"SITI Cable Network Limited Q3FY15 Results Conference Call"

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MANAGEMENT: **MR. V. D. WADHWA – CEO, SITI CABLE NETWORK LIMITED**
MR. SANJAY GOYAL – CFO, SITI CABLE NETWORK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3FY15 Results Conference Call of SITI Cable Network Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Goyal – CFO, SITI Cable Network Limited. Thank you and over to you, Mr. Goyal.

Sanjay Goyal: Good morning, ladies and gentlemen. We welcome you all in the SITI Cable Conference Call for the quarter 3 financial year 2015 results. The revenue during the quarter has been recorded at 223 Crores that is up by 26% on a year-on-year basis. EBITDA has been recorded at 50 Crores that is up by 43% on a year-on-year basis. The digital subscriber base of the company has increased to 4.85 million in all the DAS geographies and the broadband subscriber base has also increased to 54,000. Now I request all of you to participate into the call and come forward for the question and answer session.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Arun Malhotra from Santalum Capital**.** Please go ahead.

Arun Malhotra: I wanted to understand basically where we are in the digitization for Phase-II and Phase-III, one**.** Second is what is the ARPU currently and what is the subscription and thirdly, when will internet be combined along with cable?

V. D. Wadhwa: This is V. D. Wadhwa; I am the CEO of SITI Cable. I will answer your question one by one. As far as the digitization is concerned, as you know Phase-I and Phase-II, digitization is already completed almost 1.5 years ago. Phase-III and IV digitization which was supposed to be happening by December 14th has been pushed back by a year, so currently we are seeding boxes in Phase-III and Phase-IV market on a voluntary digitization basis because there is no compulsion right now. So by doing the entire training and counseling with the LCO, wherever there is a willingness to do digitization, we are going for aggressive digitization in those markets and wherever we already have the analog network, we are converting that into digital by taking the LCOs along with us. So that is why this is a slow process, otherwise if the digitization would have been happening as per the original schedule, I think Phase-III would have been completed by March 15 completely. Number two in terms of the ARPU, there are two ways of looking at it. One is the consumer ARPU, the other one is our realization. The consumer ARPU in Phase-I market is roughly about Rs. 275. Phase-II market, the consumer ARPUs are about Rs. 250, between 225-250 and consumer ARPU in Phase-III and IV are between 150-200 as we speak today.

Arun Malhotra: What would be the company's ARPU and net realization?

V. D. Wadhwa: I am coming to the company realization, company has realized in this quarter Rs. 100 per customer in the Phase-I market which was Rs. 91 in the previous quarter. We have been able to improve by about 10%. In Phase-II markets, our realization has been about Rs. 70 per customer that is what is the current realization in the Phase-I and II markets. Your third question was on internet side as we launched internet in Calcutta two years ago, we launched internet in Delhi market in the last quarter. In Delhi, so far we have done roughly about 100,000 home passes and we are currently in the process of acquisition of the customer because unless you have a critical mass in terms of upgrading the LCO network, so the subscriber acquisition has just begun in the last month. For the next fiscal year, we have already worked out a plan for rolling out the broadband in 21 new cities. We have already completed the feasibility studies of those 21 cities. We have already zeroed in on in terms of the technology. We shall be going ahead with the DOCSIS 2/3 technology for those markets and currently after getting the in principle approval from the promoters, we are working on developing a full-fledged business plan which shall be a part of the budget for the next year.

Arun Malhotra: Sure, just for understanding purposes, could you help me understand the breakup of Rs. 270 let us say for a Phase-I digitization city? What would be the revenue for a broadcaster, for SITI Cable and for the local cable operator?

V. D. Wadhwa: See when the consumer is paying Rs. 270 in Phase-I, the LCO is retaining large portion of that share, so we get roughly Rs. 100 plus taxes. So about Rs. 130 our realization in the Phase-I market, 140 is being kept by the LCO as of now and out of our Rs. 130, we pay the money to the broadcaster and our content cost on per subscriber basis is roughly about Rs. 65 – Rs. 70.

Arun Malhotra: Sure. When would this tilt in favor of….see it is right now tilted in favor of the LCO which is providing the last mile connectivity but to me actually he should get not more than maybe Rs. 60 – Rs. 70 or Rs. 80, I know that is my sense but what is your sense when would this tilt in your favor because you are providing the pie to the consumer?

V. D. Wadhwa: I will give you an answer which is, you will probably be surprised on that answer, and the issue is today if all the MSOs work together, this can happen in a 2 months period.

Arun Malhotra: We are still a consolidated industry, all the MSOs...

V. D. Wadhwa: All the MSOs, if we work together in terms of increasing the ARPU, then the collection, then this can tilt in favor of the MSOs within 2 months period. Unfortunately some of the MSOs or some of the regional MSOs, they are not following the disciplined approach in the business and they are doing discounting or they are doing price cutting and technologically also they are challenged. They are not ready with the process and systems. SITI Cable has been the pioneer in terms of pricing the ARPUs and bringing the discipline but today we alone cannot improve the situation further. If let us say all the 3 or 4 national players, if we work together and say instead of Rs. 130 in Phase-I, we should target Rs. 150 within the next two months and I think this will happen in 2 months period, but the issue is today as I speak when I am collecting Rs. 130, couple of my other MSOs are collecting less than Rs. 100 even today. So that becomes a challenge that alone you cannot take this price up, especially when there is no unity among the MSOs

Arun Malhotra: Sure. See how many set-top boxes you have in your inventory and what are your CAPEX requirements?

