“SITI Networks Limited Q2 FY18 Results Conference Call”

November 06, 2017

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Moderator Good Day, Ladies and Gentlemen. And Welcome to the Q2 FY18 Results Conference Call of SITI Networks Limited. As a remainder, all participant lines are in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankit Saint – Head (Investor Relations), SITI Networks Limited. Thank you and over to you, sir.

Ankit Saint: Thank you. Good morning, everyone. This is Ankit here. We welcome you to the Q2 FY18 SITI Networks Investor Relations Conference Call. We are joined here today by Mr. Sidharth Balakrishna, Executive Director of SITI Networks; Mr. Rajesh Sethi, Chief Business Transformation Officer; and Mr. Sanjay Berry, Chief Financial Officer for SITI Networks.

I will now briefly run you through the highlights for the first half of the year as well as for the quarter. If you look at the first half of the year, the revenue was at Rs. 727 crores, it was up 30% YoY, and the revenue, ex activation, was at Rs. 598 crores, up 23% YoY. Subscription revenue also grew strongly to Rs. 375 crores, it was up 44% YoY. Broadband revenue is up 15% YoY. The EBITDA came in at Rs. 178 crores, it was up 84% YoY whereas the operating EBITDA was at Rs. 49 crores, it was up 122% YoY.

If you look at the highlights for Q2, the revenue ex activation was at Rs. 312 crores, it grew 9% QoQ and 26% YoY. Subscription revenue grew strongly to Rs. 205 crores, it was up 21% QoQ and 52% YoY. Broadband revenues came in at Rs. 25 crores. The EBITDA ex activation came in at Rs. 27 crores, it was up 21% QoQ and 136% YoY.

In terms of the operational metrics, we added about 7 lakh Video customers this quarter and our HD base currently stands at 254,000 at the end of this quarter. In terms of broadband we are at 2.38 lakh broadband customers.

With that, I open the floor for questions from the investors and the analyst community. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Avinash Kumar from Moon Capital. Please go ahead.

Avinash Kumar: I have a few questions, first I will start with a bookkeeping question. 2Q 2018 your reported active video subscriber was 1.1, I am going as by the reported results. And if I look at it, for Q1 you have mentioned just 10.6 million. If I look at the previous quarter the same number for 1Q stood at around 1.6 million. So, is there some restatement on the downward side for Q1 active video customers? Because the math does not work out, I mean, if I look at the active customers and the net digital subscriber as reported, so I was curious is there some restatement done for the previous quarter?

Ankit Saint: Even in the last quarter we had stated that the number of boxes that we had seeded was around 11.6 million and the active video subscribers was around 10.6 million, which was last quarter. And this quarter we have added about 7 lakh boxes, due to some churn we have lost about 2 lakh boxes. So, net adds were about 5 lakhs, so that adds up to 11.1 million of the active subscriber base which is currently paying us subscription income.

Avinash Kumar: If I look at your 1Q results, your video subscriber base reported was 11.6 million with the net addition of 1.6 million, I am taking these numbers from 1Q 2018 reports that you have released. So, what I want to understand is there some churn for the previous quarter that you have reflected in the current quarter results so your 1Q number has been restated downwards?

Ankit Saint: What we said was 11.6 million was the gross subscriber base and last quarter also we had said 10.6 million was the active subscriber base. In this quarter we have changed the reporting slightly, we are only reporting the active video subscribers. So, 10.6 million has gone to 11.1 million.

Rajesh Sethi: So, there is no recasting, Avinash. So, the way we have tried to bring in a change this time is we are used to report gross numbers and this time we have reported active numbers, because eventually the customers who are paying the money are the customers who are impacting our profitability. So, what you look at in quarter one, our gross subscriber base was 11.6 million where our paying base was 10.6 million. Whereas in quarter two, though we have added 0.7 million customers, but my paying base is 11.1 million. So, effectively the numbers which we delivered in last quarter on subscription revenue alone were Rs. 170 crores on a base of 10.6 million paying active customers.

This time this Rs. 170 crores have grown to Rs. 205 crores with the net paying base of 11.1 million. Which effectively translates, if you simply do the math, Rs. 53 was the weighted gross ARPU of all four phases put together, it is Rs. 170 crores divided by 10.6 million. This quarter Rs. 170 crores climbed to Rs. 205 crores with net active customer base of 11.1 million, which effectively means that the ARPU at the weighted level has grown from 53 to 61, which is 15% growth.

EBITDA margins have gone up from 7.8% to 8.8%. Subscription revenue has gone up from Rs. 170 crores to Rs. 205 crores quarter-on-quarter. Though year-on-year it will show 52%, but even on quarter-on-quarter which is more realistic and more practical to look at, it has gone up by 21%. ARPU has gone up, as I said, from 53 to 61. Seeding has gone up, we have added up 0.7 million customers out of which 0.5 million are net. Collection efficiency has gone up, our collection efficiency is at 93%. Operating efficiency has gone up due to various changes we have done to harness the inherent operating leverage of the company. So, overall this will be broad level picture where we are at. And thanks for giving me this opportunity.

