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"Siti Networks Limited Q4 FY-18 Results Conference Call"

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An Essel Group Company

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY18 Results Conference Call of Siti Networks Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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: Good evening, ladies and gentlemen. This is Ankit here. I welcome you to the Q4 FY18 Siti Networks Investor Relations Conference Call. We have with us Mr. Rajesh Sethi who is the Chief Business Transformation Officer for Siti Networks and Mr. Sanjay Berry who is the Chief Financial Officer for Siti Networks. With that, I will hand over the call to Mr. Sethi and he will make the opening remarks. Thank you.

Rajesh Sethi: Good evening everyone. This is Rajesh. I have my colleague Sanjay also with me. As it comes through the results for the full year, our consolidated revenues stand at 1,426.4 crores while our EBITDA has grown to 324.5 crores for this full year. For us, we have achieved a landmark by reaching 11.5 million active digital subscriber base as we close the year. Our EBITDA has jumped significantly by 2.6 times from 58.6 crores last year to 151 crores for this year. While our EBITDA has jumped 2.6 times, our EBITDA margins have also expanded to 2.1 times. They have gone up from 5.7% last year to 12% in current year. Our subscription revenue has taken a leap of 41% clocking the number of 800 crores, we have maintained core focus on cash flows wherein our collection efficiency has surpassed 95% as we exit the year.

Happy to announce these results and I leave the floor open for any questions you guys want to ask.

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 Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: My first question is can you please share the revenue breakdown for the fourth quarter, basically your CMP revenue, broadband activation fee and also if you could share the activation fee as per Indian GAAP?

Ankit Saint: Sanjay, this is Ankit here. So, the IndAS activation for the quarter was around 17 crores and for I-GAAP, the activation was 25 crores.

Sanjay Chawla: The other revenue items?

Ankit Saint: Which revenue items would you like us to…

Sanjay Chawla: Carriage and placement and the broadband revenue.

Ankit Saint: The carriage and placement was around 74 crores. Broadband was around 22 odd crores for the quarter.

Sanjay Chawla: So what is the reason for the significant decline in your carriage and placement revenue?

Rajesh Sethi: Most of the content deals we have gone ahead with, in fact before even I answer that Sanjay as you are well aware about the industry there are two ways to look at it. One is whether you look at carriage on standalone basis which is a bit of illusion in my point of view. When we talk about carriage, we should always look at carriage and content and not look at in seclusion. So when we look at carriage and content both, my content cost has not gone up and is significantly below even than what we projected earlier in our earlier investor calls. In fact, it has gone down. It is less than 15.5%. While we have maintained our carriage income flat, so when you look at the sum of two, we have gained.

Sanjay Chawla: So just coming to the content cost like the gross pay channel cost, what was it in the fourth quarter. It seems to have declined sequentially, so just can you share the figures first and then explain us why it has gone down?

Rajesh Sethi: It is around 138 crores, it has gone down virtue those negotiations and that is you should look at both content and carriage. In the same regard while our carriage cost has been to the tune of around 73 crores, my content cost has been 138 crores in quarter 4 and when I look at my net content cost on my subscription basis per subscriber basis, it has gone down from 39% in Q4 last year to 31% in this quarter. I think that is a fair comparison.

Sanjay Chawla: 138 crores is the figure you gave for the fourth quarter, the gross pay channel cost, content cost?

Rajesh Sethi: 138.

Sanjay Chawla: So were you over providing in the previous three quarters because this figure is even lower than what we have seen in the last actually 4 quarters?

Rajesh Sethi: We had been negotiating and as you know, the negotiations with broadcasters generally happen towards closure of the year. So we had been negotiating with Star, with Sony, with Zee all these broadcasters and virtue those negotiations, we had been able to pull our content cost down, though it also made an adverse impact on my carriage revenue and that is why you see my almost flat carriage revenue. But you see a reduction in content cost virtue those negotiations.

