"Hathway Cable & Datacom Limited Q3 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited Q3 FY2018 Results Conference Call, hosted by ICICI Securities 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri from ICICI Securities Limited. Thank you and over to you Sir!

Vikash Mantri: Good morning everybody. We at ICICI Securities are pleased to host the Q3 FY2018 Results Conference Call of Hathway Cable & Datacom Limited. We have with us the senior management of the company represented by Mr. Rajan Gupta, MD and Mr. Vineet Garg, CFO. Over to you Sir for initial remarks!

Rajan Gupta: Thanks Vikash. Good morning all and thank you for joining us for this Q3 earning call. With me on the call are Vineet Garg, CFO and Ajay Singh our Company Secretary. Q3 has been a breakthrough quarter with major acceleration in business health across financial and operating parameters. Focus has been on increasing pace of monetizing of all levers of growth agreed at the beginning of the year both for our broadband business and video business. I will now take you through some specific numbers of HDPL, which is video business.

Q3 EBITDA for HDPL is Rs.40.5 Crores with 16% EBITDA margins. EBITDA has grown 22% quarter-on-quarter driven by strong revenue growth and better efficiency in cost. Collections have grown 9% Q-o-Q and 20% year-on-year signaling strong improvement in rates and efficiency. There is an increase in phase I ARPU from Rs.105 to Rs.108, phase II ARPU Rs.98 to Rs.102 and phase III ARPU has seen a jump from Rs.58 to Rs.66. Phase IV monetization has fully started, ARPU in phase IV increased from Rs.40 in Q2 to Rs.52 in Q3. I would like to share for better transparency that all ARPU numbers given in this call are without taxes and all financials are as per Ind-AS.

Hathway Connect implementation has improved. Now two-thirds of our customers are on Hathway Connect. Hathway Connect implementation has helped us establish consumer level billing and increased collection efficiency.

Now I will share detailed update on broadband business, which is HCDL. We have added 50,000 net consumers in Q3 in standalone HCDL. There is a clear revival in net adds momentum. Subscription revenue has grown 6% quarter-on-quarter with Rs.7.7 Crores absolute increase in subscription revenue in Q3. Our efforts towards acquiring right broadband consumers have started yielding desired results. There has been continuous focus on Home Pass build up in existing towns. Home Pass numbers as on December 31, 2017 is

5 million. EBITDA for Q3 is Rs.66 Crores with EBITDA margin at 46%, this is 12% increased as compared to Q2. Business is PAT positive with Q3 PAT at Rs.24 Crores.

Last 12 months, we have seen increased competitive intensity in data business from mobility players. To increase consumer stickiness, we have taken the following initiatives. Increased base speed of all consumers to 40 MBPS, average speed nationally now is coming to 60 MBPS, increased data limits of all consumers by 200 GB per month. This has been done without affecting our EBITDA growth. This is possible based on strength of the new data center we have built up and all alliances we have done on hosting content servers and peering, caching, etc.

In partnership with Microsoft, we have started giving 1TB cloud storage and Microsoft office package to all our yearly pay term consumers on FOC basis. This is a major step towards the delighting our loyal consumers as now they can download on high speed unlimited content and store practically unlimited videos and other content. Due to the above initiatives, we have seen average usage per consumer increase from 78 GB per consumer per month in June 2017 to 100 GB per consumer per month in December 2017, 100 MBPS speed consumer average data consumption is 150 GB per consumer per month in the month of December 2017. Now this is very strong indicator of demand side potential of high-speed wireline broadband.

Above-mentioned initiatives also help us differentiate our services from mobility and other low speed broadband players. We have also started offering GPON Fiber to the Home Services in a high potential DOCSIS markets starting with South Mumbai and parts of Bengaluru. Through these initiatives, we are able to offer 200 MPBS speed with 1000 GB data limit to premium consumers thereby getting additional revenue and increasing consumer stickiness. Microsoft world-class CRM solution and chat board implementation is work-in-progress and will be completed by April 2018. This will help us use digital tools to enhance customer experience and implement preventive churn management. TCS has been appointed as a system integrator to automate various processes and improve quality of service. Overall, all these initiatives have helped business become stronger and we have ring-fenced all our high ARPU consumers.

In Q1 concall, I have shared with you all full year plan of saving Rs.50 Crores in non-content costs put together for both HDPL and HCDL. I am happy to share plan is on track and we have achieved our target for Q3. This has happened through series of initiatives around automation, process engineering, and right sizing various functional structures. These are not one-time cost savings. These are structural changes and impact for same will be seen in our P&L for quarters to come. Now Vineet will take you through detail financials.

Vineet Garg: Thank you Rajan. Good morning ladies and gentlemen. Company maintained and published its financial records based on the Ind-AS. HCDL broadband business PAT for Q3 is up by 71% to Rs.24 Crores against Rs.14 Crores in Q2. EBITDA margin are at Rs.66 Crores this includes Rs.4.3 Crores of forex exchange gain, considering net of other non-operational income EBITDA margin has increased by 11.5% from Q2 numbers. Broadband gross revenue is up by 6% to Rs.138.7 Crores from Rs.131.1 Crores in Q2. HDPL CATV EBITDA numbers is at Rs.40.5 Crores this includes Rs.2.94 Crores of foreign exchange gain, net of other non-operational income EBITDA margin up by 9.8% from last quarter.