V. D. Wadhwa: Set top boxes in my godown are about 450,000 and about 800,000 boxes are on the way which have already shipped from China. So I think within next 10 days, I will have about 1.2-1.3 million boxes. And in terms of the CAPEX requirements, we are currently working on a budget for the next year but for the entire digitization, we would be requiring roughly about 600 Crores CAPEX on a net basis.

Arun Malhotra: So what would be the plan there in debt equity, how would you fund that?

V. D. Wadhwa: The Company is considering a number of possible financing options on this.

Moderator: Thank you. The next question is from the line of Urvil Bhatt from IIFL. Please go ahead.

Bijal Shah: I have one question. Just want to understand bit of this consumer ARPU number better, so this when we say that Phase-I ARPU is 275, does it include taxes or it is exclusive of taxes?

V. D. Wadhwa: It is inclusive of taxes.

Bijal Shah: So 275 and what on an average LCO would be paying as taxes?

V. D. Wadhwa: No, LCO does not pay any taxes. Let us say out of 275, we are suppose to get Rs 131 on weighted average basis. Assuming we get this full Rs 131 per sub, tax has to be deposited by us.

Bijal Shah: LCO retains**.**

V. D. Wadhwa: When I am saying that our realization is Rs. 100, what I meant is that net of taxes we are realizing Rs. 100.

Bijal Shah: So, are you primarily talking about Delhi market where ET and Service Tax are approx. Rs 30 per subscriber, or you are talking about all markets put together?

V. D. Wadhwa: No, it is weighted of all market plus minus Rs. 2 – Rs. 3 because in Calcutta it is Rs. 6 only. So Mumbai is an exception and Mumbai as far as entertainment tax is concerned, the LCO is undertaking and they have given a declaration which we have submitted to the Tax Authority. The entertainment tax is being borne by the LCO in Mumbai market.

Bijal Shah: And if you can give us some idea that how within Phase-I city this 275 is varying, is it almost similar across Calcutta, Bombay, and Delhi or it is different materially?

V. D. Wadhwa: No, I just mentioned that I think while answering the first question, Phase-II market is roughly 10% lower as our consumer ARPUs are around 225-250 in Phase-II markets and in Phase-III and IV markets, largely it is below 200 which basically within Rs. 150 – Rs. 200 that is the way you can look at it but it is our experience that the moment digitization happens, the consumer ARPU goes up by at least between Rs. 50 – Rs. 70 that is what happened in Delhi market also. That is what has happened in Phase-II also and we expect that as and when the digitization will start happening in Phase-III and IV, the consumer ARPU will go up by at least a dollar per customer.

Bijal Shah: Sir my question is slightly different. What I want to understand is that between Calcutta, Delhi and Bombay, is there a meaningful difference in the ARPU or it is similar?

V. D. Wadhwa: There is not much of difference in the ARPU

Bijal Shah: And on your CAPEX comment, you said that the net CAPEX of Rs. 6 billion, what does that mean?

V. D. Wadhwa: When I am saying net is because largely the CAPEX is required in terms of buying of the set top boxes and we realize we are generally giving between Rs. 400 – Rs. 500 subsidy, what we give on the box and balance we recover through the activation. So I do not take the full cost of the box as a CAPEX because whatever I am able to realize from the consumer that is not a CAPEX, so only the differential portion we are taking it as a CAPEX.

Bijal Shah: This 600 crore is more of Rs. 400 – Rs. 500 which is subsidy.

V. D. Wadhwa: Absolutely.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: I just wanted to get a sense on how the Star RIO deal has been working and if that has led to any improvement in collections on the ground or any traction when getting better deals with the LCO?

V. D. Wadhwa: To be honest, right now SITI has not implemented the Star RIO fully. While the RIO concept is great and we are in favor of RIO business model going forward for the betterment of the industry, however, the RIO rate introduced by Star shall lead to increase in the content cost by over 50% if implemented fully. We are partially implementing the RIO until marketing support arrangement is finalized. RIO has three different components that you carry 7 channels in the base pack, 2 sports channels in the base plus first pack and the English genre channel in the base plus 2. So what we have done is we have implemented the first part where we are showing all the 7 high pull channels in the base pack and everything else we are offering to the consumer on an a la carte pricing basis on a prepaid model. So whenever the consumer wants to watch sports or the English genre channel, all those channels are available to him and in the way our systems are designed, customer does not need to call up at the call centers as basically LCO has been empowered across the country, to start the channel subsequently. So whichever customer is asking for a channel, we are starting it and we put the a la carte pricing for those channels and customer has to pay that money in advance or essentially LCO has to pay that money in advance to us and then we can activate those channels. So that is how we are implementing it. At the same time, we are not putting the sports and the English genre as a part of our bouquet and increasing our content cost.

Deep Master: But sir the base pack where you put the Star channels in your base pack, have you increased the price?

