"Videocon d2h Limited Q3 FY2016 Earnings Conference Call"

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MODERATOR: **MR. VIVEKANAND SUBBARAMAN - AMBIT CAPITAL**

Moderator: Ladies and gentlemen good day and welcome to the Videocon d2h Q3 FY2016 Earnings Conference Call hosted by hosted by Ambit Capital. As a remainder, 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 phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Vivekanand S. from Ambit Capital. Thank you and over to you, sir.

Vivekanand Subbaraman: Thanks, Margret. Good morning, everyone. We at Ambit Capital are please to host the 3Q FY16 result conference call of Videocon d2h. We have with us the senior management of the company represented by Mr. Saurabh Dhoot – the Executive Chairman; Mr. Anil Khera – the CEO; Mr. Rohit Jain – the Deputy CEO; Mr. Avanti Kanthaliya – the CFO; and Ms. Nupur Agarwal, who heads Investor Relations. Over to you Mr. Saurabh, for your initial comments.

Saurabh Dhoot: Thank you, everybody. Good morning in Asia. I wish you all a Very Happy New Year at least not for global financial markets for us at least for the Indian DTH industry the New Year has started on a very positive note with the initiation of Phase-III digitization. Thank you all for joining the call and thanks Vivek for hosting our call today. Our board members, management and I welcome you all on our results call for the quarter ended December 2015.

In the third quarter we continued to successfully see the Indian digital PayTV opportunity, delivering superior content, strong High Definition offerings and best in class customer service to almost 15 million subscribers. As the fast growing Indian economy creates new PayTV households and Government enforced mandatory digitalization progress, DTH services are increasing their market share in this potential 100 million plus PayTV subscriber market.

Videocon d2h strategy continues to focus on driving revenue and EBITDA growth while investing in building a durable foundation for strong long-term profitable growth. Management success in building a Pan India distribution channel of sales distribution strong customer value proposition, best in class service orientation and a strong brand presence and track record of introducing leading technology and innovative product and service offering highlight its commitment into long-term market leadership in this backdrop in DTH in India.

Videocon d2h strategy continues to focus on driving revenue and EBITDA growth while investing in building a durable foundation for strong long-term profitable growth. With this in mind, I am happy to share that the company reported strong EBITDA growth of over 42% this quarter over last year. This is a result of strong subscriber and ARPU growth as well as our continued focus on margin improvement in line with expectations and prior guidance. With Phase-III digitization making progress we are very excited about the uptick we are seeing in January so far and are keen to continue to deliver on key performance metrics.

For the quarter we achieved the following. Quarter three FY16 subscription and activation revenue grew 26% year-on-year to INR Rs.6.65 billion. Total revenue from operations grew 21.6% year-on-year to INR 7.31 billion, adjusted EBITDA grew 42.2% year-on-year to INR 2 billion, adjusted EBITDA margin expanded by 390 basis points year-on-year to 27.4%. ARPU grew 8.2% year-on-year to INR 211. Gross and net subscribers increased by healthy 0.67 million and 0.43 million subscribers respectively. Monthly churn for the quarter came in lower at 0.73%. Net loss for the quarter came in at INR 220 million that is a 72.4% improvement over Q3 of last fiscal.

While this quarter's results were excellent, results were impacted by two factors outside our control namely the increase in Service Tax by 1.64% and the implementation of Swachh Bharat, Clean India Cess of 0.5%. Without these factors naturally adjusted EBITDA growth in the quarter would have been exceeding 45% year-on-year. Notwithstanding these external factors we believe the long-term outlook for the business remains very strong and positive, and my belief in the overall market potential and ability to continue strong growth increases with each passing quarter as our momentum and free cash flow reach an inflection point.

I am very happy to add over here that we have new transponders added; our ability to offer highest number of local channels to our subscribers given the higher bandwidth and superior compression technology is one of our key competitive advantages in the market especially given the challenges faced in sourcing additional bandwidth in India. Recently we have the opportunity to increase the bandwidth ahead of schedule, I am happy to share that we managed to lease to additional to transponders. This additional bandwidth will help us further strengthen our content offering in line with our broader strategy. This was an opportunistic addition to our transmission system ahead of time as satellite transponders are different to obtain in India. We believe this is very positive for the company.