Avinash Kumar: Thank you so much. I mean, this is because the math was not working out, and thanks for your explanation, this is much clear how you are reporting your active subscriber base. And it makes sense for us as investors also to look at active numbers because those are the paying numbers. I mean, it makes sense what you have explained, and it works out fine. So, if I move up to the second quarter, in the broadband space are you facing increased competition, because your net additions have gone down by 2,000. If I do a backward calculation for ARPU, it has gone down. So, just wanted to understand are you facing increased competition in the broadband space and what would be your strategy to recapture the market going forward? So, if you can add just more color to it.

Rajesh Sethi: we are facing competition because today the brand loyalty is being driven by the pricing in broadband space and there is no brand per se. So, my broadband numbers are flat. But the strategy we are adopting is threesome, what we are trying to do is we want to bring down the churn, we want to increase the conversion rate to effectively have more financial leverage by converting more home passes into active connections. And we also want to reduce ground fault rate. And while adopting this policy of reducing churn, reducing ground fault rate and increasing our conversions for home pass active connections, we are going with a smart deployment strategy, which means we are not going into mindless growth, expanding everywhere and we are being very selective about it. That is why we have recently launched only Nagpur, we have just entered Nagpur on 1st of November and we have started Nagpur launch with 72,000 home passes, but we are not going mindless everywhere because we want to control churn. In fact, in this quarter our churn percentage has come down by 1% per month, which translates to 12% incremental addition or 12% reduction in exit of the customers. In addition to that, we have shifted 25% of base to advance rental plans, what we call as ARPs. These advance rental plans help us to bring down the churn. Right now, 50% to 60% of net additions are on advance rental plans.

Avinash Kumar: Okay. So, if I buy the advance rental plan you mean a longer duration lock-in period?

Rajesh Sethi: Lock-in period where the customer pays you upfront in advance, which really brings down the possibility of churn and enhances your return on investment.

Ankit Saint: Also, just to add, the advance rental plans generally vary from a duration of three months to 12 months, that is how it works. So that increases the customer stickability as well.

Avinash Kumar: Right. I mean, most of your competitors are following the same strategy, so it makes me feel that going forward where would you stand out as in to increase your base? I understand that you are looking at high ARPU customers and reduce churn, I completely understand it and I appreciate it, I just was more curious how you want to take it forward, which makes sense on what you explained. Moving to my third question, and then I will fall in the queue. I see that your other expenses have gone up significantly, I mean, at 25% YoY for this quarter. So, I just want to understand how the trend will be going forward and by when can we expect the cost efficiency measures that you are taking to flow through to EBITDA, can you throw some lights on it?

Rajesh Sethi: See, my activation income effectively has gone down from quarter two compared to quarter one, because in quarter one my seeding was at 1.6 million against 0.7 million for quarter two. So, this translated roughly into Rs. 41 crores of reduction in my activation income. But in addition to that, there were some exceptions, for example I added up close to Rs. 5 crores for full and final settlement of (+600) people we laid off to get operational efficiencies. Beyond that there were certain impacts being captured of content deals which were already open So, because we settled these content deals in quarter two, there has been a six months impact which has been captured in these three months. So, effectively there is impact of quarter one which has got captured in quarter two, that also translates to overall Rs. 10 crores of impact. There has been similarly one-time of carriage of roughly Rs. 6 crores which has impacted me negatively, because again we adjusted certain course of quarter one and we did that recapturing of the impact. In addition to that, my hedging loss, which is again one-time, I think it was around Rs. 4 crores.

Sanjay Berry: Rs. 2.5 crores were pure hedging cost and 1.2 crores worth of restatement loss because foreign exchange.

Rajesh Sethi: So, in addition to some incremental depreciation, when you sum all this up, you will realize that all these costs have increased the cost line significantly. So, though in subscription we added up significant increase in terms of revenue close to Rs. 35 crores, it got brought down by almost Rs. 80 crores, which we were trying to explain to you.

Avinash Kumar: Right. So, if my understanding is correct this will be mostly a one-off, so all the negative has been accounted for in this quarter and going forward you can expect improvement in these numbers is what I wanted to understand from you.

Sanjay Berry: Avinash, so there was an additional provision what we had taken in the quarter of Rs. 10 crores. Basically, what we are trying to do is come out with a healthy set of numbers and not sure going forward whether this Rs. 10 crores could be one-time. But as and when if we see that there is any doubt, we might have to go in for this provision in the subsequent quarters. But yes, for the time being Rs. 20 crores - Rs. 25 crores is a one-time hit which was there in the quarter.

Moderator: Thank you very much. We will move to our next question which is from the line of Naval Sheth from MK Global Please go ahead.

Naval Sheth: If you can highlight the growth numbers on subscription revenues in cable, so what has driven that on sequential basis? If any particular market or phases you want to highlight here?

Rajesh Sethi: , subscription revenue has gone up quarter-on-quarter by 21% and year-on-year by 52%, and this growth has happened on two fronts, one, ARPU, there has been an ARPU growth, specifically for us in DAS-3 and DAS-4 markets. Second, ARPU growth has also been driven by rate increases we have done on the ground. So, effectively what we are trying to do is that we are trying to drive the realization up in DAS-3, DAS-4 markets while trying to sustain our ground in DAS-1, DAS-2 markets with a marginal improvement out there. So, that is how it is translating into growth.