V. D. Wadhwa: Base pack, we have increased only Rs. 5 as nominal thing because India is a highly sensitive market because in the base pack, originally we were showing 17 channels. So now instead of 17 channels, we are showing only 7 channels. So the way the communication goes through the market is that we have reduced 10 channels. So when you are reducing channel, you cannot simultaneously increase the prices. So on the base pack, there will not be a significant increase in the prices but what we are doing on base plus one and the second where roughly 45% of my viewership is in the higher pack, there I am charging between Rs. 30 for the base plus 1 and Rs. 50 extra for the base plus 2 pack.

Deep Master: So this is basically what you were planning earlier, you are doing this in a little different way.

V. D. Wadhwa: We are doing it in a different manner, so that a) we are increasing our realization from the consumer and at the same time we are not offering our entire network. Let us say if Star is charging me Rs. 10 for a sports channel, by putting on our network, we have to pay on 4.8 million customers; we had to pay Rs. 10 per customer to Star whereas we are offering to the customer and so far only about 15% of the customers have opted for sports channel. So we have to pay money to Star only for the 15% of our customers right now.

Deep Master: Sir Can you share the carriage revenue in this quarter?

V. D. Wadhwa: Carriage revenue is flat like last year; I think it is roughly around Rs. 55 odd crore for the quarter.

Deep Master: The carriage sharing price that you have in your P&L that come down Q-on-Q, is that purely because of the reduction in content cost?

V. D. Wadhwa: Yes, it has come down.

Deep Master: So the carriage share is coming down or is the content cost coming down?

V. D. Wadhwa: No, carriage share is coming down; content cost is not coming down.

Deep Master: So carriage revenue, you think it will stay flat?

V. D. Wadhwa: Yes, it has stayed flat.

Deep Master: And going forward you think it should stay flat?

V. D. Wadhwa: See for the last 2 years, our carriage revenue is growing about 13%-14% year-on-year and we expect the same trend to continue going forward on an annualized basis

Deep Master: So basically they all are getting better deals with the LCOs?

V. D. Wadhwa: No, it cuts two ways. It is not the better deal with LCO that it is largely because of the fact from the same broadcaster bouquet, your carriage revenue is coming down but because of the digitization and more the area you are converting from analog to digital, you are able to provide more viewership and carry more channels to decide the top 4 leading broadcasting houses. For the rest of the broadcasters, they are willing; they are standing in the queue to give you the money so that SITI can carry their channels.

Deep Master: Got it. So just a widening of your carriage base and you don’t have to share.

V. D. Wadhwa: Absolutely.

Deep Master: What are your targets for next year in terms of digitized customers? I think you have done a great job this year. Will you be at 5 million by the end of the year?

V. D. Wadhwa: By the end of the year, we are targeting that because we are currently at 4.85, we are targeting ~5.3 mn. So by 31st March, we will be adding roughly half million subscriber and by the next fiscal year, we are targeting ~10 million. We should be at about the 10 million mark by March 2016.

Deep Master: And sir what is the debt level now? Is this the same? Interest cost has come down.

Sanjay Goyal: Debt level continues to be at the same level at which it was earlier. There is no change in the average rate.

Deep Master: So because the interest cost has come down quite a bit.

V. D. Wadhwa: Anyway, this will remain flat. Interest cost will remain flat. Last quarter, it was INR296, it is INR299

Deep Master: The depreciation has gone up, sorry my mistake, so is that only because of seeding this quarter?

V. D. Wadhwa: Yes, only because of seeding.

Deep Master: And what is the activation revenue then?

V. D. Wadhwa: We have recovered somewhere close to Rs. 700 plus per subscriber.

Deep Master: In absolute terms?

Sanjay Goyal: It is somewhere close to 13 Crores, wherein one year subscription has been given to us and we have provided set top boxes.

Deep Master: Sir just one more question on JIO actually, what is your sense on JIO offering in cable and broadband and their strategy?

V. D. Wadhwa: Their full strategy is not yet in the public domain but whatever we know while talking to various people and have some information, I think in the first Phase they are targeting the wireless piece of the business, because that is a big ticket item from the consumer ARPU point of concern. While they have applied for the license, I do not think they are ready with the strategy and overall rollout plan for that. So if at all that happens because theoretically speaking, you cannot rule that out. If at all that happens, that will take at least 2 years time and that will happen in Phase-II because they are all currently gearing up for the wireless piece.

Deep Master: Right and how are you all preparing for that?

V. D. Wadhwa: DAS preparation is basically in terms of going for very faster digitization of the market and second thing is much faster rollout of our broadband offering which is wired broadband because once you are controlling the household, home passes as well as consumer homes, then obviously it becomes difficult for the second player to get into that market because Reliance, currently their challenge is that whatever fiber they are putting is up to the kerb only. So that is a big piece as to how do you take fiber from the kerb to the home. This last leg is the big struggle right now whereas we have an edge as a cable industry that we are already getting into the consumer home. So the faster we are able to connect the consumer with our internet connectivity, the better it will be.

Deep Master: Do you think they could do a strategy of acquiring LCOs to help them get the last mile a bit?

V. D. Wadhwa: We can do that, because the moment you go to LCO for acquisition today, the LCO also knows that yes, now there will be a broadband value-added services in the entire industry, it will attract more number of players. So from the LCOs, expectation in terms of the valuation per customers goes up. So I think rather than first acquiring the LCO, first of all you have to improve on the collection. The moment your collection goes up in a different market and so long the LCO is making disproportionate amount of profit on the per point basis, per subscriber basis, he will not be willing seller. The moment his disproportionate profit starts coming down and he is making only a reasonable profit, and then he will be a willing seller.