Mr. Khera, will provide more details on Phase-III but I would just like to add that Phase-III digitization is well on its way opening up a total additional subscriber market opportunity of over 24 million new homes in the coming year or two. The Indian economy continues to gain momentum with expected GDP growth of around 7.5% in fiscal 2016, we all hear FM talking about growing this to around 8.5% in the next fiscal year India continues to be the bright spot and in otherwise challenging time in the overall global economy this growth will help us to add millions of more PayTV homes and a lot more spends on discretionary consumption and entertainment in rupee terms.

I want to remind everyone that India's cable and satellite TV space is evolving, the operating business is delivering upwards of 40% growth boosted by tailwinds from not only India's strong economy which positive affects consumer discretionary spend but it also being pushed over change by the Indian government's framework from modernizing India's aging analog network.

Now as a public listed company management strategy continues to focus on delivering long-term sustainable shareholder value by investing in what we believe will produce core fundamental growth in India's DTH market. Our core expertise and track record today speaks volumes and we are looking forward to you continuing on this journey with us as we continue to capture the growth within the industry.

Thanking all of you. Now, I request Mr. Khera to provide some operational updates for the period.

Anil Khera: Thank you, Mr. Saurabh. Let me start giving you an update on Phase-III digitization. Phase-III digitization has begun; along with TRAI, the Ministry of Information and Broadcasting has been extremely supportive to ensure this happens. The broadcasters were asked to switch-off analog signals in Phase-III areas after December 31, 2015. The blackout of analog signals started in almost all markets that came under Phase-III effective January 1, 2016. A positive development has been that the subscriber and the local cable operator seen convinced that Phase-III is now a reality. We are seeing good responses from Phase-III market so far. In the first few days of January 2016 when Phase-III digitization was in full force our daily subscriber addition went up quite significantly as against our normal average. I am delighted to share that DTH has been garnering a strong share of incremental subscriber in Phase-III markets. Low availability of Set Top Boxes with the local cable operator has also been helping DTH operators to add more subscribers. Given the shortage of Set Top Box with the local cable operators we hear that Digital Set Top Boxes are being priced at Rs.1,500 per Set Top Box which is at a similar price point to DTH. This is unlike Phase-I and Phase-II where digital cable Set Top Boxes were sold lower price of around Rs. 1,000.

We are excited and fully prepared to benefit from this one-time subscriber opportunity and we have over one million Set Top Box inventory. We have also arranged for additional Set Top Box availability on a very short notice from our vendors given that our procurement comes directly within India. While we have seen strong pick-up, recently the High Court of some large state such as Andhra Pradesh, Telangana, Tamil Nadu, Orissa, Uttar Pradesh and Maharashtra had issued stay orders for average two months to three months which was in line with what we had seen in the previous two phases as well. This confirms our belief that digitization is a staggered process and overall growth opportunity will play out over the next couple of years.

On a positive note Ministry of Information and Broadcasting plans to approach Supreme Court against all the stay orders issued by the State High Courts for a quicker resolution. In spite of start-stop sort of implementation, we firmly expect strong numbers in the fourth quarter over the same prior years quarters. This will be further enforced by the popular Cricket World Cup T-20 event hosted in India.

I would now want to share a little update on DTH industry in terms of regulatory developments. During the quarter the TDSAT which is a special court in the telecom and broadcast space issued a judgment on content agreement in simple terms. As you are aware, A-La-Carte or selling rates for broadcast channels content in a sense is regulated in India. In recent times the regulator has been reviewing the effectiveness of these selling rates as against the effective negotiated rates on which these deals typically happen. The regulator has been pushing to agenda formally in recent times, one rationalization of selling rates for bridging the gap between a-la-carte rates and content agreement rates and having a scientific logic as against negotiated rate and two is bringing transparency and parity across multiple platform on their commercial deals especially cable versus DTH. We believe that this is a positive development for DTH industry.

In continuation of our strategy to increase ARPU over time by providing enhancement to content and better viewing experience to our customer, we continue to strengthen our High Definition and 4K offering. Over the last few years we have proactively increased our High Definition channel count from 12 in financial year 2012 to 45 channels now. I am happy to share that we have added 16 High Definition channel in the current fiscal year-to-date. We will continue to focus on this area along with 45 High Definition channel. We also now have access to one of the largest 4K libraries in the world with content ranging across multiple genres such as lifestyle, fashion, sports, music and film.

On the recent Netflix launch in India, I would like to talk about our views on OTT space. Recently we saw Netflix launch their services in India at the price points ranging Rs.500 to Rs.800. we believe this is quite positive in terms of price positioning and validates our long-term potential ARPU levels for India. The entry price is two times of entry price offered by DTH and digital cable operators and even more compare to analog cable. This pricing is despite the fact that Netflix has launched a limited content library suitable for the Indian consumer.