Sanjay Chawla: What I wanted to understand is that for the first three quarters, the carriage costs were high and obviously we were on track for a 15%-17% growth this year on a full year basis, right. But in the fourth quarter we are seeing that the absolute amount itself has gone down. So how do we now look at the next year …

Rajesh Sethi: We closed big content deals in quarter 4 which is Star, which is Sony and one more and as we close these deals, we are clear for the year. Now as we go forward, our aim is that while we have been able to create a base effect of lower content cost for us, we should be able to maintain that base and ensure that our content cost should remain in the same zone. So, as I said we have been tracking our cost per subscriber and it has gone down to 31%, we want to take it further down.

Sanjay Chawla: So what should now we look at the outlook in terms of the content cost, I am just looking at the gross number right now. You had 586 crores for the full year content cost, how should we look at the growth going into FY19?

Rajesh Sethi: It should grow around 15%.

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

Avinash Kumar: Couple of questions from my side. First of all, the call was very urgent basis post the late results that you came out. So quickly moving onto the questions, your activation income seems to be going down. I think this is basically mostly noncash amortization of past incomes. So can you give me the number how much is real cash and noncash in the activation revenue, that is question number one. Second, your EBITDA seems to be boosted off by major ones, if I remove the one-off item, your EBITDA has gone sequentially. Secondly, if you can help me with the inventory of STBs you have and can we expect any write-offs in that plus also the CAPEX that you have spent in 4Q 18?

Ankit Saint: I will just answer the question on activation. So our Ind-AS activation for this quarter was 17 crores and the I-GAAP number was 25 crores and we seeded 3.3 lakh boxes this quarter. So you should calculate on a derived basis, it is around 758-760 and this is pretty much at the same level that we had done for the last quarter as well. So the activation rate per box has remained stable this quarter as well.

Rajesh Sethi: And your second question was with regard to any possible write-offs on STBs, I could not even understand that. Can you please..

Avinash Kumar: Yes, first you can help me with the STB inventory numbers that you have.

Rajesh Sethi: As we speak, we have currently about a million odd STBs in inventory.

Sanjay Berry: When we say inventory, we have million boxes ordered which may be physically with us or not.

Avinash Kumar: Got your point. And if you can help me with the CAPEX that you have spent in for 4Q 18 and for the whole year as well?

Rajesh Sethi: In Q4 our CAPEX was what we have spent was close to 56 crores and for full year basis, it is close to about 400 crores.

Avinash Kumar: And any CAPEX outlay for FY19 if you can help me with that?

Sanjay Berry: CAPEX outlay for 19 would be around 350

Avinash Kumar: And the breakup towards cable and broadband?

Sanjay Berry: We are working out the numbers right now

Avinash Kumar: And what would be your net debt number, if you can help me with that?

Rajesh Sethi: 1,326 crores as on 31st March.

Avinash Kumar: Lastly, I am sorry I am just pushing a lot of questions. So the thing is that can we look at any preferential equity the company might issue to PE investors or maybe promoters. Why I am asking is because if I look at your EBITDA, your EBITDA is not able to cover your interest cost plus your CAPEX. So there is a good chance of bankruptcy coming and I do not want to sound offensive on the call but there is a good chance of bankruptcy coming in if there is no preferential equity issued to the either promoters or any PE investors coming into the company.

Rajesh Sethi: I think we are linking two things in a different manner. First whenever there is equity infusion of any form, we will intimate to the market at the right time. Second, I do not agree with you when you say that our EBITDA margins are not able to cover in the interest cost. I think you will have to look into the numbers.

Avinash Kumar: Can you give me the numbers?

Rajesh Sethi: It is 150 crores plus for this year.

Ankit Saint: For the full year FY18, it was 325.

Rajesh Sethi: 325 and even the operating EBITDA is 151

Avinash Kumar: And your finance cost is…

Rajesh Sethi: It is about 140 Crores.

Avinash Kumar: And if you add the CAPEX to it, 400 of CAPEX that you…

Rajesh Sethi: You are putting CAPEX also into that and that is what you are commenting. We were talking about without CAPEX.

Avinash Kumar: I am also including your activation revenue into EBITDA, I am not excluding the activation…

Rajesh Sethi: Because we generally avoid taking activation revenue because that provides better transparency and we look at operating EBITDA as well as EBITDA including activation. So if you look at these two numbers, our operating EBITDA right now is 151 crores, pure operating EBITDA without activation while your interest cost is around 140 crores and your EBITDA including activation for this year is close to 325 crores.