Naval Sheth: Okay. And sir if I look at your receivables, it has increased from Rs. 363 crores odd to Rs. 417 crores as of March to September and your subscription revenue increase is in the same period of around Rs. 45 crores odd. While other revenue streams have either declined or remained largely stable. So, is it that incremental revenues, subscription revenues which have come, large part of that is sitting in our receivables? Or if you can breakup receivables in terms of placement and subscription, that would be helpful again.

Sanjay Berry: So, if you look at Rs. 363 crores is the right number, but if you look at the June residual number it stands at Rs. 426 crores and in September this was Rs. 417 Crores. So, basically what we are trying to do is our collection efficiency has gone up which was for the full last year it was 88% and currently on an overall revenue line item basis we are at 93%. So, there are a lot of interventions which management are taking to improve the collection efficiency. And happy to report that even on the pure subscription, collection efficiency is ~ 90%. So, we are trying to bridge the gap, this has been a long outstanding issue with this industry, but we are trying to take it head on, there are a lot of interventions, we are taking lot of corrective actions in terms of improving this collection efficiency, one of them would be on going on a prepaid model.

Rajesh Sethi: Just to add on to Sanjay, if you look at the numbers we have circulated to the street, my 30th June 2017 accounts receivable was Rs. 426 crores. And as of 30th September, my receivable is only Rs. 417 crores. And this situation in this quarter is purely driven by increased collection efficiency. We are very happy with current collection; subscription standalone alone collection efficiency is at ~ 90% and I think we should be able to report better numbers next quarter

Naval Sheth: Okay, that is good to hear. But sir as you stated that there is one-off Rs. 10 crores impact taken in P&L because receivables, so how much of this Rs. 443 crores you think there will be provision required in P&L as you are focusing more on improving efficiency and kind of clean up in terms of driving the overall cash generation as well. So, what kind of quantum, you didn't state that whether this Rs. 10 crores will continue or not but in your understanding how much of this would go for doubtful debt?

Rajesh Sethi: As of now we do not foresee any provisioning coming out of this account because this is something what we have been discussing and evaluating with our auditors also. So, as of now we are good to go and if anything comes up we will probably take it up…. nothing as of now.

Naval Sheth: And sir on CAPEX if you can bifurcate between broadband and cable this quarter, I believe majority would be cable and guidance for FY18?

Sanjay Berry: Most of the CAPEX of Rs. 176 crores for this quarter has gone into the cable business. Out of this, Rs. 175 crores have gone into cable business and only incremental CAPEX of about Rs. 0.5 Crores has gone into broadband. And for the remaining part of this year we are looking at ~Rs. 100 crores of additional CAPEX. And because we are following this strategy of profitable growth in broadband which should be reflecting in the, we are being very conscious that whatever deployment of CAPEX we do in broadband space must be a smart deployment which translates into real, profitability coming at the bottom-line. And it should not be just driven by home passes with churn happening and conversions not happening. So, that is why you find our broadband CAPEX at only 0.5 Crores.

Naval Sheth: Sir, I appreciate your strategy, but on broadband what is the conversion rate you are looking at, because your peers talk about 20% odd, that is one. Second, what is your thought process in let us say three to four years, where do you see yourself in terms of total number of home pass and subscriber base in broadband?

Sanjay Berry: Three and four years is too long outlook you are talking about, Naval, we can talk that offline.

Naval Sheth: And on conversion rate, sir?

Rajesh Sethi: We want to be in high teens, that is what we are looking at. So internally we are driving the system on conversion rate of high teens.

Moderator: Thank you very much. Our next question is from the line of Gaurav Negi from Aditya Birla Capital. Please go ahead.

Gaurav Negi: Sir, my first question relates to activation income. So, as I understand, 65% in the new accounting 65% of activation income is booked upfront. So, what is on the actual activation income on cash basis?

Ankit Saint: So, the IndAS activation income for Q2 was Rs. 44 crores whereas IGAAP is around Rs. 52 crores.

Gaurav Negi: Okay. But 65% should be much less, right?

Sanjay Berry: Yes, but it does not happen that way, the 65% would go into that. If there is other catch up for the previous quarter also it will come in, see that 65% that you are talking about, that 65% will be recognized up front and some of it is a backlog also which comes from the previous years which forms the part of the IndAS activation income which is Rs. 44 crores. Whereas if you are just looking at how much activation we have got this quarter in terms of billing, then that is Rs. 52 crores.

Gaurav Negi: And on a half year basis the actual cash activation income?

Sanjay Berry: For the first quarter it was Rs. 134 crores IGAAP, and for the second quarter it is Rs. 52 crores IGAAP.

Gaurav Negi: And my second question relates to the current borrowings, so there seems to be quite a spike in terms of your short-term borrowings.

Sanjay Berry: So, there has been certain working capital requirements, we have drawn about Rs. 14 crores odd as compared to the previous quarter. And there is a buyer's credit of Rs. 30 crores which we have drawn as compared to the previous quarter.