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

Gautami Desai: Sir, this content cost which you said Rs. 65 – Rs. 70. So is it like calculated on a per connection or per box, taking into consideration the analog ones also or how is it like?

V. D. Wadhwa: No, analog is continuously going on a fixed fee basis whereas while we are talking, it pertains to the DAS 1 cities primarily and DAS 2 cities.

Gautami Desai: So this is for box, right, it would be Rs. 65 – Rs. 70.

V. D. Wadhwa: DAS 2.

Gautami Desai: So I am just trying to understand like in the light of the new DAS licenses which have been applied, so like I am just trying to understand that feasibility? How this content cost look like, has the number of connections been something like 20,000 or 30,000 or say 1,00,000 connection like some ballpark?

V. D. Wadhwa: This is currently an issue which is on the discussion table between the broadcasting fraternity and the cable MSOs forum. We have already given our representation to the IBF, so that the current realization for the broadcasting industry in Phase-III and IV is significantly lower than the Phase-I and II markets. So we have requested them that rather than thinking that Phase-III and IV market content cost should come at par with the Phase-I and II market, if that is where the expectation they are carrying, then the digitization may not happen. It does not make sense to do that. So what we have told them is like any commercial entity, you have some annualized growth aspects. So if whatever your current realization is there from those Phase-III more market, let us get into a 2 to 3 years deal and you have some agreement that we will work with them maybe, let us say, for example 20% annualized growth for next 2 years or 3 years. At least for the first 2 years, till such time we are able to digitize the entire market. Let us have the deal which are on the fixed fee basis which has a percentage growth on the current payout and then we should move to a CPS currency which is a cost per subscriber currency 2 years later because this is our belief that 2 years post digitization, the consumer ARPU levels will be same whether it is the Delhi market or it is a Phase-IV market.

Gautami Desai: Sir, at one hand you are dealing with 5 million boxes and somebody else is like dealing with 50,000 boxes, so then how will the content cost vary?

V. D. Wadhwa: There are several factors which vary in the content cost. First of all, how big you are because you definitely get advantage of being the bigger player, number one. Number two, in which market: whether you are strong in the Hindi speaking belt or you are strong in the let us say Southern market or you are strong in let us say Odisha and Bengal, it depends on that. So if we are talking mainline channel which is let us say Star Plus, Zee, Colors, Sony for that anyone who is the leader, who is a strong player in the Hindi speaking belt, obviously he will get much better deals in terms of the content. Let us say if I am strong only in the Andhra and Karnataka, then it does not cater to the broadcaster because largely the Telugu and Tamil channels are being played in those markets. So there are several factors which come into play in this.

Gautami Desai: Okay, fine. Sir just one more question. Sir this broadband, you are saying is going to be rolled out in 21 cities, so can you give us some indication of the technology to be used in this expansion phase? Is it going to be DSL, EOC or on DOCSIS?

V. D. Wadhwa: The expansion will be on DOCSIS only.

Gautami Desai: So how would the CAPEX be like per city or per say 10,000 subscribers or how would it look like for DOCSIS?

V. D. Wadhwa: CAPEX will be roughly Rs .6,000 per subscriber with a 20% penetration assumption.

Gautami Desai: Rs. 6, 000 per subscriber and this is like the total figure, right from everything put together.

V. D. Wadhwa: Everything, all inclusive.

Gautami Desai: And how would you like the way you explained the breakup of your Rs. 275 between the LCO, MSO and all? So how would the broadband sharing look like with the LCO, distributor and you?

V. D. Wadhwa: The broadband model will not be like that. See first of all, the entire broadband business will be on a prepaid model, it will not be on a postpaid model, number one. Number two, the entire CAPEX in the broadband is being incurred by the company. So there is no CAPEX which LCO and distributor is incurring. Number three, we are putting up a parallel network, we are not upgrading the LCO network.

Gautami Desai: So you will be putting a parallel wire also.

V. D. Wadhwa: Yes, we are putting a parallel wire also and we are given a limited right to the LCO that he will continue to service the customer, he will continue to do the maintenance job of our network which is lying on the street. So we have given some token percentage of the revenue about 12%-15%. We have done some qualifiers that we have to ensure that there is no downtime in the connectivity and then the network is kept up to the entire maintenance and there is no downtime on that. So we are giving between 12%-15% margin to the LCO out of the revenue. So the cable margin is not going to be applicable in case of the broadband because broadband is completely different piece. We have already started signing the agreements.

Gautami Desai: So how is the response from the LCO, is there no resistance like first of all parallel wiring and secondly, then such a low percentage?

V. D. Wadhwa: No, there is no resistance. The reason being we are not saying to the LCO that we are going to remove you from the system. On the contrary, we are signing a 5-year contract with the LCO. See the way that you communicate with the LCO and they should have a faith in your management and the company because depending upon how you have been dealing with the LCO historically that we are the only company who has been sharing 25% of our carriage revenue with LCO, so they have greater faith in our policies and the way they are taking this positivity is coming in, basically they are assuming that right now they are making Rs. 100 plus on per subscriber basis in the cable revenue. The moment broadband business happen on that too with the DOCSIS 2 and 3, which will be at least about Rs. 800 consumer ARPU. So if they get 12%-15% of the consumer ARPU without incurring any CAPEX that is the incremental between Rs. 100-130 income for them. So their income is getting doubled. So they are more than willing to partner with us and sign the legal contracts with us. And there is a third angle also because LCO believes that whatever the infrastructure is being laid in his area or on the street, he has a better control as compared to the MSO. So that gives a comfort to him that the physical custody of the entire infrastructure is in his area only.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Sir, can you give per box all in cost and how much you book in activation, can you just give that math?