For the Q3 of FY2018, cable TV total revenues stands Rs.258.1 Crores up by Rs.12.7 Crores compared to Q2. CATV subscription revenue is at Rs. 148.3 Crores up by 6% from last quarter. During the year company has invested Rs.160 Crores capex in broadband business and Rs.70 Crores in CATV business. Gross debt position, both the companies put together the total debt, as on December 31, 2017 is Rs.1653.2 Crores, net debt is Rs.1607.8 Crores. Now we can open the call for the questions.

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 Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on the broadband business. Sir you are offering lot of free services in the sense 1TB Microsoft storage and quality of services also improving because of the TCS etc. My question is when do you start monetizing these or are there required from a basic hygiene, fencing from the mobility players or do you plan to monetize at some stage these storage facilities and the better speed etc?

Rajan Gupta: I have been maintaining that we definitely see next four quarters of winter still to be there. The headwinds of industry definitely we will see continuing for the next four quarters. But if you see in spite of that we have been growing revenue continuously and more importantly we have been exploding EBITDA here. So profitability is not in concern in HCDL in the broadband business, so currently for next few quarters to come we will keep on using value add-ons to ring fence all our high ARPU customers and obviously over a period of time all the verticals will drive their own revenue.

Abneesh Roy: So your ARPU has been stable quarter-on-quarter and in fact down on a Y-o-Y basis, you are dong GPON, you are offering more data, so is there some down trading happening and may be loss to the competition, why in ARPU that is not reflected?

Rajan Gupta: In this quarter if you see, our average ARPU is 717 plus taxes obviously and net adds multiplied with ARPU is reflecting in the revenue increase, it is a pretty simple calculation, So 50,000 customers are coming in quarter that means on an average 16,600 consumers in a

month, so you can multiply 17000 x 717 x 6, because impact will come for six months you know first month three months and second month two months and third month one month. So this quarter incremental revenue, there is no loss of ARPU it has come as per the current ARPU, which is there. Having said that if you see currently our new consumer ARPU is 770 plus taxes, but still we are not able to increase overall base ARPU. Logically we should see overall base ARPU increase, but parallelly we are doing two things. We continue to discount for our yearly pay term consumers, again it all comes on to the ring-fencing strategy and since EBITDA is not a concern, business is already very healthy at 44% - 46% EBITDA, Strategy is currently to retain our high ARPU consumers so that is effectively what is happening.

Abneesh Roy: Sir my second and last question is on Hathway Connect penetration you scaled it up well. Here two questions. Where do you see this 55% online in the next one year, do you see it at 70%- 80% and secondly the most important thing is to get online payment from the end customer. LCO is fine, LCO is still the middleman, so how important it is getting LCO to pay online I understand stable growth but from ARPU growth perspective I think getting it directly from end consumer is more important, so any plan for that?

Rajan Gupta: Hathway Connect the sole purpose of implementation was to increase collection efficiency and I think we have achieved that purpose. Today collection efficiency is in the range of 97%- 98%. Now a big part of implementation has already happened, all the markets where we are market leaders or we are number two, implementation is already complete. Parts of phase IV and parts of northern markets where we are not market leaders, Implementation is still questionable, over a period we will able to implement. I cannot give you any specific number and as far as payment from end consumer is concerned. Now we have shared earlier as well that we have the technology in place for that, already Hathway Connect allows that, but currently there is no plan for implementation of that as far as HDPL is concerned obviously PP consumer online percentage of increasing day-by-day.

Abneesh Roy: So in broadband how much is the direct payment it is largely direct?

Rajan Gupta: Everything is direct payment, 70% is online.

Abneesh Roy: And what was it last year this 70%?

Rajan Gupta: There is an increase in momentum. They were around 10% to 12% post demonetization we have seen a little bigger spike where it has stabilized around 70% now.

Abneesh Roy: That is all from my side.

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

Rajeev Sharma: Thanks for the opportunity. Just a couple of questions from my side; Rajan what prevents you to really bundle video and cable TV services to your entire base, because that will be a very effective utilization and possibly increase penetration of your entire home pass so why are we still not doing that, we are not thinking on those lines because limitation is there or any concerns there. Second is how do you see now Jio things stable in telecoms scaling up further FTTH how do you see threat playing out from Jio over the coming quarters and the next one, two years. Do you think there could be some strategical alliances between telcos and cable operators in the coming quarters and thirdly where will your phase III, phase IV ARPUs stop around? Will it be benchmarked to phase I and phase I put it to the DEN levels about 120 I know they have a small base in Phase I markets or if phase III, phase IV where do they go? That is it from my side. Thank you.

Rajan Gupta: We will start with the easy one, so phase III, phase IV ARPUs. We have been maintaining that over a period of time that phase III, phase IV will reach phase II level. Currently I can say essentially by March 2019 we should move big time in that direction, I cannot put an exact number, but March 2019 we should have phase III, phase IV ARPUs pretty much near the current phase II levels of ARPU. Now second thing, which you asked about alliance, is possible. Obviously there are all possibilities, but currently do have something to share? No I do not have anything to share currently. On increasing competition our focus has been on customer rather than competition. So we look at that last four quarters we have beautifully executed how to retain our customers, how to keep on growing our EBITDA on quarter-on-quarter incrementally and still ring fencing all our high ARPU customers. So focus has been on giving more and more value to current consumers, focus has been on improving service, focus has been on increasing speeds, focus has been on increasing GBs per month, so essentially on customer focus and that has obviously paid well. There are people who are giving free in market, there are people who are bundling lot of things, but in spite of that we have done pretty well. So going forward again the focus is going to be on customer and we believe that it will really help us. The first point on increasing home pass penetration, the bundling video and the broadband business, look the whole home pass was anyway to drive in for 20% penetration as far as old home passes is concerned and we are already there, I mean if you see on a base of 5 million and 750000 consumers, We are essentially already 15% overall home pass penetrated. For all the old home pass we are already 20% and second thing is licensing is very different for both video and broadband, video is essentially MIB license and broadband is telecom DoT license. Registration are different for both, so considering those regulatory issues, we would like to keep it separate as of now.

