but we believe our current format of broadband as a business model, we are a bit skeptical. So right now, there is a complete captive team internally which is working. We have got them to go back on the drawing board …. trying to think about some disruptive innovations and you will hear something from us about broadband soon

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

Vikash Mantri: Sir, on the broadband business I wanted to know how do we calculate home pass and what is our ideal penetration ratio that should be there?

Rajesh Sethi: Effectively the ideal penetration ratio, I will be happy if it is 100% but that is not the way it works. But the home pass is generally the number of houses where we are ready to provide the broadband …. what we call where your network is present and you can get inside the house and ideally, we should be able to get into maximum number of houses.

Vikash Mantri: So, let us say if you put in a network on a lane, houses on either side of the lane becomes a home passed, is it?

Rajesh Sethi: Within the addressable reach. Yes, absolutely.

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

Amit Kumar: Just on this TRAI order we are just doing some math and I wanted your comment on whether we are right wrong or you know how to sort of look at it. When I look at your content cost about Rs. 170 crores in the trailing quarter at around 11 million active subscriber base turns out to be around Rs. 52 per subscriber and when we look at that RIOs which different large pay broadcasters had put out we were looking at the popular channels on average anywhere between Rs. 9 to Rs. 10 per channel net of commissions and discounts around Rs. 6 - Rs. 7. So that is just about nine channels broadly from broadcasters to what they were making earlier. Given the fact that there are almost 200 pay channels out there and that does not seem like a very high number. I mean consumer definitely does take or does watch those many pay channels. So I am just trying to understand what changes even if this TRAI order gets soft of implemented, what changes from your perspective? And whether you agree with the math or you think that something is off here?

Rajesh Sethi: Our content cost we generally look at it at net basis which is content minus carriage and then we arrive at a net content cost. Our content cost was Rs. 447 crores on Y-T-D basis nine months basis and my carriage was around Rs. 230.4 crores. So, my net content cost was Rs. 216.8 crores at a subbase of 11.32 million active. So, on that basis, my net content cost arrives at 21.3, So my net content cost is around 21.3 and then there are the OPEX and that is how we run this business, so while you spoke about ordinary customer picking up 9 to 10 channels and based on that it should happen, I have two observations out here:

One, there is a pipe charge which TRAI has allowed in their order wherein there is a minimum of Rs. 130 to be paid for FTA channels, (a) so that money must come to MSO anyway even if your content cost is zero. That is one. Second, also any number of channels a customer may choose to take, it is all pass-through cost. So, if my cost gets passed through and there is a fix pipe charge anywhere to take care of my other costs it becomes cost neutral to me while today it is a big expense on my balance sheet and in addition to that my presumption or what I have understood about the tariff order broadcasters are going to come forward with lean packages. So, there you could see certain small Chota packs of 8 channels, 9 channels, 10 channels depending on various broadcasters at very differential pricing which is permissible under TRAI tariff order.

Second, what we are more gung-ho about, your understanding of the local dynamics out here will play a critical because certainly, the whole game is changing from push to pull. So currently even when broadcasters today do their deal they do on the lump sum basis with complete, let us say 40 channels to 50 channels bouquet on average between top four broadcasters. So, they give you 40 channels or 50 channels bouquet and then you must pay a fixed cost. And now pushing 50 channels will become very difficult phenomena and as a broadcaster you will have to create pull with the consumer to subscribe to their channel or to their Chota packs, lean packs whatever they are trying to cut through on. And for that your whole accessibility to the consumer will play a critical role and I think there will be a shift of go-to-market strategy from broadcaster to intermediaries like MSOs and DTH. I think your local understanding of the markets, local geographies and your systems, processes, and customer centricity will play a critical role.

Amit Kumar: Sir, I take your point on the fact that there is a pipe charge which has been allowed on 125 but in fact, when I do the math your way which is content minus carriage today you are at a net of 21 and given the fact that carriage has been sort of limited at very nominal amount and that to the extent that channel has not picked up by more than 20% of the consumers I mean that element is actually going to come down for you, right? Carriage and placement all sort of put together?