Avinash Kumar: Yes, it is. I will share the numbers with you one to one that will clarify the picture in a better way. So just one last thing if I can squeeze in, I know I am taking a lot of time. We have been waiting for TRAI for quite some time, it has been eternity if I can name it. Any progress on it and what is the next step you can look forward to, given the split verdict that you got from Chennai High Court.

Rajesh Sethi: These things are in the court and you should appreciate that we cannot influence these things which are sub judice. Though it has been very actively argued and pushed both by AIDCF as well as the complete delivery platform community, there are hearings happening. There was hearing last week also. Things are being pushed and progressed, but finally we have to wait for whatever course the law takes.

Avinash Kumar: So that is the stand we are looking at.

Sanjay Berry: I would like to add one more comment Avinash to this point because I understand the concerns of investors for tariff order perspective. Even we want tariff order to be on the table as soon as possible because we know that it has an opportunity to provide a significant upswing to what we have done. However, while we are doing a planning as of now and the way we are trying to execute over delivery plans even without tariff order, we are very happy for what we have been able to achieve.

Avinash Kumar: Looking at what next step you can take as a company or maybe the distribution lobby can take it given that the split verdict is already there, that is what if you can provide some color on that?

Rajesh Sethi: Right now, things are beyond split verdict, right. So, the hearings which are going on, I do not know whether lobbies are right word to use, but as member of AIDCF which is All India Digital Cable Federation, we are one of the founding members. So complete AIDCF is pursuing it up, TRAI is independently pursuing it up, MIB which is Ministry is independently pursuing it up. So there are hearings happening actively. It is not as if it is waiting for hearings to happen. There were hearings last week. I think it is at its last stage, but again as we said, it is about judiciary, so we cannot comment on how and when.

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

Sanjay Chawla: Like you have done great job on the content cost front. I also see that the receivables have actually declined compared to what you mentioned on the third quarter. And also, they are flat YoY with the receivable days coming down to 95 days for the year compared to 110 last year. So what exactly is contributed to this and particularly most of the changes happened in the last fourth quarter itself?

Rajesh Sethi: Sanjay, it is all about collection efficiencies. So what we have been trying to do is as I said in the beginning of the call for us cash flow is one of the significant focus. We are not only looking at growing revenues and driving cost down, we are also focusing on collection efficiencies. So in fact to be specific for March, our collection efficiency was more than 100% to give you an example, it was 103% or 104% as a number and when I look at quarter 4, collection efficiency was 95% and when I look at complete year basis, it was in high 90s. So what we have been trying to do is we have been moving the needle…

Sanjay Chawla: Specifically, if you can touch upon the receivable on account of subscription and carriage separately and…

Rajesh Sethi: Carriage, collection efficiency is linked with your payments which you pay back to broadcasters and generally you do not have bad debts in carriage unless a broadcaster who owns a significant money closes down and winds up the operations which is not the case which happens that frequently. So always the biggest focus and the biggest chunk of the collection efficiency parameter is your subscription revenue. While we are focusing on both, subscription revenue efficiency, collection efficiency, it takes higher priority when it comes to our collection efficiency.

Sanjay Chawla: So can we expect these receivable days to go back to the normalized 100-110 level that you were reporting in the past.

Rajesh Sethi: That is not normalized, that is something we need to improve on. Normal is to make it continue to go down.

Sanjay Chawla: Right. Just a related question to the pay channel.

Rajesh Sethi: Sanjay, I repeat, because there would be other people also in the call, so I just want to make it clear. What you call as normalized 110 is abnormal for us. We want our collection efficiency and day sales outstanding to go down to zero level if possible. And that’s what I am saying, we have been pushing that needle up month-on-month-on-month.

Sanjay Chawla: Just that the historical trend has been a bit volatile, so we saw this going down in FY16, then going up in FY17. Now we have seen it going down again in FY18. So just trying to see from a forecast point of view where we should expect these receivable days to be?

Rajesh Sethi: I think a fair view would be if you compare, you have been in every quarter call, it would be if you pick it up quarter by quarter and see the trend. So I can talk about last three quarters 2, 3, 4 which we have been talking with each other on. For each quarter, collection efficiency is improving and day sales outstanding is reducing.