Gaurav Negi: Because on 31st March 2017 that number was around 19.6 and that has increased to 117.

Sanjay Berry: Which number are you referring to?

Gaurav Negi: Short-term borrowings into balance sheet as on 31st March the number was 19.6, it has increased to 117.24.

Sanjay Berry: I think, Gaurav, we will just get you these details offline. We need to validate what you are saying, so will come back.

Gaurav Negi: Okay. Just one small thing, so this one thing I wanted to understand is the churning, so 0.2 million that you said earlier, can you identify which phase it is happening because it will be worrisome for us if it happens in Phase-1 or Phase-2 when you have higher ARPU customers?

Rajesh Sethi: It is not happening in Phase-1 and Phase-2. If you want to really know, it is more to do with Phase-3. because as you grow… everyone else also wants to grow. But we are glad that we are the only one right now if I look at this quarter and I look at what other results have seen across, we are the only one who have aggressively taken this posture to grow not only the boxes but also to grow subscription revenue, ARPU, collection efficiency, operating efficiency and EBITDA

Gaurav Negi: So overall digitization target that you were looking at was, if I understand, was around 13.2 million. So, how far are we towards achieving it because with the change with the reporting that active paying customers, so it is somewhat muddy, so we want to understand how much digitization we have completed and how much is the balance that we look to complete in the coming quarters?

Rajesh Sethi: The way I like to answer is actively seeding so far which we have done is around 2.3 million in H1. So, we were targeting somewhere our guidance for the year was 3 million.

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

Mayur Gathani: Sir, can you elaborate more as to why this amount of churn for this quarter in Phase-3, anything specific that went wrong?

Rajesh Sethi: No, I do not think it is a very high churn. When I look at my Phase-3 numbers the churn of 200,000 is nothing as a churn when I look at Phase-3. And it is because whosoever today wants to see DAS-1 and DAS-2 it is all flat everywhere and there is marginal improvement which we are seeing in DAS-1, DAS-2 with regards to any fresh additions. So, wherever the better is Phase-3 and Phase-4 within the ecosystem. Phase-4, only those people are going into those markets who feel that their capabilities and operational efficiencies to rightly seed and rightly monetize Phase-4, because these are tough markets. So, people who have inventory with them they are trying to find some kind of disruption in Phase-3, and we held our ground very well. In fact, my ARPU in Phase-3 went up by almost 10% when I look at my ARPU in quarter one, despite what was happening in Phase-3.

Mayur Gathani: Okay. So, this again is coming from your MSO partners only?

Rajesh Sethi: Ecosystem, not only MSOs.

Mayur Gathani: Okay. And would you be able to segregate saying primarily it is more from MSO side or from the DTH?

Rajesh Sethi: Too sensitive.

Mayur Gathani: And would you be able to share what were the ARPUs for Phase-1, Phase-2, Phase-3 separately?

Rajesh Sethi: Absolutely. In fact, so for us in quarter one it was 105, 85, 50 and 28, phase wise, one, two, three, four. So, we have been able to maintain our Phase-1 and two at 105 and 85, Phase-3 my 50 has gone up to 55 despite us seeding more and despite us fighting in Phase-3. Phase-4 has jumped from 28 to 40.

Mayur Gathani: Okay, so Phase-4 it is 40. And so, our guidance could be the same or we can see still improvement in Phase-3, Phase-4 for this year?

Rajesh Sethi: It cannot be same, we are targeting more than 20% increase within some time in Phase-3, Phase-4. Phase-1, Phase-2, we need to do more and we need to improve, but I see marginal improvement, not as significant as I see in Phase-3 and Phase-4. But Phase-3, Phase-4 there is a potential in Phase-3, Phase-4 within near-term, by closing of this year. And when I look at my segregation, in fact that has a better impact on my results because for me Phase-1, Phase-2, if I do a thumb rule split of my consumer base, for me Phase-1, Phase-2 is 3million and Phase-3, Phase-4 will be 8 million consumers. So, if I can increase my Phase-3, Phase-4 %, whereas there is a marginal improvement in Phase-1, Phase-2, you guys will be happy.

Mayur Gathani: So, what will lay it more to Phase-1, Phase-2 improvement, is it the HD subscription that you can add there?

Rajesh Sethi: It is the service level, improvement of service levels. We are also keenly watching the tariff order judgment, today is 6 November, I do not think it should be very far, the declaration of judgment in Chennai courts. So, as that comes into play the whole gamut of your packaging, your content pricing, your customer service, your ability to cater to the needs of the consumer which is both LCO as well end customer will come into play. And that is where we are gearing up for better Phase-1 and Phase-2 ARPUs. And remember, Phase-1 and Phase-2 still have a significant DTH base at a much higher ARPU. And if we can do what we want to do in Phase-1 and Phase-2, there is going to be marginal improvement. Whereas Phase-3, Phase-4 is an opportunity anyway, I mean, Phase-4 does not deserve Rs. 40 of ARPU where we are today, or Phase-3 deserves much more than 55 where we are at today. And that is why we are saying that the growth must be significant as we reach the end of this fiscal.