Rajesh Sethi: There would be reduction in carriage because carriage is not being called carriage in the tariff order so what has been defined is 20 paisa per channel and then it has been further linked with the penetration levels. So that will definitely put some pressure on the carriage but then there will be other parameters there would be things like promotional activities, there will be various other kinds of charges will come into play and then the choice of placing free-to-air channels on that pipe with the MSOs or DTH and not with the broadcasters and beyond that this new regime would be more of marketing, selling and sampling your product to consumer and it will not be push through where people as you and me make it 300 to 400 channels on our TV sets while we may not be watching more than 20 channels. And if that must be done it must be done in a collaborative manner and will depend on the knowledge sharing and that knowledge sharing in terms will also depend on your people equation within the organization, process equation within the organization, the customer centricity drives you are trying to put in place. Do you have right kind of service and equipments out there to handle that kind of load and that is where the quality and quantity will stand to be differentiated, a quite different game altogether. I believe it can be a positive thing for broadcasters/MSOs/DTH provided you execute it right.

Amit Kumar: Okay. Just sort of final point and then I will leave it for others. I mean you already have those promotional activities given that you already have almost Rs. 80 crores carriage in placements income annualizes that almost Rs. 320-odd crores so those promotional I mean there is a fair bit of those promotional activities…

Rajesh Sethi: I mean as a consumer what are the activities you are looking at right now? I generally keep on telling my team that tomorrow you will be getting into a time where a grandma from a house will call at your call center and say, son, I need that channel on which you are showing

Mahabharata. Now your call center agent does he know which channel out of 400 channels is showing Mahabharata today? Today carriage is more of your carrying cost and the cost of LCN it is nothing to do with marketing or promotion.

Moderator: Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Just trying to understand this a little bit more on the tariff order. First, there is a view that (a) MSOs a generally are not ready with their system to really provide that kind of à la carte or Chota packs or individual mapping of channels. So, what is the reality there? Means are we somewhere in the middle and second is basis that also there is another assumption with the investor community and the broadcasters have been saying even if you look in Telecom today post Jio has been there, you have unlimited plans which is proliferating and now they are 20% or 290 million subscribers on that plan out of 800 unique subs, so we are gradually that is what is going to happen what is there in telecom and media will move in a reverse way from bundle to unbundle, I know there is a lot of push of content today customer choice is missing. So, the view is that MSOs may not really go and implement it out or the DPOs will continue with this kind of packaging bundling which exists today there will be five bundles instead of three. So, thought process there. As an MSO community is really thinking to take a stand here go out and implement other systems in place then only all these upsides will come, otherwise we will be status quo with marginal upsides?

Rajesh Sethi: Are MSOs ready, I can talk about three or four big MSOs and my answer collectively would be yes. Because we have been exchanging notes on this day-in-day-out. Proof of the pudding in fact, many of us have already started testing the market. We have a significant base in Eastern part of the country when you look at West Bengal, Bihar, Jharkhand, Northeast, we have a very substantial subscriber base in that belt. And we have been moving on RIO à la carte since 23rd or 24th of December…. it is almost one month now. So, taking a base of close to 5 million to 6 million subscribers on à la carte or on RIO which is going to be a reality soon over last one month in that part of the country has given us significant earnings

It does not stop there. We have a significant base in this part of the country with again close to 5 million to 6 million subscribers. So, we have taken another broadcaster, on RIO basis, à la carte basis in this market. So, we are experimenting with two broadcasters and again, that has also thrown up significant learning opportunity for us about our systems, about our ability to manage (+11) million customers while we are putting broadcaster for à la carte

We recently on 2nd of January announced new packages. For the first time we as an MSO have moved on packaging and we have announced four packages in these markets giving options to our consumers and that packaging options have also given significant insights into what we need to do and to be very-very candid in this call, we actually ended up ordering few more servers realizing that while we are juggling with 11 million base experimenting with these two broadcasters and looking at the demand level which will come up what are the flaws or what are the additions we have to put in play when it comes to my own systems, my own interfaces, my interfaces between my server base in my headquarters versus the way my operators and distributors are interfacing with it. So, a lot of changes are happening while we are talking of that front taking out these learnings of last one month. And one of the key reasons of going behind this is to check the preparedness we just need to have about our systems and infrastructure base.