With this, I now hand over the call to Mr. Rohit Jain for a financial update.

Rohit Jain: Thank you, sir. I am happy to now share the results in slightly deeper for the quarter ending December 2015. Total revenue grew 21.6% year-on-year to 7.32 billion. The break-down of this is subscription and activation revenue grew 26% year-on-year to 6.65 billion. Carriage revenue grew over 68% to 235 million. Ad revenue came in at 110 million against 29 million in the previous quarter and the balance was other revenue. Adjusted EBITDA grew 42.2% year-on-year to 2.01 billion, this is after adjusting for ESOP expenses.

Adjusted EBITDA margin expanded 390 basis points year-on-year to 27.4% for the quarter. Fixed cost as a percentage of revenue has declined from 16% in the base quarter to 15.6% now. Net loss came in at 220 million for the quarter this is a significant 72.4% improvement over the base quarter last year.

I am excited to share we are on track to achieve PAT breakeven in the next fiscal year as we have repeatedly shared over some of our earlier calls. We added 0.67 million gross subs and 0.43 million net subs during the quarter. The gross subs totaled at 14.95 million just a shade under 15 million and net subs at 11.27 million at the end of the quarter. Monthly churn came in at 0.73% for the quarter given the favorable impact of seasonality as was expected. We are also excited that monthly churn for the first nine months is at 0.8%; this validates our guidance of 0.83% for per month for the entire fiscal year.

Hardware subsidy further declined to 1726 per subscriber during Q3. With this our subsidy during the fiscal year has come down by Rs.144, this is ahead of our guidance of Rs.100 decline during the year that we expected at the start of the year. CAPEX for Q3 was 1.54 billion. This is primarily relating to the Set Top Boxes. Also key to highlight here the CAPEX is lower in this quarter we had already billed out sufficient inventory in Q2 ahead of Phase-III digitization. If you remember Q2 CAPEX was 2.46 billion.

Also adjusted EBITDA less CAPEX for the first nine month comes to a positive 292 million and we were positive 466 million for the quarter. Given the growth rates, the negative working capital nature of the DTH industry we are likely to achieve positive free cash flow at the coming quarters.

As of December 31st, we had a gross debt of 23.9 billion and total cash and short-term investments of 8.26 billion. Also to add a little more color to the two external factors Mr. Saurabh Dhoot talked about, I would like to share some impact of those factors during the year. Of course these impacts must have been felt across industries by all companies. We saw Service Tax increase from 12.36% to 14% starting June 2015. Thereafter the Government of India announced Clean India Campaign as a national priority and levied Swachh Bharat cess from mid-November 2015. On account of these the revenue was impacted by 270 million for the first nine months and 140 million for the quarter. EBITDA was impacted by approximately 250 million for the first month and 135 million for the quarter. Similarly, ARPU was impacted by Rs.3 for first nine months and by almost Rs.5 for the quarter. In absence of this ARPU for the quarter would have been 216 instead of 211.

For the full year we expect the impact on EBITDA to be plus minus in the range of 400 million depending upon the final Q4 number. Having said that, we are happy to report very strong 42 plus percent growth in the fiscal year for the quarter three.

With this, we would like to open the call for question-and-answer.

Moderator: Thank you very much. We will now begin with a question and answer session. The first question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishabh Chudgar: Sir, I just wanted to ask you regarding your gross subscriber addition in the quarter if you compare your addition to the MSO who's result had been publish it has been slightly muted. Could you explain the reason behind this?

Saurabh Dhoot: Well it is a little difficult to compare the DTH numbers with cable because you will remember in cable when we are talking about gross addition, we are essentially about their own analog subscribers converting into digital not necessarily growth where obviously we are talking about new homes being added by us as a company and as an industry. Also you would obviously need to look at this in a full year perspective and not just for the quarter. So it is difficult comparison to make given the difference in the transparency and the whole analog regime.

Rishabh Chudgar: Okay. So just to dwell a little more on it, you said that post 31st December you have seen traction in your subscriber addition. So could you tell me like how much would be your daily sub-additions in December and compared to January like post 31st December?

Anil Khera: Well in the that DAS III towns what we have seen is there is 636 where DAS III is getting applicable in DAS III towns we have spurt of some top 100 towns spurt of more than two times - three times and remaining towns almost one and half times to two times. So this has resulted in our additional subscriber of almost 30% to 40% compare to the same period last year.