Rajeev Sharma: Rajan thanks for that but I am trying to understand is tomorrow Jio will have similar strategy of bundling and you can definitely have price specified how much it includes for video, but is licensing enough up for reason for not doing it and how do we see you as a broadband company getting your home pass penetration has been reached. Do we see that you will be just a 2 million broadband company in next three years, because the home pass always gives us the numbers that is your aspiration and that is your potential and lastly you have not answered my question on that FTTH if you can provide some colour please on Jios threat which is on the ground now?

Rajan Gupta: Rajiv you will see once again, giving our high speed consumers a video content. We are aware of that and lot of content alliances is already there with various mobility players and we will continue build up on that. In fact we have been the one, who has always taken a proactive stance in giving additional value to consumers whether it's the speed or GBs or cloud and OTT has also already started. So we believe we can take head on anybody in any market in terms of delighting our consumers. Now talking about the whole, whether we will be a 2 million company or something else. Look we want to take things step by step. If you see currently the largest private sector wireline broadband company, he has around 2 million customers and in a whole high speed broadband market, which is greater than 20 MBPS it is only 5 million in the country. So I think need to move step-by-step. This quarter has seen a big revival in terms of net adds, in terms of revenue growth. EBITDA growth always has been very good. Now the objective in the next two quarters is to further expedite, so we would like to take it year-on-year as of now. And on Fibre to Home we have been sharing, we have pretty aggressive plans I shared this all as well, all the new cities are already coming on Fibre to Home. Our service levels are very, very good in Fibre to Home markets and we will continue to upgrade in current markets as well wherever we see consumer as a high ARPU potential.

Rajeev Sharma: That is helpful. Thanks a lot.

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

Mayur Gathani: Thank you for the opportunity. Just couple of points; on the broadband business, you said 70% is online payment that is direct?

Rajan Gupta: Broadband all collections are done by the company. There is no role of any other intermediary in between, so out of the total collection around 70% is coming online.

Mayur Gathani: It means consumers are paying to you directly online.

Rajan Gupta: So that is what essentially I am trying to tell you. There is no other person involved. We directly bill to consumers and directly collect from consumers. There are various modes of collecting it, people pay online, people pay on app and we send collection boys to some people home, there are some old consumers who want that, we collect a fee for that. There are people who come to our drop box and they put a cheque, so among all the modes of collection, 70% is online.

Mayur Gathani: Okay, when you say two-third of the customers on Hathway Connect you mean the base is at 7.5 million right?

Vineet Garg: That is the base, which is roughly around 6.8?

Mayur Gathani: This difference of 6.8 to 7. I mean we have not added any consumers this quarter right, so what is the difference?

Vineet Garg: Base is flat in this quarter.

Mayur Gathani: We have 6.8 billable customers and we have total base of 7.5?

Rajan Gupta: This equation has not changed for quite sometime. There are various factors and they are there for every MSO, so a good part of the boxes as per TRAI guidelines have to be kept at each LCO, it varies from market-to-market whatever has been agreed for each market. The markets where 3% extra boxes are lying with LCOs, there are markets where 5% extra boxes are lying with LCOs, which would help them give a good service to the customers. This is one reason similarly there are various other operational reasons. There are lots of people which go on rotation, consumer take three months then one month consumer is not there, in any such prepaid business, on a base of 7.2, 6.8 is very, very regular kind of thing.

Mayur Gathani: We should consider paying subscribers at 6.8 and the base should keep fluctuating, 6.8 would go up and you can keep adding as well.

Rajan Gupta: Sure, yes.

Mayur Gathani: Where is the expansion now going to come from? Is it just that you are going to improve these where is the revenue generation are going to come from phase III, phase IV revenue is going to go up or we have some new customers also being added, can you throw some light on that?

Rajan Gupta: Essentially you are asking the growth levers for video business. So we see three, four growth levers for video business, phase I, phase II ARPUs will keep on increasing inline with inflation 7%- 8% and we just told you guys phase III, phase IV will reach to the level

of current phase II, which means phase III, phase IV will go to 90. We do not see any significant increase in standard definition box consumers. We have started seeding high definition box this quarter and Q4 we have a good plan. We will share the plan in the next quarter call once we execute that plan and next year there is a big time momentum which is going to happen on high definition that is going to be a good lever of growth and there is a regular ARPU increase which will happen in overall market, so essentially high definition boxes and ARPU increase.

Mayur Gathani: Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Charles C from Sloane Robinson. Please go ahead.

Charles C: Thank you for the call. I have got few questions. The first is on Hathway Connect. My understanding has been that there is a lot of leakage in the system between you and the customer, between MSO and customer and that Hathway Connect was meant to solve these leakages, yes, so while you have implemented Hathway Connect it is not apparent that ARPU for the cable business has gone up. My second question is from the perspective of a customer you used to have a slide on this. Could you help me better understand why customer will take fixed line or broadband versus the Jio service, from the perspective of speed, from the perspective of the amount of data I might download and from the perspective of cost. I just want to understand the customer proposition you versus them, because this is an ongoing debate amongst some of these sell-side analyst that say well RJIO's a threat and you've been quite forceful in saying that the product is quite different and so I would just to like to clarify. Thank you.