Sanjay Chawla: That's great. The pay channel cost if I can come back to that, you know you mentioned 138 crores as the pay channel cost, right?

Rajesh Sethi: For the quarter.

Sanjay Chawla: For the 4th quarter right? But what you report in your filing is pay channel and related costs. Now if I strip out the pay channel cost, the related cost is only 6 crores this quarter. And this is significant decline compared to 14 to 16 crore range in the previous quarter. So what exactly has happened here that, you know, this cost has gone down by roughly 10 crores in one quarter itself. I mean is there any one-off or what would explain this decline please?

Rajesh Sethi: I think it is the sum of content cost, which is pay channel cost and generally what would term as distribution expense. These are the commissions we pay to distributors, distribution sharing. So now what has happened is that while across last 9 to 10 months, we have been pushing up collection efficiencies and we have been trying to push down content cost by getting into active and efficient negotiations. We have also streamlined our distributor policy. And we have changed our commission structure for the distributors spread across the country. And we have brought in few parameters which we have been linked with commission, primarily which are related to seeding, the collection efficiency of the distributor and the churn rate. While we are doing these changes in the distributor policy, commission policy and we have streamlined it, we have also implemented the dunning policy. So, combination of all this has resulted into reduction and we have consciously reduced the distributor commission policy and structure, which has resulted into reduction for us.

Sanjay Chawla: So, how should one look at this thing going forward? Because, this cost other than the pay channel cost has come down to 52 crores based on the numbers that you shared. 52 crores for the year compared to 90 crores in the previous year?

Rajesh Sethi: 74 crores.

Sanjay Chawla: Did you have 74 crores?

Rajesh Sethi: Last year was 74; it should have come down to 52 because in our minds there was a reduction of 29% to 30% in that regard.

Sanjay Chawla: So from 52, what should be the normalized cost next year?

Rajesh Sethi: See, yes, the collection efficiency moves up significantly. It varies from distributor to distributor actually. If distributor has been able to address the churn part, if I am a distributor let's say operating in a particular area and my churn goes down and I am able to get better seeding in my pocket as an individual distributor. While I also maintain my collection efficiencies, distributor commission for that particular distributor will go up. And for all others, who have been able to maintain the churn, what it is today for his particular pocket. What I am trying to say is it depends from individual distributor to an individual distributor. Ideal circumstances it should go down. To be very practical, it should not go up from what it is today, in any case. It should only go down but not go up.

Sanjay Chawla: Fine. Just a last question on the CAPEX which you mentioned, the number for FY19 you could see 350 crores of CAPEX, which appears a bit high to me. So 350 crores I have taken 70%. So you get 250 crores minimum on cable, right? If I just attribute it to boxes, then Rs. 1100-1200 per box. I will get million boxes, 2 million?

Rajesh Sethi: So, whatever, I think the box cost depends again on the negotiation you have with your vendors and could be some of the MSOs would be reporting 1100-1200. Some of them would be able to manage at a lower rate. we are targeting a seeding of ~2.5 million plus this year.

Sanjay Chawla: The analogue customer in your base is 1.7 million?

Sanjay Berry: So, one second, so just a clarification, so when we are talking about the inventories, it is yet to be capitalized. So when I am saying that the capitalization which will happen in the next financial year of 350 crores. So, this material which is yet to be capitalized plus the fresh seeding which will be there. So, it has to take into account both. And out of that, when we said about 1 million boxes, there are certain boxes which are on the way/ under production

Sanjay Chawla: Exactly how much is reflecting in your capital work in progress when we look at the boxes, in that context?

Ankit Saint: We can discuss that offline.

Sanjay Chawla: Sure. But my basic question still remains, are we looking at 2.5 million at least kind of seeding next year?

Rajesh Sethi: Yes. We seeded 3.1 million boxes in 17-18

Sanjay Chawla: Right. And then we have got 1.7 million analogue customers. Is that the right number?

Rajesh Sethi: When we seeded 3.1 million, it doesn't mean all 3.1 million were only analogue. There is an industry churn.

Sanjay Chawla: I am sorry. Residual number which your estimate is of customers who are still on analogue?