In addition to that, we used to have our own in-house call center of around 30 people. We have gone external, we have hired a new call center on15 December …. we did that wherein we have put a team of more than 50-odd people and while we are going through this exercise with two largest broadcasters in the country our call center team is going through a complete learning process right now. So, when it comes to preparedness we are extremely gung-ho both when it comes to our support staff and when Now coming to bundle to unbundle. I think, as a consumer that is what I want, it is very different from Telecom industry.

When you talk about media, what I am doing as a consumer, I am basically consuming the content which you are supplying through your platform to my screen. Now while you are supplying that content and I am a consumer who must consume the content, content must be of my choice. You cannot push 400 channels while many of your channels are tailended channels which I may never like to consume. It is like you give me a huge platter with 20 different vegetables lying out there in front of me, I do not need all that. So obviously when bundling to unbundling happens the biggest worry which many broadcasters will have is what will happen to their tail end channels? What will happen to various news channels? It is all about me-too. There is a lot of me-too stuff which is available across various genres across the industry. And when you look at those genres, each genre may have more than 15 to 20 channels while your appetite may be addressed by having 3 to 4 top channels out of that genre which may take total count to 20 30 channels at best case even if you look at genre wise analysis.

So I am a big believer having worked at both broadcasting side as well as a distribution that your knowledge of local geography and how are you addressing your segmented base. So there are two kinds of MSOs or DTH players, one who are very local-centric who may have been having a deep presence in a particular market play only and they had been enjoying good content price by virtue of their monopoly on that base itself where 70% of consumer base is controlled by them in that particular geography. These guys will lose that monopoly advantage. While there are various MSOs whose base could be spread among pockets wherein you may be controlling one, two, three, four odd pockets across the country. Now your understanding of these four or five pockets where you have a concentrated base and when your ability to modify the offering of various broadcasters in all those four or five markets will become a major game changer for you guys and that is why we are very gung-ho**.** If you look at my presence we are deeply seeded in South of country, we are deeply seeded in North, we are deeply seeded in East and we are not one state specific player. I hope it answered your question.

Rajiv Sharma: Yes, it does and that is very helpful. Thanks for that. So, you think that bundling to unbundling will make sense and there will be no going back to bundle because of system issues or because of the strategic approach that it is better to have a higher share of wallet from the consumer rather than go to unbundling and have a low ARPU.

Rajesh Sethi: The biggest pain area today for anyone's balance sheet when you come to delivery platform community is the content cost. If the content cost not only becomes pass through but also this may present an opportunity to the segment in a way that it starts adding up to my revenue lines why not?

Rajiv Sharma: And in your agreements with LCOs which is the very flat rate per customer Rs. 100 or Rs. 130 how will that pan out? Because every customer, every house will be differently charged. Unless that is sorted and you have taken four years to sort this Rs. 130 out an industry. So, this will be new for LCO and he is seeing DTH doing this for long but that does not help him and how do you see that playing out?

Rajesh Sethi: Rajiv, fantastic insight. This was one area which was hitting our mind in last few months that how do we make our LCO part of this whole arrangement and how do we in terms of aligning him with our systems and processes in the way that he is able to put those packaging demands into the system directly on his own rather than my team getting across to let us say if it is not 12 million customers tomorrow and telling them that this must be done. On the OYC platform, these LCOs have a limited access to my service and systems wherein sitting in their own offices they can change the packages for various consumers depending on what is the uptake of that consumer. And in fact, while we are going through this experimentation or learning exercise with two large broadcasters, we gave that access to our local cable operators and distributors and they really tested it how it works and there would again improvement areas not to deny that and that is what I meant when I said that the interface between the server and the LCO is something where we are working upon.

Rajiv Sharma: No, my last question is basically he is getting Rs. 130 but in the new scenario how will you split because you are saving on content cost it is becoming a pass-through, you straight away getting a markup. So, you will split the 125 maybe 50-50 and then whatever is incremental and you will have to have billing systems. So, is that the way it will play out between your revenue share between both of you?

Rajesh Sethi: Rajiv, I think this is something which must be discussed between us and our partners. We will let you know the way it pans out.

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

Vikash Mantri: Interesting discussion, sir so I thought I need to come back. You made a statement that this tariff order will be positive for broadcaster/MSO/DTH and whether the LCOs were missed in this point? That was an oversight I would say?