Rajan Gupta: Charles let us start with Hathway Connect, if you see last few quarters, I have been clearly mentioning Hathway Connect has obviously help us increase collection efficiency, which means if I bill 100 I collect 100, since it is a prepaid system and a lot times earlier, before implementing Hathway Connect if we bill 100 we can't collect 100, we will collect 80, 90, 95 whatever actually. Today since there is auto dunning, so if we bill 100, 100 gets collected, so billing would not increase, but collection efficiency against billing will increase, which means we actually will get more cash in the system, debtors will not increase, so that has been the experience and in the last couple of quarters call also I have clearly kind of clarified that. So we believe this has been a good success on that perspective that our collections are become very regular, everyday cash is coming into the system and the entire sales team can focus on value adds rather than worrying about collections. Now coming to broadband frankly we do not compare ourselves to any one particular player, but I will help you in this thing, so we can compare to mobility industry in general, now if you see what we are offering to majority of our consumers, we are offering around 1000 GB at a price point which can vary anything from Rs.650 to Rs.1000 and that depends upon which

city we are taking about. So let us assume it is about Rs.800 average. 1000 GB at Rs. 800 which means less than a rupee for a GB. Well consumers currently are not consuming 1000 GB, these consumers are currently consuming around 150 GB, the high speed consumers, but over a period consumption will keep on increasing, so essentially my offering to these consumers is 1000 GB. Who are these consumers? All our consumers, we have a fair bit of consumer understanding, these consumers have a WiFi router in their home connected to TV and they do binge watching of all the OTTs starting from Netflix and the local OTTs like Hotstar over weekend. So these are the consumers who are heavy users who want to be hassle free in terms of number of GBs they consume, they want practically unlimited broadband. On the other hand, if you see mobility, most of the mobility plans including the company you mentioned they have a daily cap of around 1 GB, which means monthly 30 GB and some plans they have a daily cap of 2 GB and mobility by nature itself speed vary quite dramatically based on which corner of the house you are and which floor your building is, which floor your flat is, which direction your flat is, how near the tower you are. So while it may be good for a lot of peak consumers who are consuming 10 GB, 20 GB a month but not good for consumers who were consuming 100 GB, 150 GB, 200 GB, so I think this who debate is over hyped, there is a clear segmentation, last more than four quarters, actually five quarters we have seen this trend. Now in fact the services are paid, there was a time for four quarters services are free and you are well aware about our revenue on the EBITDA at the moment, specifically EBITDA at the moment how we are moved EBITDA dramatically in this kind of highly competitive market space. This obviously has happened because our consumer is different. As I mentioned earlier our focus has been on consumer rather than competition.

Charles C: That is very helpful indeed. Thank you very much, just to go back to first answer that you gave Hathway Connect you said that it is about collection efficiency, so I want to understand that rather than seeing it in ARPU we should see the impact of Hathway Connect in receivables and if that is the case then perhaps you can show me because I have not seen significant change in receivables, not on a consolidated basis anyway?

Rajan Gupta: Charles I think we need to have separate discussion on it. The balance sheet is out we can show you, but we can only say month-on-month the collection efficiency currently is anything from 97% to 99% based on the month.

Charles C: That is helpful. Thank you very much.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Just want to get to some sense about the billable base which we indicated about 6.8, is it possible to share phase wise how the sub base for cable side? Second question is about I

think there is some reclassification of employee expenses on HDPL, so if you can help us understand what are the reclassification because employee expenses has seen some kind of changes. Third thing is if you can help us understand what would be the steady state margin for broadband if you can help us understand considering competitive intensity, considering overall now scalability, which we have achieved and the related question is whether we have any plan to tie up with OTT providers the way let us say some of the Telco is offering, so if you can provide some strategy around it and then overall margin implication. Thank you.

Rajan Gupta: So let us start with the broadband and then Vineet will add to the cable. On a broadband already we have alliances with few OTT players. We have been updating you about that in prior quarter earning calls and I mentioned earlier we will continue to build more alliances around that. We are aware about consumer need for that and will continue to fulfill that. Now your point on steady state margins look there is nothing called steady state margin, it depends on the strategy, which we decide for ourselves, so last one year we have not added any new town after Chennai, if we do not add new towns then for incremental revenue, incremental EBITDA will be around 60%, so which means obviously EBITDA will keep on increasing quarter-on-quarter, but in case we decide to open another 10 towns then obviously initially fixed cost will be high and incremental EBITDA will come down. For next three to four quarters we do not have any plan for expanding any number of towns, few towns here and there will get added, so next few quarters we will definitely see EBITDA growth higher than the revenue growth, which means the current EBITDA will keep on growing higher.

Vineet Garg: To answer your question on subscriber base split on HDPL which is a standalone company subscriber basis phase I is 1.3, phase II is 1.7, phase III is 1.9 and phase IV is 1 million, so total is 5.9 billion, this is excluding the JV companies.

Deepesh Mehta: So the billable base 6.8 we indicated is including JV?

Rajan Gupta: This is not billable, this is active base, the billable base is 1.3 for phase I, 1.7 for phase II, 1.8 for phase III and 0.7 for phase IV. It would be 5.5 million in Standalone Company, I am talking about, (HDPL) this does not includes the Jv's Billable subscribers. Your second question is on salary, manpower cost, this is increase in HDPL right?

Deepesh Mehta: HDPL.