Rajesh Sethi: So, when we are doing our planning and we are planning to seed 2.5 million boxes, the residual analogue opportunity may not be the only opportunity.

Sanjay Chawla: Sure. Understood.

Rajesh Sethi: The more point getting into that discussion that if analogue households available are less than 1.5-1.7 million, so are you going to do 1.7 or 1.7 plus? I mean that's not the right track to move on. There are various opportunities across country.

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

Avinash Kumar: If I got the numbers right, your core EBITDA you said was 325 crores right, for FY18?

Rajesh Sethi: Yes.

Avinash Kumar: Yes, that's excluding your activation income right?

Rajesh Sethi: That's including. Operating EBITDA Avinash is at 151 Crores.

Avinash Kumar: Now I should come down to my second part of my question. And I will tell the numbers one by one so that we are on the same page. And your finance cost for the year FY18 would be 140 crores? Net finance cost?

Rajesh Sethi: That's right.

Avinash Kumar: And your CAPEX spend for FY18 was 400 odd crores?

Rajesh Sethi: Yes.

Avinash Kumar: Yes. So now if I take your EBITDA, deduct your finance cost and your CAPEX, I am getting a net 215 negative. This is what I was trying to mention earlier that your EBITDA is not adequate to cover your current finance cost plus your current CAPEX. Now looking at this funding gap, I mean it should come from how are you looking to fund this gap first of all and that's why my second question follows is are we looking at any equity in future?

Rajesh Sethi: Avinash, hold on. Let me answer your first question, and then I will go to your equity question.

Avinash Kumar: Sure.

Rajesh Sethi: Yes. So one thing in your calculation I wanted to highlight when you are talking about 215 crores, you are missing one element in that. Did you get that element? 140 crore was the interest cost right?

Avinash Kumar: Yes.

Rajesh Sethi: 400 crores of the CAPEX you have put in

Avinash Kumar: Yes.

Rajesh Sethi: You reduced 325 crores of EBITDA out of it, right coming to 215.

Avinash Kumar: Yes.

Rajesh Sethi: Right? Now, when I put fresh CAPEX, I get boxes and I seed those boxes again. Right?

Avinash Kumar: Yes.

Rajesh Sethi: So I get activation revenue for the boxes.

Avinash Kumar: Right.

Rajesh Sethi: Which I again have to add on.

Avinash Kumar: So, this 325 is including the activation income, right?

Sanjay Berry: So Avinash just a small clarification, there is a very subtle input which you will have to appreciate it's that when 325 is computed, it is computed based on IndAS. IndAS only a portion of that by activation income goes close into my EBITDA. But when you are talking about the cash portion, you will have to take the 100%.

Avinash Kumar: Yes. Sir can you help me with that number please?

Rajesh Sethi: Avinash, we will come back to you because generally we don't calculate that but for the sake of discussion we can round loop it. We will calculate and share with you. And close looping to your second point, Avinash, so primarily it goes back to working capital or equity infusion or whatever you call it. We will share with you that at the right time or maybe we can talk offline on that. This is not the right forum for that.

Avinash Kumar: Right. Another question from my side is your employee cost has been going down, last four quarters it has been on a downward trend which I appreciate. I mean you are on a tight budget. For FY19, can we see more benefits flowing into the EBITDA on this employee cost?

Sanjay Berry: Yes. You will see a number

Avinash Kumar: Will you be comfortable to provide any YoY number for FY19?

Rajesh Sethi: It will be in double digits but better just wait for the number

Avinash Kumar: And secondly in your current quarter, your onetime expenses have gone up significantly. Right, so if you can provide why it has gone up and what are the breakups of this. I mean a broad breakup will suffice.

Rajesh Sethi: Which is the one Avinash? Where?

Avinash Kumar: Your other expenses that you have reported for fourth quarter '18.

Rajesh Sethi: Are you talking about the exceptional item?

Avinash Kumar: No. I am talking about your other expenses which are 1,017.5 million which was 927.8 million last quarter? Your other expenses which will be the part of EBITDA?

Sanjay Berry: So about 10 crores, there is one foreign exchange fluctuation that will hit on that account, 10 crore. And along with that, I think there was a one-off. We have written-off certain STBs which have been sold as scrap. I think that amount is about 3 crores.