Sanjay Goyal: See, activation is 13 Crores, per box cost, it has come down to $16.5 now.

Dheeresh Pathak: Okay, this includes all the taxes as well?

Sanjay Goyal: Duties and taxes are over and above this which comes out to somewhere close to 26%-27%, out of which CVD is available for credit. So all inclusive tax in terms of Indian currency comes somewhere close to Rs 1,500.

Dheeresh Pathak: Rs. 1,500 and this is your cost, how much does the consumer pay?

Sanjay Goyal: See, consumer pay varies from location to location; average comes out to be Rs. 700-Rs. 750.

Dheeresh Pathak: Out of 700-750, how much do you get after paying all commission etc.?

Sanjay Goyal: We do not share anything out of the STB activation with anyone i.e. LCO and distributors.

Dheeresh Pathak: So you get the entire 700-750 that consumer pays. So your subsidy is then 700 roughly, 700 in terms of..

Sanjay Goyal: In terms of cash flow. From Cash flows perspective only

Dheeresh Pathak: Yes and you book the entire 700-750 in the P&L when you sell it?

Sanjay Goyal: That we activate the set-top box when the consumer pays us.

Dheeresh Pathak: So sir when you say 13 Crores and 0.25 mn, that does not give

Sanjay Goyal: There are two components of it. As I have shared in one of the call right now, it includes advanced rental plan also and it includes the replacement also. So the set-top boxes which we have activated against the activation charge is somewhere 1.8 lakhs and the balance has been done against the advance annual income plan or replacement on the ground.

Dheeresh Pathak: Okay, I will take it offline, looks slightly complicated.

Sanjay Goyal: If you work out, 1,80,000 multiplied by 755 or 750, it comes out to be 13Cr.

Dheeresh Pathak: Why would you say that 0.25 digital subs add were there?

V. D. Wadhwa: Let me say, when you seed the boxes, the box seeding does not happen only with one format which is just activation charge, box seeding happens in some of the market, you launch an annual rental scheme that you pay Rs.1,500 for per annum and then you will get the box free. So you built in, you combined the box activation value as well as the monthly subscription value and you come out of those kind of combo packages in the market place. So some places, activation looks zero. Let say in some of the markets where the other MSOs are collecting Rs. 75 per month per customer which is a Rs. 900 in a year, we go and launch the scheme, that okay you give us Rs. 1,500, so sometimes the communication becomes easy that you pay us Rs. 125 subscription per month and you get box free. You get box and content free for one year. So that is what Sanjay is explaining for 1.8 lakhs boxes that is a pure activation at the rate of about Rs. 750, balance about 70,000-80,000 boxes have been given on an advanced rental scheme.

Dheeresh Pathak: Okay, alright and on the Rs. 6,000 per sub, this does not include the cost of the modem right, that is being paid by the consumer?

V. D. Wadhwa: In terms of the broadband, yes. That is being paid by the consumer.

Dheeresh Pathak: Sir, earlier we had said that the all-in cost is Rs. 4,000, is there a change in the CAPEX?

V. D. Wadhwa: No earlier when we said Rs. 4,000, we were taking the cost of putting up the infrastructure at the LCO point. See, there are two aspects of it. One is which is on a per home passed or per subscriber basis, second one is the cost which you incur in terms of putting up the nock and putting up all the other infrastructure at the control room where you are doing the network monitoring system. So once you allocate that cost also on a per subscriber basis, it is coming to between Rs. 5,500 to Rs. 6,000. That is why we are saying now it is 6,000.

Dheeresh Pathak: Sir, earlier I think we were saying that we will not put up a parallel network, now we are saying that we will put up a parallel network.

V. D. Wadhwa: We never said we will not put up a parallel network. What I said last time is we started upgrading the LCO network. Now initially, we felt that is probably a better way of doing it but we realized that is slowing down the process because LCO network is not in a good shape. The time taken to upgrade the LCO network and the money to be spend in upgrading the LCO network are both higher than in the case of putting a parallel network. So we did a mid-course correction that we said with this pace we will not be able to roll out our entire broadband at a faster pace. So we said let us start putting a parallel network and put up an absolute new network because LCO network is in a pathetic condition.

Dheeresh Pathak: Sir, when you put up this parallel network, the contract that you mentioned, the five-year contract that you signed that sort of prevents you from offering a cable on this network?

V. D. Wadhwa: No, it does not prevent us.

Dheeresh Pathak: So then it is theoretically possible for you to offer both cable and broadband on the same pipe that you are putting up there?

V. D. Wadhwa: Yes.

Dheeresh Pathak: For Phase-II you said you get Rs. 70. What is your content cost in Phase-II?

V. D. Wadhwa: Content cost, we always take content cost on a net of carriage basis. Our content cost is not more than Rs. 20 in the Phase-II market right now.