Vineet Garg: HCDL, so this is just because of some of the bonus incentive we paid in the quarter, it is slight increase of roughly Rs.1.8- 1.9 Crores is on account of bonuses and incentives we paid.

Deepesh Mehta: No, my question is more about let us say if I look last quarter employee expenses reported was 219 million for HDPL cable entity, now it is 90 million, so it seems there is some kind of reclassification happened?

Vineet Garg: I am sorry; can you repeat your question once again.

Deepesh Mehta: For HDPL if I understand correctly last time when we reported number employee expenses was around 219 million and other expenses was around 514 million, now if this time if I look Q2 number there is some kind of reclassification happened where employee has reduced and your other expenses has increased?

Vineet Garg: Deepesh this is just a reclassification of outsourced employees.

Deepesh Mehta: So outsourced employees now part of other expenses.

Vineet Garg: Yes.

Deepesh Mehta: Okay, Thank you.

Moderator: Thank you. The next question is a follow up from the line of Rajeev Sharma from HSBC. Please go ahead.

Rajeev Sharma: Thanks once again for this opportunity. Sir we have been reading that Atria is trying for an IPO and they have been expanding beyond the Bengaluru and the Hyderabad markets they have been rapidly trying to become Pan India or at least Pan top eight 10 cities, so how do you read competition from them, I understand they are not in video business, but you also do your broadband business separately and since you are not bundling it, so how do you see that and how the fund raising could impact your broadband growth and how do we look at your broadband growth over a two years period, some numbers, some capex plans on that side will be very helpful.

Rajan Gupta: Rajeev while we do not give any forward projections, but I already mentioned now 50,000 net adds already has been delivered, obviously the whole management is working towards increasing pace of this acceleration, this 50,000 should further go up and we can multiply and see the whole yearly impact on that, so the only thing I can say is last one year was all about making sure business model is sustainable because we have keep two, three basic kettle of the model, it has to give greater than 40% EBITDA, it has to be less than three year payback, we have reduced lot of capex, we have increased our technology strength. We are first one launch GBON Fiber to Home at a large scale, first one to make sure consumer house has a 1 GBPS enabled equipment ,We are the first one to ensure mass price of less than 1000, we can give 1 GBPS if it comes to it, so last one year was all about ensuring

your model is strong, about adding the strength to the model, giving a lot of value for money to consumers and now we are back to the whole expansion and the growth phase in terms of consumers, EBITDA obviously has been anyway exploding for the last six quarters, so we continue now, we see a good run on customer acquisition going forward. Your point on competition, once again I will say, we are very clear about taking lead in terms of the delighting consumers. So there are various people entering various markets. Frankly we have not seen any impact at all, rather we have gone to markets and disrupted people, so that is what we will continue to do, focus on customer, look for customer delight, introduce latest technologies, be a pioneer there and increase on customer acquisition.

Rajeev Sharma: Thanks for this. Just two quick numbers, what has been your capex over the last nine months split between video and broadband and what are your gross ads in the broadband business, what kind of churn you are seeing as well?

Vineet Garg: I have given the number in my speech, Around Rs.160 Crores is the total capex in broadband, Rs.70 Crores in cable TV, nine months I am talking about.

Rajan Gupta: The churn currently for the broadband is around 1.5% month-on-month.

Rajeev Sharma: That is helpful. Thanks a lot.

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

Amit Kumar: Thank you team for the opportunity. Just a couple of questions at my end so, on the cable business this difference between billable and active subscribers our understanding was that this was partly on an account of phase IV, but also because of AP- Telangana region there were some sort of issues, so on the latter has been there any progress made, that is the first one. Second one just wanted to get a quick colour on the state of your content contracts with the top five broadcasters and finally on the broadband side when I look at the 160 Crores capex given the fact that you have not entered in any new market in the last nine months, the capex seems to slightly on the higher side, so 1.2 lacs subscriber multiplying it by 8000, which is the capex per sub, I will just about a 100 Crores kind of figure, if you can just help me reconcile this 100 Crores with the 160 Crores you have invested in the broadband business?

Rajan Gupta: Amit you have asked four, five questions let me see how much I remember. So probably we can start with the last one on the broadband capex. If you see already I have mentioned that the last nine months was all about building strengths for future, so apart from capex which is incurred for customer additions, we have obviously enhanced our data centre, we have been sharing that, we enhanced rings in the city through which we are able to offer

consumers 200 MPBS speed, so there is a lot of onetime capex, which has been spent to make sure we are ready for the future so that is one the broadband piece. So your question is that how many cities broadband will go currently for the next two quarters. There is no plan to add cities. Our focus is on top 12 cities and that is the where we will continue to aggressively expand. I think there is enough space to add Home Pass in these cities where ARPU is high and we are able to quickly monetize. On cable TV Hyderabad in fact while we do not disclose city level numbers, but last quarter we have seen a good momentum from lot of markets where we have not done well including Hyderabad, so Hyderabad we do not have per se problem in billing to consumers, but obviously Hathway Connect is still not implemented in Hyderabad, so that is the ongoing journey.

Amit Kumar: Thank you so much for this. Just one of my question, which is the state your content contracts with the top five broadcasters and also you can just help me why such a large difference between your active and billable subscriber base if you have started seeing revenue flows coming from AP- Telangana?

Rajan Gupta: No, active and billable, I think I have already explained you. I explained in other calls as well, yes for TRAI guideline we will have to maintain certain boxes with the each LCO and then certain consumers always will go for churn and they will come back. That is a trend in any prepaid, in fact this is quite a good figure actually, 90% active for any prepaid system is quite a good figure actually and anyway 4% to 5% we have to keep at LCO also as per TRAI guideline, so that is one, what was the other question?