Rishabh Chudgar: My question is say like for FY17 what would be your sub addition? Like your outlook for subscriber addition for FY17?

Saurabh Dhoot: It is too early right now given that Q4 itself has a lot of interesting events line up, it would be looking a little ahead at this point we are not firming for FY17 guidance. We will probably share more color on this in the coming quarter.

Rishabh Chudgar: Okay, sure. And the other thing that I would like to ask you is regarding your ARPU; national cable MSOs, they are aiming at net collection of say around Rs.50 from Phase-III markets, and I think currently at analog they will be hardly collecting any money. So how does this impact ARPU levels for the DTH industry and for you?

Saurabh Dhoot: That is a good thing, right because in DTH the entire ARPU that we are talking about comes to company. In DTH industry there is no gap between the ARPU reported and the ARPU collected coming to the company. All of this amount come to the company these are consumers, customer home, directly wired by us, directly owned by us. So our Phase-III ARPU are essentially what we are reporting. The question is phase wise ARPU then we are not breaking down the ARPU phases wise but we are seeing upward pressures in ARPU.

Moderator: Thank you. The next question is from the line of Jay Li from Trafelet Brokaw & Company. Please go ahead.

Jay Li: Just wanted to you did not talk about the guidance for the full year in terms of expectations of EBITDA and ARPU, just wonder if you could update us on that.

Rohit Jain: So, we have achieved in terms of EBITDA if you look at it we have given a guidance of 8.2 billion to 8.6 billion. As of now we have achieved 5.82 billion in the nine months gone by. For the second-half we expected our EBITDA growth to be between 40% to 45%, we are excited that we have reported a 42% growth in Q3. Needless to say we believe this is stellar performance. Having said that, there is obviously the impact of the two factors that we talked about and as I have shared earlier the impact of these factors for the whole year could be in the range of approximately 400 million. So as the year goes by we will have to see the impact of these things. Also we will have to see how digitization plays out in the overall quarter because the range obviously also kept into account the whole the entire impact of digitization. But apart from the impact of these two factors, we remain very strongly in line within our guidance. If you neutralize the impact of these things and even if we look at the nine months expected full year it would be a pretty strong number within the guidance neutralizing the impact of these two things.

Saurabh Dhoot: Yes, absolutely. We had given the guidance range with higher side based on the impact of digitization. Naturally we are excited about the initiation of digitization though the momentum has got affected by as expected of by judicially court order, but the government is very proactive in ensuring that this moment grows. So with that perspective and subject to the external factor of the service tax increases I think we are very much in line with the guidance we had given.

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

Rajiv Sharma: Just one question from my side, how do you see the competition from Free Dish? So now that there is BARC ratings and a lot of FTA channels trying to be a part of Free Dish and DishTV has responded with the low end pack you always had that low end pack. Is this going to be ARPU dilutive they have now as much as 30 million subscribers and Free Dish plans to come out with MPEG – 4 Service with more channels, their placement fees is also going up? So there is traction so how much of threat is this and what is the impact you see for the industry and for you going forward?

Anil Khera: Well we have seen in recent past a lot of customer who upgrade themselves from Free Dish to Pay DTH. The increase in Free Dish, definitely the desire to have a variety of entertainment, it helps, till six months to eight months the customer remains on Free Dish, and then migrates to Pay DTH. To attract these kind of customers in Phase-IV and also in Phase-III we have introduced a pack of Rs.99 and an add-on of Rs.50 to give him all general entertainment channels, and we see a quite a good movement happening in our low end from Phase-IV market. However from Phase-I and Phase-II there is not much uptick for Rs.99 pack but we see in Phase-IV there is a considerable movement happening from Free Dish Pay DTH. Thank you.

Rajiv Sharma: Okay, this is helpful. So you basically, you are suggesting that it is just a small window and after that there is no sustainable damage which Free Dish does to the DTH addressable market.

Anil Khera: Yes, we see the number in Free Dish remain constraint of around 15 million to 16 million and new customer keep getting added in Free Dish and the earlier customer keep getting themselves upgraded to Pay DTH.