Rajesh Sethi: No, Vikash. No, it was just a reference. I said this will be positive for the community. The complete statement was it was positive for the community provided you execute it rightly.

Vikash Mantri: I know, I know the provided it was there. My question, therefore, is can you help us work out the economics of the LCO because our entire working says that somebody must be worse off, if everybody is saying they will be good-good-good with it. And therefore, the equation that works out is that LCO will not end-up because if you are counting the pipe income on your end then where does the current moneies that the LCOs are making a stay put.

Rajesh Sethi: The point out there is there are various MSOs, there are thousands of LCOs there are various broadcasters and obviously the EBITDAs or PATs or revenues are not same for everyone. The business performance of each organization, each business unit changes due to various internal and external parameters. But broadly from the business model perspective, whosoever executes it right it stands to gain. We are very clear on that

Vikash Mantri: Your sharing with the LCO in the new regime remains the same or improves?

Rajesh Sethi: Vikash, I think that must be discussed between us and our partners.

Vikash Mantri: No, sir. The point is as an analyst my job is to forecast how does this equation change and that is why we are requesting your help here.

Rajesh Sethi: Let us take it offline, Vikash.

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

Avinash Kumar: Thanks for a detailed discussion on TRAI order I mean it was very insightful I would say so that answers because I was about to ask how is SITI or other MSOs prepared on ground to implement it let us say if the order comes down maybe two weeks - three weeks down the line. That is very insightful, thank you for that. Just a few follow-ups left with me is I mean is there any equity raising coming from SITI going forward because you need investment in the systems you need investments to up your billing, whole infra will change post the TRAI order so any equity raising plan. And second would be I mean post the TRAI order the market will synchronize a lot of investors will look at this sector which was not a very good sector to look at it in the past if I can put it in that way. So, any M&A opportunities coming into the sector post the TRAI order when things synchronize and then there is a good overflow for the whole sector?

Rajesh Sethi: I can talk for my organization's perspective. We are part of a large group with a huge market cap. So, funding is never a challenge. If we see an opportunity and there is need to raise funds in whatever shape and format that option always remains open for us. So that is not something which worries us a big time and as you said about merger and acquisition opportunity yes, there are many M&A opportunities in the marketplace and I totally agree with your thoughts that as and when things start working in more synchronized fashion which hopefully they should after the tariff order implementation, there are various opportunities. And we as an organization also keep on evaluating them.

Avinash Kumar: So, will you be comfortable sharing it on a public call I mean what the M&A opportunities that you currently have on the table?

Rajesh Sethi: There are opportunities on table as any organization you keep on checking those opportunities how useful they could be and what could be the right timing. So that is part of the ongoing business. When we will reach the stage where we need to make public announcements we will.

Avinash Kumar: Okay. And no equity raising plans as of now on the table?

Rajesh Sethi: Not on an immediate basis.

Moderator: Thank you. We will take the next question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir, just on the TRAI order hoping that it comes in soon, what are the likelihood that some MSOs may not like it or the broadcasters may not like it and they may take it to court or to any other body where they can raise an issue with it? And hence, again, delay the whole process?

Rajesh Sethi: Mayur, see, the strategies would be internal to each organization as you may appreciate. But what broadly informal basis the notes we keep on exchanging at the industry level, when I say industry I am talking about the complete ecosystem broadcasters or DTH or LCO or MSO everyone put together. I think the majority wants this tariff order to be implemented. This is what we have understood so far and as about the legal options people may like to adopt anyway, it was taken to the Supreme Court and Supreme Court routed it back to Chennai High Court and now it is awaiting announcement with Chennai High Court. And post that also someone wants to challenge him from my limited understanding, and I am not saying it is absolutely accurate**.** They may take it back to the Supreme Court but I think once Supreme Court only has directed Chennai High Court to consider it. Going back to Supreme Court may not be a long haul. You may see immediate closure.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Ankit Saint for his closing comments.

Ankit Saint: Hi, this is Ankit here. I hope we could answer all your queries. If you feel there are some further queries and questions which you would like to ask management, you can get in touch with Investor Relations and we will be happy to answer the same. Thanks and have a good day.

Moderator: Thank you. Ladies and Gentlemen, on behalf of SITI Networks Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines. Thank you.