Amit Kumar: Content cost?

Rajan Gupta: Content cost, so currently negotiations are going on with the most of the broadcasters, so I think it is premature to comment upon that, but industry wide there is a general consensus that content cost will increase by around 10%, but we are yet to close on that.

Amit Kumar: Alright, just one book keeping question for mine end, this year the data centre capex that you have done, could you share some figure on that or your overall data centre capex over the last couple of years essentially?

Rajan Gupta: No Amit, we cannot share the figure.

Amit Kumar: No issues, that is it from mine end. Thank you so much.

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

Sanjay Chawla: Thank you for the opportunity. Most of my questions have been answered. Just one question I had you are talking about upgrade from DOCSIS 3 to DOCSIS 3.1, can you just highlight cost and benefit of this exercise?

Rajan Gupta: Sanjay, I answered this question earlier as well. So there are lot of markets where we do not want to change to Fiber To Home because in these markets the way network is structured we believe DOCSIS is the best network for years to come, but today the way technology cost has come down, the DOCSIS 3.1 cost is same as DOCSIS 3, so essentially what we are doing in these markets we are replacing DOCSIS 3 CMTS, so DOCSIS 3.1 CMTS and we are redeploying this DOCSIS 3 CMTS in other towns where there is no need for further upgradation. Essentially the capex remains same and in terms of customer benefits we can obviously offer much higher monthly data limits and speeds can go up to 100 MPBS with DOCSIS 3.1. If the DOCSIS 3 network get choked with 50 GB consumption per month for each consumer the DOCSIS 3.1 can handle three times higher volumes. Basically to delight the consumer that is the objective.

Sanjay Chawla: So, you talked about replacing CMTS, there is no change in the STB?

Rajan Gupta: No, as of now we not changing the cable modem inside the home, cable modem are not getting changed only the CMTS are upgraded.

Sanjay Chawla: So, that itself will lead to better performance for the customer?

Rajan Gupta: Yes, the CMTS itself will make sure the performance is better, along with CMTS obviously lot of area nodes also had been upgraded, so that will make sure that there is no clutter in the network and overall we are able to offer consumer much higher GBs per month.

Sanjay Chawla: So, what would be the incremental capex on this, I know you could really deploy your 3.0 CMTS somewhere else, but just on this upgrade how much capex you are incurring because there does not seem to be any improvement in the ARPU potential?

Rajan Gupta: Not Sanjay, not really actually. Let me again try to explain with the example, otherwise we can have more detailed discussion later on. Say for example, in South Mumbai we want to upgrade DOCSIS 3 to DOCSIS 3.1, so we end up incurring $100,000 capex for that particular CMTS, but similarly say for example in part of Delhi where 15 MPBS speed is good enough and we do not have that kind of data consumption or say Aurangabad so we end up, we are reusing the same CMTS, otherwise we have to buy that, so that is where it is there.

Sanjay Chawla: One should not expect any ARPU upgrade on account of this improvement in the product for the customers?

Rajan Gupta: Not really yet, because currently as you see without increasing ARPU we are delighting consumers by giving more and more GBs and to be very frank Sanjay, we also do not see need for increase APRU currently with the kind of EBITDA margins we have and they are continuously growing, I think the focus has to be on ring-fencing consumer by delighting them rather than looking for an ARPU increase, but yes in future when consumers are used to much higher monthly data limits there is a case for ARPU increase.

Sanjay Chawla: One last question is on the pay channel cost and the content cost for the nine months we have seen the cost is 413 Crores can you share what is the growth on a Y-o-Y basis in your content cost that you have reported?

Vineet Garg: Sorry, I will come back to you on this question. I am just calculating the numbers.

Sanjay Chawla: Sure, thank you.

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

Gautami Desai: Rajan and congratulations. My question is that when you have a broadband churn what do you actually lose in terms of cash per customer, next is that in FY2017 we had a lot of activation income that is why our actual cash flow looked very good, which might not happen in future, so in future are we going to have replacement boxes where you get upfront money for and also on the receivables front will we expect any major hit coming in or can we see any improvement in cost?

Rajan Gupta: Gautami, I think three questions you asked?

Gautami Desai: Yes.

Rajan Gupta: Can you please repeat the broadband question?

Gautami Desai: When you have a churn, what do you actually lose per customer?

Rajan Gupta: So, when there is a churn, the CPE basically the CPE modem, which is inside the consumer home, we are able to collect 70% to 80% of those modems, as far as the Home Pass is concerned there is no impact. Data center obviously there is no impact. So essentially we end put losing the labour charges, labour and the ancillary charges, which is around Rs.1200 per consumer and we end up losing 20% to 30% of value, which we have invested in modems. Lot of these earlier were in around Rs.2000 price range, so say for example even if we lose 30%, say 600 bucks and then another 1200 bucks with the labour and other charges, so around Rs.1800 that we end up losing.

Gautami Desai: Thanks and if this person has stayed with you for a year or two, then this goes down right I mean you kind of depreciate this?

Rajan Gupta: Yes, obviously you are right.

Gautami Desai: And on the receivable front, do we expect some hit coming and going forward, any improvement we can look for?

Rajan Gupta: In fact, we have increased collection efficiencies, so we do not see any reason for any hit on that account.

Gautami Desai: Any old receivables, which we still carrying or something like that?