Rajiv Sharma: Okay. One more question if I could chip in was on the subscription acquisition cost, I mean more from a marketing expense perspective so the industry is not been spending much in the last few quarters and they have been tariff increase. What is your take on the potential tariff increase and the marketing spends because we have seen DishTV now starting to increase their spending so, what is the kind of impact you see on the margins and will there be any more case for tariff increase which was the scenario last year till sometime? Now that there is so much volume coming up do you see a case for tariff increase?

Rohit Jain: So on your two questions, I think relating to marketing budgets if you will see all the four large satellite operators have large base where marketing spends over the last few years have been pretty stable with the size of scale and operations unlikely to see a lot of volatility in that and we are all doing our own different strategies and marketing spends but in terms of overall volume spends I think there has been a lot of stability given the size and scale of operations. In terms of price increases so look our belief in long-term opportunity to increase the prices remains and if anything the recent launch of Netflix proves and validates the theory around much-much higher potential to pay for a much limited service offering; their price positioning is also 2x that of DTH and even more higher compared to analog cable. So there is certainly a lot of headroom; how and at what pace does that happens is something that we will have to see over a period of time.

Saurabh Dhoot: I think from a macro standpoint with the level of transparency increasing in India, I think ARPU or tariff prices going up with the increase in level of transparency is a given fundamental, which we have seen played out clearly in the last three years and will play out for the next many years as well. I think that is always going to be a phenomena driving pack prices. And then, on the other aspect of marketing spends, I think it is very clear from Videocon d2h's track record of being number one with regard incremental market share growth and then being the fastest growing DTH operator in the country despite having the lowest marketing spends in the many quarters consistently compared to our competition. I think it clearly speaks volumes about the quality of our sales distribution, after sales service and brand reach which we continue to enjoy especially with the momentum in digitization.

Rajiv Sharma: Yes, that is helpful. So where do you see the ARPU growing in the next one years or two years some ball park some estimates there? And if you could just throw some light on where your HD penetration is and where do you see this ramping up in the next 12 months?

Rohit Jain: So we have not firmed up any guidance at this point as we shared earlier. Right now we are very excited about the possibilities of Q4. In coming quarters we will share more deeper color or these things.

Rajiv Sharma: Okay. And any color on HD?

Rohit Jain: Well HD, again, conceptually we believe there's tremendous potential for HD to grow; the current HD base in India is very very low. If we look at the overall PayTV market the current HD base and the total PayTV market is not more than 2%; the same in developed economies, is as high as 60%-70%; while that might not be necessarily the right stat for India, there is certainly far-far more potential than the current 2% - 3% penetration.

Saurabh Dhoot: Yes, absolutely. And more importantly vast majority of HD subscribers in India are on the DTH platform not on cable and naturally, DTH as the entire industry is the one driving HD forward and we are on track with 30% of new subscribers coming up on HD.

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

Vikash Mantri: Can you help me with the activation revenue that we have booked on of course subscriber basis which is part of your subscription revenue?

Rohit Jain: So in our subscription revenue the activation part would be less than Rs.100 per new subscriber added.

Vikash Mantri: Okay. Now coming onto the subscriber growth number I know we have discussed this partially earlier the fact that is just an okayish quarter for us in terms of subscriber addition given we generally see a spike in the December quarter because of festive seasons. However, if you look at the cable companies that have reported you have seen a 1 million subscriber addition by SITI Cable. The thesis earlier was the growth in Phase-III and Phase-IV is likely to go to DTH because cable does not have the infrastructure ready in those markets. Also we have seen the government's delay things or the court's delay things because lack of availability of Set Top Box. So in a scenario like that where we have all the Set Top Boxes available with us, why are we not able to capture market share and are actually losing it out to cable?

Anil Khera: See like Rohit earlier mentioned, the acquisition of 1 million by any cable operator which you mentioned is simply conversion of their analog home to digital home and as regards the court cases which you mentioned about Phase-III digitization and as we mentioned that the Ministry of Information and Broadcasting is now through their Attorney General trying to bring all such

High Court stays to Supreme Court so they can address all these cases in one go and they are feeling very comfortable then in a space of 15 days to 20 days' time, they will be able to quash all these stay orders and again by mid-February or by February end the digitization as expected will come back in its full form. And we expect that all the audiences in India in Phase-III markets will see the Cricket World Cup through digit signal, thank you.

Rohit Jain: Also Vikash, if I may add, so one is of course I mean we thought this was a good quarter we did approximately 17%-18% better than the historical quarters in the same quarter in the last so against 0.36 million last year we did about 0.42 this year. Also remember the cable opportunity typically is before the deadline and the DTH opportunity kicks-in after the deadline. So irrespective of the fact that it might not be an apple to apple comparison to be made I think we will probably have a better sense of these things in six months to 12 months' time. It is very pre-mature to be able to judge on the numbers in terms of comparison.