Dheeresh Pathak: Okay, but for Phase-I you said it to be Rs. 65 – Rs. 70.

V. D. Wadhwa: That is Rs. 70, I said on a gross basis. In the Phase-I when you look at today, my content cost is hardly Rs. 15 on net of carriage basis.

Dheeresh Pathak: So Phase-I content cost is 15, Phase-II it is 20.

V. D. Wadhwa: Because in Phase-II, you get less carriage.

Dheeresh Pathak: So on out of Rs. 100 that you make in Phase-I and Rs. 15 of net content cost, then at the EBITDA level what you would be making, would be more than Rs. 50 on Phase-I subscriber?

V. D. Wadhwa: Actually we do not do the P&L on the Phase wise basis. We do it at a company level. So I do not think we will be in a position to give you answer on this what is the EBITDA we make in Phase-I because for us the entire digitization, we consider the entire business modeling, we do it on a digital customer and a non-digital customer. So for us Phase-I, Phase-II does not matter, it is just the government defined timeline**,** otherwise for us it is a digital customer.

Moderator: Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Sir two-three questions. Firstly would like to understand how far as we said that Phase-I and Phase-II digitization is almost complete, how far are we from having a billing system in place and tiering possible or what percentage is today already into that mode?

V. D. Wadhwa: Phase-I, the digitization completed 2 years ago; Phase-II, digitization completed 18 months ago. So the moment when we are saying the digitization has happened that means the analog is 100% switched off. So there is no analog. There is no parallel analog signal which is going into Phase-I and II market. This was completed more than one and a half years ago in both these areas.

Riken Gopani: No, my question is are you directly billing the customer today or…

V. D. Wadhwa: I am coming to that question. That was your second question. I have just answered your first question. Second question is we are in the Phase-I market, Delhi, Mumbai, Calcutta. SITI Cable is billing directly to the consumer. We are billing directly to the consumer since November 2012, the month in which the digitization started in Delhi.

Riken Gopani: So you would have already converted because I see a lot of other MSOs who are still not in the mode of billing the customers. Alright, second question is to understand more about Phase-III and Phase-IV markets. In terms of the LCO landscape there and your ability to take over those LCOs, if you could just help me understand that landscape. Are you going to be dealing with far more number of LCOs there and has DTH already penetrated quite well in this market. So how is the landscape in Phase-III and Phase-IV market?

V. D. Wadhwa: In Phase-III and IV, actually largely our business is going to come in Phase-III, not so much in the Phase-IV and Phase-IV wherever there are continuous geographies, you will be surprised that Gurgaon is Phase-III market as far as the Government of India is concerned. Noida is a Phase-III market as far as government is concerned whereas for us, it is as good as Delhi or rather Gurgaon ARPU is better than Delhi ARPU actually. So largely the game is going to be played in the Phase-III market and let us say if I am talking of Gurgaon, next to Gurgaon is Sohna and Manesar also. So all those areas get clubbed as a Phase-III market only because when you are doing Gurgaon, you will do those places also which are Phase-IV as per the definition but they are actually an integral part of Phase-III market. Similarly in Mumbai when you are talking of Kalyan-Dombivali and Dhule and all those places where the feed is going from Mumbai market and it is a greater Mumbai kind of market. So technically speaking, it is Phase-III and IV but it becomes a part of Mumbai itself. So largely when we are talking Phase-III market, as per the government definition, Phase-III is 30 million subscriber base and Phase-IV is 60 million subscriber base whereas we have done internally the mapping of the entire geographies. Phase-III market and if you take contiguous territories which are adjoining to the Phase-III market, we are targeting about a 60 million subscriber base. Out of that, 90 million opportunity we will not be getting into the last 30 million household…let the DTH industry service those households. We are targeting, our game plan is largely going to be in the 60 million household in the Phase-III and IV markets and those markets are by and large with the similar structuring is there what we have witnessed in Phase-I and II market. The good part is because everybody knows that digitization is a reality now and everyone has seen what has happened in the current Phase-I, like Calcutta 2 years ago was paying zero subscription, the entire Calcutta city. Today Calcutta, LCOs are paying Rs. 110 to the MSOs every month. So there is a greater realization in Phase-III, IV markets also that digitization is the reality and they should be mentally willing to prepare to shell out more money, that also is a realization which is there. At least I would say that at least 70% of the LCOs are totally aligned and they are in favor of this and they want to work together, but there are always like any other industry there are always about 20%-30% of the associates those who still are not willing to change themselves or not willing to get out of the analog mindset. So those people will continue to have this kind of some tussle and some kind of nuisance continues to be there. But actually if you look at on this in the last 2 years since the time digitization started, we have come a long way. So we believe that in next two years when the entire digitization gets over, I think we will be on a scale of 0 to 10, we will be somewhere at 9 in the 2 years' period.

Riken Gopani: And in specific to markets like say Orissa or West Bengal where there would be a lot Phase-III opportunities or Phase-IV opportunities there, do we have any specific plans for those, what would be our acquisition target there and also are we seeing a lot of opportunities in terms of LCOs offering to get acquired and we directly having one direct contact point with the customer, is that also something that you are seeing in the market?