Vineet Garg: I think whatever number are there going to be, if you talk about DSO type, we are maintaining around 110 to 112 DSO this is going to remain and this includes placement, etc., which generally you see is going come once in a year, so there are lot of parties do not pay every quarter or every month, so in between you see little higher number and then you go at the year end numbers you are not going to see any kind of hit on that number, we do not see any surprises there.

Gautami Desai: You have so much of Hathway Connect, at least they pay in the same month if not prepaid, then you have broadband then why are receivables not going down?

Rajan Gupta: Let us keep broadband separate. I think both the company is separate. First let us be clear about that. HDPL and HCDL both the companies are separate.

Gautami Desai: Yes, understood.

Rajan Gupta: So in HCDL, which is broadband obviously always receivables are lesser because it's a 100% consumer business, and as Vineet mentioned on HDPL, which is the video business, any receivables it is a mix-It could be placement receivables, it could be receivables from JV partner or it could be simple collection subscription in markets where the Hathway Connect is not implemented and based on current understanding of finances from CFO, that is what he told you, we do not see any surprise there.

Gautami Desai: So 50% is paying and 50% is delayed payment now right as against what it was last year or before two years, so then why are seeing that it is going down at least for a few days the receivables?

Vineet Garg: Gautami, if you see it is not 50%, it is two-third of our customers that are there on Hathway connect right so it will be little more than that. Now why is not going down is a subject of the revenue which is also going up simultaneously and in Hathway Connect we are giving

one-month credit that we keep on maintaining, so first month credit is on me, so if I keep on increasing revenue my receivables will keep on going up.

Gautami Desai: First month is to the LCO that is from you?

Vineet Garg: Yes, In Hathway Connect first month billing to LCO is credit, so it is not pure, pure prepaid system.

Gautami Desai: This is for the new LCO?

Vineet Garg: No, for all LCOs, one month will always remain credit. So first month is always credit, second month onwards when he pays me, he collects from the market and he pays for the second month and that becomes like prepaid, so going forward, delta will not increase but one month will remain the same. So if my ARPU goes up, my receivables also will increase in the quarter end.

Gautami Desai: Fine, and how many of the replacement boxes that you anticipate like just on a general basis out of your 6 million boxes?

Rajan Gupta: Gautami, one more thing, we do not have any activation revenue like you said something. Activation revenue is now as per Ind-AS, so it is distributed for five years. So as such no special activation revenue has come this year, so activation revenue is as per Ind-As distributed over five years and in fact this year there is no activation revenue because we have not seeded too many boxes.

Gautami Desai: No, I am not talking about 2018 that was for 2017 because I just have that annual report, right?

Rajan Gupta: No, as far as replacement boxes again we do not give anything free so for us that is also become activation revenue.

Gautami Desai: Yes, that is positive, that is why I am saying whatever if you have the replacement boxes, you get activation and come up upfront?

Rajan Gupta: Gautami, we do not have any such figure because even that can't be upfront, everything will be as per Ind-As over five years, so I do not think so on this call we would be able to give details of activation revenue it is a complex calculation as per Ind-As. You can probably sit separately with Mahesh and understand that.

Gautami Desai: Thank you so much.

Moderator: Thank you. The next question is from the line of Roshan Patnaik from Edelweiss Asset Management. Please go ahead.

Roshan Patnaik: Hi Rajan, Hi Vineet, congratulations on the excellent set of number for the broadband business. I had a small question with reference to the capex for the broadband. I believe that we have added about 1.2 lacs net adds and if we take the capex projections based on your presentation, which is about 7500 per customer that translates to about 90 odd Crores, Vineet did mention that the overall capex plan for the broadband business is about 160 Crores, so I am trying understand where the gap is and Y-o-Y figures are lower in terms of the capex for the broadband business I hope you can give me a little bit clarity on that?

Rajan Gupta: No, essentially already I just answered that, this year was all about build up for the future, so last nine months we have been updating each quarter that we are doing lot of things to make sure the business model is sustainable for the next three to five years, which means we have added capacity in the data center, when we say data centre that is a generic term that involves a lot of our infra to make sure we are able to give each and every consumer more than 200 GB of monthly data limits, for many consumers going up to 1000 GB, so essentially we are saying there is a lot of one-time capex, which we have incurred and you know we could have avoided that, but the idea is to build up the business for the future and specifically business which is so attractive in terms and EBITDA and ROIs, so if you see when we have mentioned that kind of capex we also mentioned lets model on 40% EBITDA, but currently already the EBITDA levels ,even if leave aside the non-operating income, they will reach more than 44%, also the EBITDA have been higher than projected then such a scenario it is good to invest for the future that is what exactly we have done.

Roshan Patnaik: Thanks Rajan. Rajan, my question was with reference to the cable TV business and I can see for the last three quarters the losses have been coming down sequentially, I am pretty much encouraged by that progress, so could you just give us any light in terms of how the broadband business would look in the next two to three quarters and how do foresee the earnings momentum from cable TV business?

Rajan Gupta: I think the whole question is on cable TV because in between you mentioned broadband as well?

Roshan Patnaik: Sorry, slip of tongue.

Rajan Gupta: So, there is a lot of transformation, which has happened in cable over the last one year. We have been increasing revenue continuously especially for the last two quarters you can see that, so we will see the trend continuing essentially one more quarter there is a clear case ARPU increase and after that high definition boxes seeding. Currently we have only 200,000 high definition box. We see there is a huge pent up demand and a lot of focus is

going to shift there, but obviously all the low hanging fruits are taken through the kind of ARPU increase which has happened in phase III and phase IV so going forward is going to be more about consumer segmentation, segment around a million consumers, which can pay you much higher and then the delight them through high definition boxes and also the hybrid boxes, connective boxes going forward, so going forward lot of revenue growth is going to come through consumer segmentation.