Vikash Mantri: So by all likelihood clearly will never have a deadline which will be actual, we will continue to see shifts in this deadline we have seen that happen in the past. Now the court stay order was for two months and if the government takes two months to actually put in a case from their side then the objective is lost and very likely keep shifting for another two months. So my only limited argument here is in case of a staggered deployment of the regulation of the deadline then clearly cable will walk away with all the subscribers and DTH will have to wait for an actual deadline to come into place to be able to capture market share as you mentioned that your opportunity comes only after deadline is in place.

Saurabh Dhoot: So from the consumer mind set point the deadline kicked-in on 31st December, right so good thing is we are seeing that at the consumer level there is acceptance that digitization is for real and we are seeing some of that happening in the marketplace but at the end of the day it is correct that these are things that will be judged better over a period of time rather than point of time.

Rohit Jain: This is consistent with what happen in Phase-I, Phase-II and in Phase-III clearly there are only few MSOs which have the capability to deploy boxes and clearly that works even better for DTH as very few strong MSOs have position in Phase-III market. So as from our experience in Phase-I, Phase-II goals the DTH market share in those phase has substantially gone up actually over the last two years - three years if I track Phase-I, if I track Phase-II which clearly indicate the potential for DTH actually gets better post the deadline date not before.

Saurabh Dhoot: Can I just add-in one more color just to make sure the audience we are doing the right comparison. We have added in the last nine months 1.86 million new homes. I do not think any of us have data on the actual net subscriber base and cable given the post rate model and of course given the lack of transparency and disclosures. I am not sure, what is the right number to be compared with. But having said that, coming back to our own numbers 1.86 million gross additions during the nine month has been a pretty good performance we believe.

Vikash Mantri: So then, given this digitization we should so generally we were hoping that with Phase-III, Phase-IV the spurt in subscriber addition will increase but from what I gather from yours is we should look for a much-much staggered additions for DTH when people end up their opportunity in cable or see the deadline is done with and may become a year and year and half story. My only submission here is unlike the Phase-I market where people opted for cable and then came into DTH and therefore DTH later got a higher market share the subscribers in the Phase-III, Phase-IV market might not be right enough to do that churn for first having a cable Set Top Box spending Rs. 1,500 on it and then going in for a DTH box spending another Rs.1,500. Also remember as you mentioned, in case of cable in Phase-I, Phase-II, the first box came in nearly at Rs.500 of free so the subscriber was very easy to churn out to DTH because he had not committed any sums.

Rohit Jain: So again I think there are multiple questions. A) We have always believed this is a staggered process. Having said that I think we did share in the call earlier that we are seeing a Q4, we are expecting a strong Q4 compare to the historical numbers and we will see the final numbers by the time we finish the quarter and report that back but we do believe this is a staggered process not a one shot process. The second is, we do not think Phase-III necessary mean there is paying capacity issues. The definition of phases is by population not by economic propensity. Also remember that customers are churning out from Phase-II, Phase-II not because of anything to do with the price of the Set Top Box; it eventually got to do with service levels. So if there are customers from either DTH or cable wherever who get frustrated because of customer service, content issue, hardware issues any of those things. At the end of the days the churn will happen on those accounts irrespective of anything. I do not think an Rs.500 or Rs.1,000 box not working is going to be a deterrent for customers to churn or not churn.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: So if you look at the content cost it came in at about 38.5% for the quarter and it seems to be trending slightly higher then what we were targeting at the start of the year. So if you look at in absolute terms the content cost has gone up by about 7% on Q-on-Q basis I am considering that a lot of our content is the renegotiation and already is behind so one would have expected a cost to stabilize. So any comments on what is driving the increase even on the higher levels?

Rohit Jain: The content cost actually has been pretty stable for us after the deal is done. If you see the content cost in the quarter went up because there were potentially some anniversaries that fell into place during that period. The reason the percentage has gone back is if you going back to what we shared earlier around the external factors of Service Tax and Swachh Bharat they had impacted the revenue. So if we remember we said the revenue was impacted by 140 million during the quarter and at also 270 million during the first nine months. With the lower revenue in the denominator optically content cost as a percentage did not release its full operating leverage. In absence of these, the content cost would have worked out to 37.4% actually and that would have been largely in line with how we have said out at the beginning of the year our guidance and our budget. So I think it is nothing to do with the content cost overall, they have been pretty much in line with our budgets and our plans obviously with all the deals in place it is optically around those percentages and operating leverage on account of those impact on revenue.