Mayur Gathani: Okay. And one more point that you mentioned on the broadband when you said they are negative additions is reducing ground fault rate, can you explain that please?

Rajesh Sethi: Yes, when we analyze churn, I think one metric for broadband for everyone should be ROE. So, when we do that calculation for the complete DPO fraternity, I see that the ROE which has been projected and announced by many people in their results, if you multiply that with the churn ratios, ROE becomes meaningless, so I must reduce churn. And if you must reduce churn the biggest factor beyond anything is like ARP, advance rental plan is one play out there. But ground fault rate really leads to customer dissatisfaction levels. So, that ground fault rate must come down which is culmination of various factors like your maintenance service providers, your own technical staff on the ground, your ability to control the things from your whole approach towards customer centricity as well as customer first as a value, your call centers and those factors are helping us to reduce our GFR. And the results we have seen in this quarter are very encouraging for us, our GFR is down, our churn is down.

Mayur Gathani: Okay. And any update on the prepaid model, what percentage of connection is still un-prepaid and how much can we improve there and how are we going about it?

Rajesh Sethi: See, in industry we were the only one who took a lead on pushing for a prepaid model which is a controversial subject to some extent because obviously unless the whole ecosystem goes to prepaid, it cannot be a huge success. So, it is pretty litigant as a subject. We moved forward……11% of my subscriber base is prepaid right now. But yes, the further shift from postpaid to prepaid has literally frozen in the sense it is not going at the pace at which we could move to the number of (+20%), so that is where now we are trying to push it further. But as your complete tariff order comes into play, obviously the whole game automatically goes to prepaid.

Mayur Gathani: I am sure you also long back had mentioned that you have software that you shared with the LCOs, does that continue?

Rajesh Sethi: Yes, we have a subscriber management system, we call it 'Own Your Customer', in fact again we provide this lever to our partners, distributors, LCOs, JVs where they can get into our system and they can change the packaging, pricing, channel addition, channel deletion through the software package we have. So, we have created that kind of access for them. Again, a drive for customer centricity.

Mayur Gathani: Sorry, I missed that, my question is only 20% of your LCOs would be operating this?

Rajesh Sethi: No, 100% of my LCOs are operating this. I think you are mixing two things – one you said how many of them are now into prepaid, who pay me in advance? So, that is ~ 11%. Then your second question was that, 'have you taken a measure towards giving software or platform access to your partners for LCOs and JVs?' For that we have done it for 100% of them now. Because one big area of investment for us where we are very mindful is our preparation towards implementation of this tariff order whenever it comes into play. And for that implementation front you must bring in processes, you must bring in equipment, you must invest in servers, you must ensure that the whole system is automated, you have to look at your call center, you have to change the whole culture of moving forward from B2B to B2C, because we presume that as this tariff order comes into play, there will be a huge level of increased customer contact. And for that your systems, your people, your processes must support it, and that is why 'Own Your Customer', that has an important role to play.

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

Shayon Chatterjee: Rajesh, just two questions. Firstly, how confident are you this TRAI come this calendar year, given that we have been waiting it for it for last few months and India being India, how long do you think that will take, your best guess? And second, given what we have seen in the mobile sector once Jio came and basically with stretched balance sheet of incumbents even the ones who were not friendly like Vodafone, Idea, we have seen forced consolidation. Do you think that post-TRAI, when it comes and if it comes, a couple of quarters or may be a few years later do you think we will see consolidation in the cables side? We are already seeing that on the satellite side, now there are rumors about Tata and Bharti DTH, we have already seen Videocon and Dish. So, what do you think the odds are that we see consolidation on the MSO front?

Rajesh Sethi: Shayon, coming to your first question, when TRAI order is really being released? I would have been in a very different result if I could predict things, only God knows.

Shayon Chatterjee: I mean your best guess.

Rajesh Sethi: My best guess, or rather I would say my best guess driven by the **industry** grapevine, we should hear something within next few weeks, it is more driven by what we hear across the corridors and I do not own this comment, but this is what we are hearing. So, we are hearing that something should come out of Chennai within next few weeks and we are eagerly trying to track it out. So, that is one. Second, you said that do we foresee consolidation? Absolutely, yes. We see consolidation in near-term and medium-term rather than long-term. And we are again eagerly watching the metrics of consolidation because again, the whole news of possible consolidation at times really peps up some stocks, so there is a lot of stuff we are hearing around consolidation. But how effective it would be eventually for the existing shareholders, again, only God knows.

Shayon Chatterjee: Are you saying that it would not be good….

Rajesh Sethi: No, I think the consolidation would be good for the industry, but I am not sure how consolidation would translate into money for the existing investors in those companies where consolidation is happening in short-term. No consolidation in SITI for sure, this much I can say on this call. I said in SITI we guys are going very strong, looking at harnessing our efficiencies, considering profitable growth, and focusing heavily on EBITDA margin expansion.