Roshan Patnaik: And when do you expect this business to become PAT positive?

Rajan Gupta: No forward-looking projections.

Roshan Patnaik: Thank you.

Vineet Garg: To answer on Sanjay Chawla's question on pay channel cost comparative numbers for last financial year is Rs.310 Crores. This is based on the HCDL – Previous year no's, with out merger

Moderator: Thank you. The next question is from the line of Jinesh Sheth from Arete Services. Please go ahead.

Jinesh Sheth: Thanks a lot for the opportunity. Sir, just one data point on when you said what is the ARPU Phase wise for cable TV business at the user level?

Rajan Gupta: There is no such data available, but we can tell you the market trending because obviously it also varies from region to region dramatically so lot of phase 3 and phase 4 the end consumer are ARPU around Rs.100 that has increased up to Rs.200, but having said that, that is a generic statement, it still varies quite dramatically, but there has been a good increase in phase 3, phase 4 consumer ARPU as well because obviously consumers are getting delighted by seeing many, many more number of channels, picture quality has improved big time, and as far as phase III and phase IV is concerned again increase will happen more sequentially, more inflation has increased even at consumer level. We have not seen any major increased phase III, phase IV at consumer level and phase I and II are similar.

Jinesh Sheth: Sir, just to get right, you have mentioned that for phase III and phase IV the ARPU at consumer level would be Rs.100?

Rajan Gupta: No, I did not say that, I said it used to be Rs.100, over last two years after implementation of digitalisation, improvement of picture quality, explosion in number of channels, many market it has reached Rs.200, but that is a generic statement, it still varies dramatically from region to region.

Jinesh Sheth: Thanks.

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

Sanjay Chawla: Thank you for the opportunity again. Just two housekeeping questions on the cable business what is the depreciation and amortization in Q3 and what is the finance cost in the cable in the Q3?

Vineet Garg: Sanjay, I think shared this number earlier. We are not sharing this number but the number remains pretty much same, which we had in Q1. There is no substantial change in the numbers, but Rs.17 Crores to Rs.18 Crores is the interest cost and depreciation in the range of around Rs.58 Crores to Rs.60 Crores.

Sanjay Chawla: Noted and just on the content cost growth that you have mentioned from 310 Crores to 413 Crores, this is the 33% growth Y-o-Y?

Vineet Garg: Sanjay, if you see this number is purely not apple-to-apple comparable because we shared in Q1 call, when we demerged the business HDPL has merged into central, so the central number is also part of that, so it is not exactly apple-to-apple.

Rajan Gupta: Sanjay, I think you can spend some time with Mahesh looking at consumer level number, so in general the net content cost increase, I think that does what matters, we have seen around 10% to 12% increase in net CPS, so that's how last year has gone.

Sanjay Chawla: When you are referring to the expected growth industry wide in the content cost is around 10% you referring to this gross number, right?

Rajan Gupta: No, we are referring the net number. Net what matters, net content cost.

Vineet Garg: Rajan is talking about the net number and what we are discussing is gross number.

Rajan Gupta: Sanjay, let see what see what is your net, already the top three players have moved to net, so net content cost is what matters.

Sanjay Chawla: Fair enough, you said that looking at this kind of a steep growth if you do a like-to-like comparison it is just harder to believe that we will be down to 10% content cost growth next year coming from such a high growth rate?

Rajan Gupta: Last year itself it is in the range of 10% to 12%.

Vineet Garg: Last year also it was 10% it might be possible when you go in...

Rajan Gupta: So, Sanjay you can sit with Mahesh, he can show you workings because there are lot subsidiaries put together for everything, last year itself it was in the range of 10% to 12%.

Sanjay Chawla: You are referring to net content cost?

Rajan Gupta: Absolutely.

Sanjay Chawla: Industry wide what we are talking about the expectation is on the ground of gross right or it is net?

Rajan Gupta: Net. Sanjay, the top three players have already moved to net, so that is what matters. At least Star, Zee and Sony they all work on net.

Sanjay Chawla: So, net content cost for the first nine months we are at 190 Crores and that we are saying is around 10% growth Y-o-Y?

Rajan Gupta: That is at CPS level that is cost per subscriber level.

Sanjay Chawla: But we are not signing CPS deals with broadcast as yet, I mean when you say 10% expected net content gross growth obviously it is not a CPS level number is it, I do not know?

Rajan Gupta: Sanjay, this is what we had to say, so balance working you can sit with Mahesh and we will look at it.

Sanjay Chawla: Thank you.

Moderator: Thank you. Ladies and gentlemen with this, I now hand over the floor back to the management for their closing comments. Over to you Sir!

Rajan Gupta: Thanks all for joining Q3 earning call. For Q4 we have clear task on hand, our structural efforts on cost reduction have really helped us and same will continue in Q4 as well. Next level cost optimization will involve much deeper partnership with information technology. For HDPL phase III, phase IV remains biggest monetizing opportunity. EBITDA for this market is still very low and we would continue increasing ARPU to make sure phase III, phase IV EBITDA reaches the level of phase II. We have seen good focus on that in Q3 and you will further acceleration of that in quarters to come. Broadband, clearly we have made infra ready to delight our consumers, accelerate subscriber's growth and handle any potential competition. So overall we see exciting time for both HCDL and HDPL and both these businesses are ready to take full advantage of growing market opportunity. Thanks once again for joining this call, good day.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.