Avinash Kumar: Yes Rajesh, this is the number I was referring when I said is there any STB write-off, inventory write-off during the current year?

Rajesh Sethi: This was the scrap Avinash. This was the old scrap lying and as you know we are on a productivity as well as efficiency drive and we have point something called 'War On Waste' in our company taking best practices from other organizations. So we saw this scrap waste lying and we sold it off and we got 3 crores out of it. Plus, as you see rupee weakening and that is a worry for us. So we have got some hit on that account.

Avinash Kumar: So, your Forex loss will be minus 10 crores and your write-off would be 3 crores?

Rajesh Sethi: Yes.

Moderator: Thank you. The next question is from the line of Depesh Kashyap from Equirus Securities. Please go ahead.

Depesh Kashyap: So, how do you plan to increase the ARPU across phases and specifically in Phase-I and how much growth in ARPU do you expect over the next 2 years?

Rajesh Sethi: 2 years?

Depesh Kashyap: Yes.

Rajesh Sethi: I love this question because what ARPU is against something which is our specific focus. That is because something now we are trying to go behind because unfortunately quarter 4 we went behind content whereas first 3 quarters we were behind ARPUs. Now, again from this quarter we have gone behind the ARPU, right. We are pretty confident because as we close 31st March, our ARPU has grown by roughly 9% to 10%, I guess it is 9 or 10 around that number from year-on-year. This year, we are targeting that it should move up by at least 20%..

Depesh Kashyap: Sir, can you help me with what is the HD penetration currently?

Rajesh Sethi: You are talking about our base?

Depesh Kashyap: No, HD penetration like out of the total boxes, how much are HD?

Rajesh Sethi: 3.15 Lakhs

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

Avinash Kumar: So, basically where we left off the last discussion with earlier participant, so I kind of dropped off in between, so I think Sanjay mentioned these 3 crores of STB write-off, right?

Sanjay Berry: Yes.

Avinash Kumar: And there was around one million of STBs inventory, I think …

Sanjay Berry: It is not physical inventory, Avinash.

Avinash Kumar: No, I am not talking about what you said. I think during the quarter 3 end, which is 9 month 2018 I think there was a one million of STB inventories lying there. If my memory serves well, I think we had this discussion on last call as well. So, there was down one million of inventory then. So, I mean what I am curious is these 3 crores of write-off from those set top boxes or it is like the very old ones which has been like …

Sanjay Berry: No, this write-off is on the old ones, Avinash, it is old ones. Some boxes which were beyond economic repairs …. so this is nothing. That was write-off, let me very categorically confirm to you that there are no write-offs from the STBs, the fresh inventory. These are old STBs which have completed their life cycle and were lying in scrap and we just wanted to clean up.

Avinash Kumar: And will you be comfortable to share the prices of STB on a public call or how is it, I mean depends on you?

Sanjay Berry: We will tell you offline because you have to negotiate, each provider negotiates for it.

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

Vivekanand Subbaraman: So, you outlined the measures that you have taken to improve collection efficiency and dunning. So, in respect to the cable business, you mentioned that we should look forward to tighter collection from your side. So, any specific targets that you would like to share in terms of days of receivables that we should be looking forward to and cash flow generation from the cable business. Thanks.

Rajesh Sethi: While you will keep on seeing our receivable positioning going on a brighter side that I can assure you. The collection efficiency target we have is 100%. When you look at March for example, March we did 103% or 104% something like that, okay. February, we did 98%. So, we are trying to push it up but to be practical we will be very happy if we can go on, we can go 2% or 3% up than what we have done at the exit.

Vivekanand Subbaraman: And on a like-for-like basis let us say from a particular zone let us say your Delhi zone or say Kolkata zone, so I see that on a full year basis you have a very robust 41% subscription revenue increase. But I understand that some part of this came from expansion of territory and ceiling of boxes in Phase-III and IV areas. Can you help us understand, what is the cash flow increase that you received from your existing Phase-I and II markets? And how your content payouts are shaping if you have contracts that are potentially on a per subscriber basis? I am just trying to understand how the economics are shaping for your markets which have been digitized for the last 4-5 years?