Yogesh Kirve: Sir, thanks for that but even if we look around the absolute terms so even in Q-o-Q it has went up by 7%, it has already seen a quite a bit of increase in the preceding quarter so one would expect it at least on Q-on-Q basis absolute terms the cost increase should be more moderate. So is there anything since the rising HD uptick has also has to play any role in this?

Rohit Jain: All the three factors our tremendous growth of subscriber base, we did add 0.42 million more subs which is approximately a 4%-5% jump in our subscriber base, our growth in HD and naturally the anniversaries of content deals falling into place. But this not something that we have added like I said with agreement in place we have full visibility of our content cost or budgets for the year. The operating leverage has not been visible because of the impact of those two things but on the cost side we are not worried we have full visibility of these things.

Yogesh Kirve: And sir, how should we look at the content cost going into FY17, so we might end up with around 37%-38% in FY16. So how ratio should move out from there on?

Rohit Jain: Again as we said, we have not firmed up our guidance or our estimates for fiscal 2017. At this point we are very focused on the opportunity Q4 present itself, this is not a usual Q4 like any other year, one. In the coming quarters we will firm up more color and share on this.

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

Vivekanand Subbaraman: Yes, I have a couple of questions, one is at and industry level based on your market intelligence, what would be the share of incremental deployments of Set Top Boxes during the past quarter that DTH would have picked-up; that is one. And secondly, at the company level what proportion of the new subscribers that now come in are HD subscribers, and lastly a quick one on churn, the reduced churn is encouraging but just wanted to understand is it primarily on account of seasonality or is it so that Phase-III is not as competitive as earlier phases? Thanks.

Anil Khera: Yes, the incremental subscriber addition for the DTH for this quarter three has been in the line of 2.4 million to 2.5 million all six brand Pay DTH brand together. Out of this, 92% of the market share is covered by four DTH operators. And if you look at High Definition addition as a new incremental subscriber industry has been seeing overall 30% new High Definition subscriber addition as anew subscriber.

Vivekanand Subbaraman: So you mean at a gross level 30% of new DTH subscribers are opting for HD?

Anil Khera: Yes. At the time of buying he has option to opt for a Standard Definition Set Top Box or a High Definition Set Top Box. So customers are opting for 30% for High Definition subscriber for which pricing as a Set Top Box is slightly higher than Standard Definition. Your third question on reduction in churn in this quarter is largely because this quarter has been always good quarter because of the festivals plus the sports event in the month of December and also the Phase-III digitization helps the churned customer again to reactive the Set Top Box because away they have to invest money in Set Top Box to view television. The people who have churn has come back to the DTH platform again. Thank you.

Saurabh Dhoot: Yes, I mean we guided for a churn of 10% per annum of 0.83% per month, I am happy to share that the churn for the first nine months came in at 0.8 and we continue to maintain our churn guidance some of the volatility you would have seen quarter-on-quarter as a result of seasonality in India and basis how religious events have stacked-up in terms of dates and you would see this consistent trend over the last seven-eight quarter results available in public domain so I mean the churn rates are in line with the expectation and we expect to have a good Q4 as well given digitization and T-20 World Cup with India being the host actually this time.

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

Amit Kumar: Sir, my first question is with respect Ultra HD as well as 3D initiatives being taken by the company. So just wanted to get a sense of what is the current subscriber base which is sort of taking up these kind of really high value add-on services. What do you think is the potential and are not really from a one-year perspective I presume these are fairly new services at this point of time but really from a four year to five-year perspective where do you believe what is the potential for these over time? And my final point on this was in terms of the content cost investments that you are making on these I presume they will also be fairly high at this point in time so, as a percentage of your total revenue how does that stack up?