We clearly realize whatever stories people may talk about, eventually video is the bread and butter of the business while we need to grow in incremental new technologies and new areas of growth like broadband. So, we are focusing highly on subscription revenues. We understand that the driver of subscription revenue is ARPU and seeding, we are focusing on that. We also realized that the real money is the money which hits your bank account. Hence the collection efficiencies, the focus is on increasing collection efficiencies and reducing account receivables to as much as possible, and similarly focusing on our complete operating efficiencies. And one example of that had been we are trying to structure ourselves for growth, we laid off more than 600 people, we are doing cross-training for our people for both broadband and video, rather than hiring different people for different roles. We are not doing mindless expansion. We are very careful about footprint reduction in the areas where growth in both revenues as well as profitability does not make sense. So, our strategy is very clear, we are just focusing on profitable growth and we are very happy looking at where we have gone from where we were in June versus where we are now.

Shayon Chatterjee: Great. Rajesh, just one question, I know this is a loaded question, but why has it taken the senior management and promoters of this company so long to fix the issues? And again, I know you are new so as Sanjay, so no offense to you both, but why has it taken so long for the industry to clean up, given that we knew all this mess was there even three quarters ago? Are these desperate times that is why, I mean like we are seeing with other sectors, I just want to know your thought process within the company?

Rajesh Sethi: Obviously, Shayon, you and all my friends on this call understand the complete management team had been changed by the promoters in last few months. And to some extent it is driven by the way me and my team view as a huge opportunity. There is a huge opportunity which is very well there on the table, there is no rocket science in addressing the issues which are ailing this sector. Somewhere ecosystem needs to collaborate, but relying for too long on ecosystem where many places of the ecosystem are more in exit mode and they try to talk about the numbers more from the perspective of gaining investors is a very short-term strategy. So, apparently here the strategy of the people who own this group is more driven by the fact that we are here for the long-term and we must ensure that we move forward with a profitable growth. And I cannot talk about what happened in past but that is the way we are moving going forward.

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

Vivekanand S: Considering the tariff order, can you help us understand if there is any difference in the way you see it versus say a standalone distribution platform would approach this subject? And secondly, I understand that the industry is at a similar level on the realizations across Phase-1 and Phase-2, so what will it take for the industry to get more cash from Phase I and Phase-2 customers given that the tariffs on the ground clearly are moving up or at least remaining at a firm level?

Rajesh Sethi: So, if I can take your questions into two forms. One, you are saying that what is the impact of tariff on standalone platform versus platforms who are integrated across the value chain in this industry, right, is that the question?

Vivekanand S: Yes, that is right.

Rajesh Sethi: And your second question is more to do with that what difference will have to do to drive ARPUs up in Phase-1 and Phase-2?

Vivekanand S: That is right.

Rajesh Sethi: See, honestly, I do not know how an individual organization or any organization's management whether they are integrated across the value chain or not they are looking at tariff order. For us we run ourselves as an independent entity and me and my team are totally focused on how do we leverage tariff order as an opportunity to more focus on bundling, tiering, demographic analysis and really go to the customer with the kind of bundling offerings which are more in line with what consumers need rather than being pumped by respective broadcasters because what broadcasters have been doing is they have been offering packages in to the market with lot of channels which are tail-end channels. So, for us tariff order today provides us with an opportunity to segregate basis your ground understanding and your knowledge of what consumer wants and what is required in what market, because India is again a unique country where requirements change every 100 kilometers. So, we believe that tariff order is a huge-huge, huge opportunity in that direction and we are very bullish on how we look at it to gain advantage out of the whole situation.

Now, moving to your second question, you said that Phase-3 and Phase-4, while ARPUs are moving up, Phase-1, Phase-2 is a marginal improvement and how do we see doing something different out there is what I understood. Now, the way I view at my portfolio today, my portfolio today is almost (+8) million subscribers in Phase-3, Phase-4, so for me the priority is that for these 8 million subscribers how do I effectively keep on pumping ARPUs movements upwards, because they will translate into huge gains into my portfolio. For me around 3 million are my subscribers in Phase-1 and Phase-2, there I am seeing marginal improvement, but my strategy there is to hold on to your ground, not go for mindless activation in those markets which come at very low activation rates because they are obviously saturated markets. However, having said that, there are certain new things which we are planning to do, with a specific focus on Phase-1 and Phase-2 markets which is more to do with technology innovations and some differentiators to be created in terms of offering which we are planning to offer to our consumers in Phase-1 and Phase-2, and I think it will be too early to disclose that on this call, but there is a lot working at the back end. One cliché which everyone knows, and everyone talks about is adding more of (HD) High Definition into Phase-1, Phase-2, even we are doing that.

Phase-1, Phase-2 seeding is more focused on High Definition content for us as well. I am also aware that when I look at DTH realizations in Phase-1 and Phase-2, their ARPU is at 160 and 170. So, while they are at 170, 175 kind of numbers in Phase-1 and Phase-2, why am I at 105 or 85 in Phase-1 and Phase-2. So, that is something which bothers us, HD is something which we really want to focus upon. We also see because there is a gap in the ARPU realizations between us and the DTH players in those markets, so that is the play which we have, that is the lever we have, and we need to move forward and strongly deliver that we will have to create competitive differentiators in what we are offering to the customer and it will be too early to talk about the technology innovation which we are trying to drive in that market.