V. D. Wadhwa: I will answer one by one. First of all, as you may be aware that SITI Cable is the market leader in the Eastern region. So we are a dominant player there and currently in the East zone itself which is largely West Bengal, we are having roughly (+2) million analog subscribers in the Phase-III, IV markets. So for us when we are talking of digitization, even if we just convert our existing analog base into digital, we will be adding (+2) million digital subscribers only in West Bengal area. Odisha, we do have a small network currently which is providing feed to Bhubaneswar and Cuttack market and this is a joint venture we have with the Eenadu Group and we are in the process of acquiring the 100% stake of this network and thereafter we do have a plan to move aggressively in the Odisha market. Now the third one is you are talking of LCO acquisition, we have already started our drive in terms of acquiring the direct consumer but we are not spreading it from all India basis right now because as I said that unless you improve your collections and the LCO margin starts coming under pressure, the LCOs will not be a willing seller. So like Delhi currently among all the digitized cities, the MSOs are collecting the highest in the Delhi City currently. So in Delhi city, we have started that drive. We have already added about 40,000 customer acquisitions in the last I think two quarters roughly since the time we have started. So that is what we are targeting that in the Delhi city at least in the next 2 quarters that our total direct customer base should be ~ 1 lakh. So our focus is that in every city where we are present and have roughly 15%-20% of the customer base, our target is that we should become a totally B2C model.

Riken Gopani: You mentioned about your JV in Odisha which you are planning to buy. What is the target that you have in terms of subscriber addition over the next 2-3 years there?

V. D. Wadhwa: It is premature like unless I close that acquisition, see there are two different strategies. Once I acquire, it is a different strategy. If I continue in this current 51:49 JV, it is a different strategy. So we are doing currently a feasibility study in terms of because Odisha is a low ARPU market currently. So I think it is slightly premature to share any answer with you on this.

Riken Gopani: And one last point is in these Phase-III and Phase-IV markets even in your West Bengal or current Odisha market, what is the kind of content cost that you have given that there is more regional channels that are getting watched there and is it more profitable in that terms once the ARPU improves there?

V. D. Wadhwa: Currently, no one makes losses in analog markets. That is the blanket statement I can give to you for the entire country that no one loses money in analog market and people lose money once they become digital because the moment you become digital, obviously there is a total transparency in terms of the subscriber base, your content cost goes up, there is a cost of digitization also. So in the first year of digitization also, either the profits get reduced or you start incurring loss. Either the profit gets reduced or you get into the loss and then you start making the money in the second year onwards in the digital environment. That is how there has been the experience for most of us in the industry.

Riken Gopani: So in the Phase-III, Phase-IV, Phase-II market, is the content cost specifically lower given that their requirement is for more regional content and how is the content cost there?

V. D. Wadhwa: I think both your points are correct. The content cost is significantly lower compared to Phase-I and Phase-II market. If I give you an analogy at a maximum level, roughly 85% of the entire revenue is being generated by the broadcaster from Phase-I, Phase-II markets. The Phase-III, Phase-IV markets are giving them only 15% of the revenue and the second one is that, what was the second part of your question?

Riken Gopani: Therefore is the profitability there better off?

V. D. Wadhwa: It is there; definitely the profitability is better off there.

Riken Gopani: Just one last point from my end. Are you incrementally seeing in these Phase-III and Phase-IV markets more and more people from the LCO side coming to you and saying we are ready for a buyout?

V. D. Wadhwa: No, currently no. No one is coming forward and approaching us. But we are definitely going and approaching them and we are getting a mixed response.

Moderator: Thank you. Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Couple of points. Sir you said, Star RIO you are only implementing in the base pack. So has not that led to an incremental cost for you in the content because there was still an addition cost even if you take it in the base seven channels?

V. D. Wadhwa: No, there is no additional cost to us. In fact there is a cost of reduction for us because earlier I was carrying the entire bouquet, now I am carrying only 7 channels and anything over and above 7 channels I am offering to the consumer on an a la carte basis, I am charging. So it is a cost pass through to the consumer. So my cost is actually lower than the earlier cost.

Mayur Gathani: So the base pack that is helping you and second with the introduction of Zing which has happened like 6-9 months back now especially in the regional areas Bengal, Odisha for that matter, is that impacting you seeing that the DTH, DishTV…

V D Wadhwa: It is not actually because the Zing is actually targeting Phase-IV which is a completely new area that even if that is available to me, probably I will not be getting into that area.

Mayur Gathani: So that is primarily for Phase-IV or deeper Phase-III areas?

V. D. Wadhwa: Yes, because in Phase-IV, it is basically the towns where the population is hardly between 2,000-5,000. So if I take my bandwidth there, I will open my nock, I will open my office, and I will start doing it, will start providing the call center and the backend support, my cost will be significantly higher. So I will not be competitive or at par with the DTH industry.

Mayur Gathani: And second thing was FY15 exit, what are we looking at the broadband run rate in FY16 sir? We are at 54,000 currently.

Sanjay Goyal: FY15 ending, we are adding 5,000 more.

V. D. Wadhwa: For FY16, we are currently in the budgeting process. As I said that we are finalizing our plan for rolling out the broadband in 21 cities and I can tell you it is a 3-year plan and we are targeting 2.0 million subscribers at the end of 3 years. So what will be the subscriber base in 12 months from now, I think probably the next quarter when I will meet with you, I will be able to share the details with you.