Rajesh Sethi: This is a very long reply if I take you into net equities. But what I can tell you is, each company when they look at their ARPUs and their monetization, it depends what is your spread of boxes seeded between Phase-I, II, III and IV. And for us, we have a fair portion of seeding in Phase-III and Phase-IV as compared to Phase-I and Phase-II. That makes me go more bullish because I see a significant upside available in Phase-III and Phase-IV.

As an example, I will have close to 8 million plus boxes between Phase-III and Phase-IV while my total number is around 11.5 thumb rule. So, with the split of let us say and I am giving you approximate numbers, do not pick these numbers as the exact numbers. So, if it is 3.5 let us say and 8.5 or 3.5 and 8 as a split, I know that my potential and my opportunity to raise ARPUs in Phase-III and Phase-IV at a much higher conversion rate, it is much more achievable compared to doing the same percentage growth rate on my 3-3.5 million in Phase-I and Phase-II. So, that is where we are pushing the pedal and we are seeing the results. To be honest, the efforts we made last year for increase of ARPU, we could not continue that thrust in quarter 4 because we choose quarter 4 to get correction in content, because we are negotiating some big deals and content always has a base effect on your numbers. Hence, we stopped our ARPU thrust, but we took a leap of 10% on ARPU even without looking into quarter 4. I can assure you, you can see us taking a leap, leap is the world when it comes to ARPU increase especially in Phase-III, phase-IV.

Vivekanand Subbaraman: That makes sense. I do not know I joined the call a bit late, so pardon me if I am repeating this. So, did you share the content cost that you paid out to broadcasters, so of the 144 crores how much did you pay out to the broadcasters?

Sanjay Berry: You have to look at annualized basis. I think our annual cost is around 585 Crores.

Vivekanand Subbaraman: So, that is slightly lower than the 15%-16% guidance you have given. Which means in the last quarter your cost was …

Sanjay Berry: Guidance we gave was around 20%, whereas our content cost is in the zone of 15% plus.

Vivekanand Subbaraman: So, is this the cost that we should be taking for the next year or so on a quarterly standpoint or how should we see it?

Sanjay Berry: I will be happy, our team will be happy if we can really deliver the numbers where content cost growth is lower than even this and if tariff orders even play then why not getting into single digit. Having said that, the number which we have delivered, we should only better it.

Vivekanand Subbaraman: Actually, my question was a bit more specific than that. Given that now you have visibility on content, I presume that most of the deals that you have signed now are on a fixed fee basis. So, …

Sanjay Berry: Yes, but your tariff order looming on you head which may change the game.

Vivekanand Subbaraman: But then that is again a function of …

Sanjay Berry: Yes, judiciary.

Vivekanand Subbaraman: I guess judiciary and how that reacts, right. So, how was the contract structure right now as in, is it so that you have flexibility to reopen these contracts if the tariff order gets implemented or …

Sanjay Berry: TRAI regulations allow anyone to open the contract whether it is broadcaster or a delivery platform by given 21 days of notice either way. Any point of time.

Vivekanand Subbaraman: Right, so, you are saying that the tariff order if it gets implemented, then the existing content contract will be null and void and you will of course have a levy to renegotiate the deal?

Rajesh Sethi: See, when it comes to regulations, we all have to respect and follow the regulations. If TRAI comes out with the tariff order which is the law of the country, we all have to follow that. And if there is an option that you may follow the tariff order or you may continue to go with the current deal, even then if you want to come out of your current format of deals and you want to get into tariff order, you can always do that by giving 21 days of notice both sides. Same applies to broadcaster also even they can do that.

Vivekanand Subbaraman: And did you discuss about the broadband CAPEX and specific plans in terms of how many homes that you want to target, any thoughts on that?

Rajesh Sethi: Broadband, we have not put much CAPEX in quarter 4 in broadband. To be honest, it was negligible. What we are trying to do in broadband is we are trying to really arrive at a very robust strategy we are working on the drawing board. We have already made a plan which we have not announced yet. But till that point what we are trying to do is we were trying to keep our broadband consumer-based static. So, we are still maintaining around 173,000 odd consumer base when it comes to broadband at active level..

Vivekanand Subbaraman: Of the 2.5 lakh, 1.7 lakhs are paying.