Vivekanand S: This is helpful. Just a couple of follow-ups. One, on the tariff order, you mentioned that there are a lot of tail-end channels that broadcasters stuff in so in that sense isn't this approach of providing just exactly what the consumers want at odds with the thinking of your parent which controls the broadcast entity, they would also have a lot of tail-end channels which they would want consumers to at least sample. So, in that sense whereas the non-broadcaster affiliated MSOs will certainly have no such compulsions for the promoter to balance interest. So, how should we see the tariff order implementation considering your parent which would have two interests to balance, one is your company and the broadcaster entity? That is one.

Rajesh Sethi: So, when you say parent I do not know who is my parent, because my company has a huge investor interest beyond the promoters who have an investor interest in both, the broadcasting arm that you are talking about. We are totally focused on one thing – profitable growth of SITI Networks.

Vivekanand S: Alright, fair enough. That makes sense. The follow-up that I had on the Phase-1 and Phase-2 answer that you mentioned, taken your point that Phase-1 and Phase-2, you have a lot more at stake in Phase-3 and Phase-4 therefore your focus would be to improve ARPU in those markets. But in Phase-1 and Phase-2 at a unit economics level what would be the cash profit per subscriber on a monthly basis right now after the rationalization measures that you have taken?

Rajesh Sethi: It is too early to comment on that, maybe we can take it off line

Moderator: Thank you. We have the next question from the line of Shilpa Patnaik from JM Financials. Please go ahead.

Shilpa Patnaik: I have two questions. Can you please tell us what was the pay channel cost this quarter? And second, why is there a 7% decline in carriage and placement revenue this quarter?

Rajesh Sethi: Shilpa, our content cost for this quarter was Rs. 151 crores as against Rs. 142 crores of quarter one, hence you can see a 7% increase in my content cost, which is a very fair number because a lot of deals have opened up, and some of them significant ones which we closed in July, August kind of time frame and most of these deals are in fact calculated from April basis. So, there is a catch up which comes into play. So, we closed in fact three content deals within the second quarter which had a six months catch-up impact which has been captured in these three months. So, when I look at my content cost I am still hopeful that we will be able to follow the guidance which we gave earlier in the year.

Shilpa Patnaik: Okay. So, my next question was, why is there a 7% QoQ decline in carriage and placement revenue? And are we expecting any carriage and placement growth this fiscal?

Rajesh Sethi: Same thing, it is a timing issue. So, if you guys are following broadcasting, the content and carriage is more of a timing issue because there are negotiations which keep on happening, you will see positive effect of carriage in next quarters, it is more of change in deal contours, we maintain the guidance.

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

Amit Kumar: Sir, my first question on Phase-3 and Phase-4, I know there may not be exact numbers available but what is your sense of the end consumer ARPU in Phase-3 and Phase-4 markets?

Rajesh Sethi: Same as what you get in Phase-1 and Phase-2. I have personally gone and met customers at their homes, I do not think there is a difference in the ARPUs in Phase-3 and Phase-4 compared to Phase-1 and Phase-2. When you do the complete demographic analysis of our country, the money lies at the bottom of the pyramid. There is no difference in the ground level, money being paid by the consumers. There is no significant difference, there is a difference, but it is marginal when you compare Phase-1 and Phase-2 with Phase-3 and Phase-4. Otherwise I would not have been able to move my ARPUs of quarter one of 28 to 40, because if you look at into percentage terms it is a huge jump from quarter one to quarter two,

Amit Kumar: Okay, understood. Sir, my second question is with respect to your balance sheet, the capital work-in-progress was fairly high at the beginning of the year itself, around Rs. 400 crores, but you had investments in Phase-3 and more actually Phase-4 planned. So, in the first six months we have already seen like 2.3 million set-top-box seeding basically has already happened. But your CWIP still remains quite high, we are still looking at almost a Rs. 330 crores kind of number. And please correct me I am wrong, I think I have heard a number of 3 million for the whole year, so 0.7 incremental. So, what is this CWIP all about?

Rajesh Sethi: One correction before Sanjay takes into details, I said ~ 3 million.

Sanjay Berry: We are talking about the overall seeding potential for this financial year. So, can you repeat your question please?

Amit Kumar: Yes. So, I was basically saying that this Rs. 330 crores of CWIP, is this only set-top-boxes, is this something else to it because broadband you do not seem to be investing in the market.

Sanjay Berry: Yes, it is primarily set-top-boxes only and it is only reclassification which is pending and separately we are taking this exercise after this quarter is over. So, this number will be reclassified accordingly. So, it is primarily the seeding of set-top-boxes.

Amit Kumar: I am sorry, reclassified into what, I did not understand.

Sanjay Berry: So, we will have to take it to the assets, so it is an accounting issue and we will probably take it up from fixed assets only.

Amit Kumar: No, I am sorry sir, I am unable to understand this point. So, those CWIP set-top-boxes are with you, when you sell it to your local cable operators and when they sell it to the consumers it goes into assets. So, at this point of time are they in your position, are they with your LCOs?