Mayur Gathani: So 2.0 million is the broadband subscriber in next 3 years' time is what we are looking at?

V. D. Wadhwa: Absolutely.

Mayur Gathani: And what is average ARPU that we are getting in this 54,000 that we have currently?

V. D. Wadhwa: This is largely because this is a mix of DOCSIS 3 and the EOC because when we started in Calcutta, it was a different technology. So if I speak separately that on a DOCSIS, we are getting about Rs. 750 ARPU and non-DOCSIS, we are getting Rs. 460 ARPU right now.

Mayur Gathani: Okay and can we share margins here sir?

V. D. Wadhwa: 25% EBITDA margin.

Mayur Gathani: Even in DOCSIS we are getting only 25%?

V. D. Wadhwa: Yes, currently we are getting low.

Mayur Gathani: This can improve, right? Overall broadband margins can become stable at 40-45 or is it…

V. D. Wadhwa: I think it will gradually touch ~35% because DOCSIS should give you at least Rs. (+1,000) ARPU. Right now, your ARPU is Rs. 750 in the DOCSIS. As and when your rollout goes up and then more you have the optimum mix of the consumer profile, your DOCSIS ARPU should be Rs. (+1,000).

Mayur Gathani: And sir when we talk about Rs. 6,000 CAPEX per subscribers, this is different from the 600 Crores that you intent to spend for the cable right for the Phase-III and Phase-IV. So this is an additional CAPEX?

V D Wadhwa: 600 Crores is purely cable. It has nothing to do with the broadband.

Mayur Gathani: And if you can just breakup this Rs. 600 per subscriber, this does not include the modem cost because modem is paid by the subscriber fully or is there a subsidy there also?

V D Wadhwa: No, it will be either paid fully or we will come out with the bundling in such a manner that it will be linked to 3 months, 6 months. Anyone who is paying 6-month subscription, anyone who is subscribing to Rs. 1,200 per month package which is for 6 months. So out of 7,200 if I am making 40% margins, so I am linking it to that if anyone is giving, my current scheme is that if anyone who is subscribing one year in advance, he is getting the box free because I am making more margin than what I am giving in terms of the box subsidy. So anyone who is subscribing up to 6 months, he is paying full price for the box. Beyond 6 months, I am giving them on a FOC basis.

Mayur Gathani: So what is the price of the box sir?

V D Wadhwa: Currently, it is costing me about 1,500.

Mayur Gathani: So consumer is also paying around this price?

V D Wadhwa: That is right.

Mayur Gathani: So this subsidy of 600 per subscriber is the cost that, is it for the laying, is it for the backend, what is this sir?

V. D. Wadhwa: We have a two-way wire connectivity up to the LCO point. So from the LCO point up to the consumer household, we are putting a parallel network. We are putting a NMS, Network Management System which is an expensive thing because once you are targeting millions of subscribers on all India basis and then you have to optimize the entire bandwidth to use it. The third one is that you have to put up a nock which is like an equivalent of headend or the server for broadband also. So once we are getting into 22 cities, we need multiple knocks. So it includes all those CAPEX put together and roughly speaking that let us say Delhi as a city today I have got about 630,000 subscribers. So if I am making all those 630,000 subscriber enabled for broadband, the cost of upgrading each and every single household is roughly about Rs. 700-Rs. 800 for me. So if Rs. 800 is the cost of upgrading per customer and then I get 20% penetration because I am not going to get 6,30,000 broadband subscribers, I will get 20%. So if I am able to get more than 20%, my cost will be coming down.

Mayur Gathani: But is it worth calculating like 6,000 per subscriber and if you are looking at 2 million subscribers then the kind of CAPEX we are looking at is phenomenal here.

V. D. Wadhwa: Yes, it is 6,000 on the lower side because whosever is currently doing with the DOCSIS, it is costing them roughly about Rs. 7,500 – Rs. 8,000. Right now nobody is able to do it in the Rs. 6,000. In Delhi whatever we have rolled out so far are costing us currently actually about Rs. 5,500 – Rs. 5,600 per subscriber.

Mayur Gathani: Sir if we target 2 million over the next 2 or 3 years and we are looking at Rs. 1200 cr as a CAPEX, so that amount of CAPEX is what we need over a period of time plus the 600 Crores that we need for the cable, is that understanding correct sir?

V. D. Wadhwa: It is absolutely correct.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, we will be taking the last question from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Just I missed the subscriber number that we have today and the targeted subscriber number?

V. D. Wadhwa: Presently, we have 4.85 million subscriber base and we intent to end the financial year with ~5.3. So we intent to add 450,000 subscribers in quarter 4.

Pritesh Chheda: And we said somewhere 10 million subscribers in next 1 year?

V. D. Wadhwa: Yes, financial year 2016 would end by 10 million subscriber base.

Pritesh Chheda: The 4.8 which is there today are all digital or this includes analog.

Sanjay Goyal: That is the digital subscriber base. Presently, ~10 million is the analog universe which we have, out of which 4.85 million has already been seeded and converted into a digital subscriber base, and balance will be converted into the digital subscriber base by end of financial year 2016.

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Sanjay Goyal: Thank you very much. Thanks for your participation. If anything remains unanswered or which therein some query comes or clarification is required, kindly get in touch with us, we will be more than happy to provide you the clarification and the details for the same. Thank you very much.

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