Rajesh Sethi: That is gross. 173,000 are active, around 250,000 is my gross base. So, we are maintaining that static right now. We are getting revenue, we are getting ARPUs, we are maintaining it constant. So, it is adding up to our bottom-line and we want to be double sure as we expand into broadband. So, what we have done smartly is that in last few months, only city which we have expanded is Nagpur. So, the strategy is to get more out of what you have already incurred as an expense while you are very sure about where you want to put more money.

Vivekanand Subbaraman: And if I may slip in one last question. On the carriage and placement revenue, then thoughts as we head into the new regime, how should one look at this revenue stream because if I understand correctly while it does not contribute very meaningfully to your revenue right now.

Rajesh Sethi: No, it is 300 crores plus.

Vivekanand Subbaraman: Yes but it is a very last part of your EBITDA. So, if I were to look at a scenario where carriage becomes a casualty due to regulation …

Rajesh Sethi: It depends how you view it. The way I personally view carriage I do not look at it standalone. For me when we negotiate with the broadcaster, we have to give broadcaster the content payment, the content cost. So, that is the cost line for me. And we retrieve from broadcaster the carriage. So, effectively I look at the net number. So, when you negotiate what is my content cost and what is my carriage revenue and where does it go at the net level.

Vivekanand Subbaraman: Is not it the case that you get carriage from the free-to-air broadcasters and many large pay broadcasters like Star are already signing net deals. I mean, carriage is earned from people like news broadcasters and others if my understanding is correct?

Rajesh Sethi: That is partly correct. It all depends on how you structure the deal. There is no fixed method to the madness. So, effectively what you are talking about as the net content cost, you are talking about the same thing which I was talking about which is your content cost minus carriage that is net content cost. While all the broadcasters are open to net content cost on the negotiation platform when you sit across on the negotiation some may do it, some may not do it. And FTA channel, the contribution they have to carriage revenue is miniscule. It is not a huge number. Effectively, the carriage number which comes on table for any delivery platform, that is driven by larger non-FTA players because that is where they look for LCO numbers. And the important parameter in this regard is your ratio of net content cost against subscription. So, we have been monitoring that ratio. For example, in quarter 4, 2016-2017 that ratio for me was 39%. Whereas, when I look at quarter 4 2017-2018, that ratio is now 31%. So, that is why it is not fair to look at it in isolation.

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

Krunal Shah: Sir, just one question. What is your outlook on broadband ARPU given the Jio thread looming around?

Rajesh Sethi: See, broadband ARPUs are dipping. For example, when I look at my full year broadband ARPU for the fiscal we have closed, it was Rs. 480 whereas, my quarter 4 broadband ARPU was 462. So, there is a challenge what is happening in broadband is that your speeds are going up, your data consumption in GB is going up while your ARPUs are not going up.

Krunal Shah: So, that thread you are seeing across the industry even we are …

Rajesh Sethi: Across industry. Whether it is wired or wireless.

Krunal Shah: So in that case, our broadband revenue next year would expect to decline because we are not increasing the number of broadband subscription?

Rajesh Sethi: We are still trying to pin point what we call as the sweet spot. For example, strategically we went behind Nagpur as an industry. So, we are basically looking at the rate return on our investment. So, what we have been able to do in broadband but doing this is our return on investment on the CAPEX which was deployed is much higher in broadband because we did not get into more home passes and we leverage the same network to get our ARPUs without making any incremental investment. But the moment I see a sweet spot in a market, like I saw Nagpur from few more markets which we have already identified. You will see us getting into those markets.

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

Avinash Kumar: Just one book keeping question. Sanjay, if you can help me I am little confused with this number. So, I will break it up. What was your gross content cost for FY17 and FY18 if you can help me with that number?

Sanjay Berry: 585.

Avinash Kumar: That is for FY18?

Sanjay Berry: Yes, FY17-2018, 585.

Avinash Kumar: FY17 the corresponding year, last year …

Sanjay Berry: It was 507.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand over the floor back to Mr. Ankit Saint for his closing comments. Over to you, sir.

Ankit Saint: Thanks everyone for the queries and I hope we were able to answer all the questions. If you have any further queries, you can get in touch with Investor Relations to resolve the same. Thanks.

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