Sanjay Berry: So, two things, what we sell to our associated enterprises that we reduce it from the cost, we do not capitalize that. What we seed and in the customer premise equipment that is something what we capitalize. It is only those assets we control, and it is in our balance sheet.

Amit Kumar: Alright. Probably it is better if I take it offline, I just still need a little bit clarity on it. Thank you.

Moderator: Thank you. Our next question is from the line of Kaustubh Bubna from SKS Capital and Research. Please go ahead.

Kaustubh Bubna: Just wanted to know what has changed in the last four months or last quarter for the Phase-4 regions? Because I see lot of cable players are now seeing jump up in ARPUs, so has the monetization effectively taken place and now will we be seeing steady increase in ARPUs from here because that would also then bear a positive impact on our EBITDA margins overall in the long-term. So, could you comment on the ground situation of Phase-4?

Rajesh Sethi: Kaustubh, I do not know about others because I do not think everyone is actively playing a role in seeding Phase-3 and Phase-4. Because when I look at the results in the ecosystem they are flat when it comes to new additions, because one reflection of Phase-4 primarily is new additions. So, the only way your Phase-4 numbers can really impact your bottom-line if you have been seeding your boxes in H1. So that is to comment on your part of where you are saying 'everyone' for which I have a different view. And yes, the realizations in Phase-4 have started happening. There are certain measures like active dunning policy, pushing the system, because then consumer anyway had been paying, it is more of ensuring that the connections we have connected and the LCOs we have connected, they develop a habit of paying you. So, we have been trying to correct that and we had some significant wins in this quarter when it comes to Phase-3 and Phase-4.

Kaustubh Bubna: From a business point of view what is your overall cable business plan for the next two years? Like forget financials, what is your fundamental plan? Where do you want to take this business in the next two years? I understand a lot can happen in terms of consolidation, after the TRAI order the full prospects can change, but taking all of that out of the part what is your plan in terms of product offering and the customers you want to penetrate for the next two years?

Rajesh Sethi: Significant change in fact, I do not think we will be talking about the same parameters one year down the line. The ecosystem is fast evolving and changing. So, when you talk about where we will be two years down the line, obviously the simple answer is video is becoming the key driver for us and we will be at a much-much more profitable and healthier situation. We are pretty bullish.

Kaustubh Bubna: So, you were saying that the broadband space is going to see an immediate kicker with Jio still has not released and we are relatively a small player, even as compared to Hathway, it would be tougher for us to kick on. So, I am just trying to understand what is your strategy in broadband and once they release their rates obviously then we will be in a better position to release our rates and be more competitive. But until they keep revising this free service what is our plan and where do we see this broadband vertical going, how much percentage of our sales can it be in the next few years, I mean, what is the plan?

Rajesh Sethi: First, a few things to look at in broadband is, first we should get what we see. So, while everyone talks about home pass, the true number is conversion of that home pass. So, one, it is conversion rate. Second, while again we project numbers, but we must look at ARPU, my DOCSIS ARPU today is around 613. The way market trends are going we all know that the ARPUs in short-term may go down and they may again start going up. So, in addition to this, churn is something which is impacting everyone. So, I do not know whether Jio phenomena is going to hit everyone in wired broadband space in immediate future because anyway Jio is into an active play for now, but I think they announced their underground FTTH network some 18 months back and we are yet to see what is happening in the wired broadband space for Reliance Jio. These are interesting times.

Moderator: Thank you. We have the next question from the line of Vivekanand S from Ambit Capital.

Vivekanand S: Just a follow-up on the employee rationalization exercise, in our annual report we had mentioned around 657 permanent employees and actually we have a lot of temporary resources. So, was this rationalization primarily on the temp and off-roll employees? And how much temp employees we have right now?

Rajesh Sethi: This exercise was on both temp as well as permanent employees. So, we did restructure our permanent employees as well, we downsized around 662 employees and we had a fair bit of restructuring out there.

Vivekanand S: And over the next two, three years as the business becomes B2C, as you were highlighting numerous times, where do you see the manpower requirement for us, let us say at 13 million cable subscribers across phases and say broadband targets that you have been outlining what is the manpower strength that you will be comfortable with over the next three, four years?

Rajesh Sethi: It can never be a linear relation, never ever. I think there are things like efficiencies which come into play. But having said that, while we are growing by that logic if we could do what revenue we did in last quarter with lesser number of boxes and lower number of subscription revenue at the end of quarter one versus where we are today, we should have added more people if I go with the perspective you are thinking. I do not think so, that is not the way it works. We want to be a lean and efficient organization where decision-making moves quickly, higher level of accountability, higher level of ownership, and that can always be done if it is a well-oiled, well-run machinery with right size of people. I do not think there is a linear relationship with the number of connections compared to the number of people you need.

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

Ankit Saint: Thanks to everyone for attending the Investor Relations Conference Call. We trust all your queries were answered suitably. If you have any follow-up queries you can get in touch with Investor Relations and we can also facilitate some interaction with the management going forward. Have a good day. Thanks.

Moderator: Thank you. On behalf of SITI Networks Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your line.