Anil Khera: It reminds me of five years back, when we had a similar situation when High Definition came in. There were very few High Definition channels available and there were very few High Definition panels available in the market and the difference of panel cost between High Definition and Standard Definition in the segment of 32 inch, used to be Rs.15,000 to Rs. 30,000. If you look at High Definition today the cost of panel for High Definition and in Standard Definition is almost similar and maybe in another three months to six months, Standard Definition panels may not be available in the market at all. So we are looking at 4K in the similar lines and we already see a penetration of almost 300,000 4K panels in India and when the 4K panels were introduced in India the cost of 4K panels use to be in the range of Rs 1,50,000 to Rs 5,00,000 to 6,00,000 now the entry price for 4K panel by poplar brand and mid-sized brand is almost Rs 40,000 to Rs 50,000 for a size of 48 inch to 50-inch panel. So we see a huge penetration in India for 4K in the coming years. And the investment in content cost in 4K we see as a positioning investment and marketing investment in the coming year and we see a huge potentiality in 4K coupled with High Definition customer. And with this World Cup coming in we expect that the penetration of 4K panel in the country might go high by another 100,000 to 150,000 taking the total penetration of 4K panel in the country to more than 400 thousand. So we are targeting all this customers, they are not only our 4K customer but also our high ARPU, High Definition customer. Thank you.

Saurabh Dhoot: This is very consistent with our strategy for many years if you have seen Videocon d2h has consistently been ahead of the curve in introducing any latest technology in PayTV and especially in DTH in India and today we are so proud that we are the only DTH operator with very rich consistent exclusive 4K library content running continuously clearly, anybody as you see many people are buying 4K television when they go to the shop floor and they see that only Videocon DTH has 4K and see the demo on the 4K TV using that. It clearly plays very big marketing role in the minds of those subscribers. These are all aspects of positioning which has which has what Videocon d2h capitalized on to build a very-very strong brand and following in the DTH market which has resulted in number one market share addition which has consistently been the case for many years now and has made us the I would say the largest listed DTH player in the country today in terms of active subscribers and I think that is a very proud achievement of the management team with its innovation and technological advancements and implementations.

Amit Kumar: Sir, just one sort of small follow-up on that this T-20 World Cup in Start Sports committed offer that in 4K format and coming back to my original question at this point of time clearly because the subscriber base is very small and I presume I know the content that you are getting that will be some sort of fixed free kind of content. I mean to what extent is that sort of dragging down your margins at this point in time?

Anil Khera: Well likewise in the last FIFA World Cup 4K content was available for Football, but it was only the Semi-Final and the Finals some of the events were available and that were telecast at excremental basis and it had no cost to us as well as to the customer. Similarly, in the last cricket even which happened and the few matches were shown in 4K these were also purely on excremental basis and we have no confirmation so far for this T-20 World Cup availability in 4K but what we hear from market is may be the Quarter Final and Semi-Final and Finals might be available in 4K. So obviously this will come as trial to the customer because broadcaster also wants to expand this market and there are only few two or three DTH operators in the country who will be telecasting this event and this will be made available free to the customer and we will be also getting it free with the customer. In case the feed is available right now there is no confirmation as such.

Amit Kumar: All right. Just a bookkeeping question what is your active entertainment tax rate currently?

Rohit Jain: Well the entertainment tax rate varies across states.

Amit Kumar: No, I am saying that at the company level what is the e-tax…

Rohit Jain: We have not broken down the figure in public domain but it comes out according to the different states.

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just one question from my side which you have already touched upon but just wanted some more details as to. Let us say if this TDSAT judgment of non-discriminatory content cost stays even in the Supreme Court then what you think could be the impact for the industry and for Videocon d2h in particular?

Anil Khera: Well, the TDSAT has directed the authority which is TRAI, and they have given a time frame of three months ending 31st of December to introduce the consultation paper on this process and definitely this is going to help a transparent platform like DTH and we hope the consultation paper will be out very soon and after the consultation paper the new policy might be announced. This time the government and the authorities want to make sure that whatever policies are announced, are contributed and owned by all platforms as well as the broadcasters so there is no discrepancy after this is introduced and so we are very happy that we all are participating in formulating this policy. And by middle of February or February end the consultation paper should be out very shortly then the picture will be more clear. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the floor over to the management for closing comments.

Saurabh Dhoot: Thank you so much. Thanks a lot for everyone to join the call today. Just to summarize we ended the first nine months with adjusted EBITDA of 5.8 billion this is up by 34% for the nine month, up by 42% for Q3. We have now got net subs of 11.27 million very excited about the Phase-III opportunity Q4 in particular and looking ahead we believe that management will be able to successfully monetize the digital PayTV opportunity through delivery of superior content, best-in-class customer service. Our focus on drawing revenue and EBITDA growth while investing in durable foundation for strong long-term profitable growth market leadership, product innovation, like 4K continue. A copy of this call's transcript would obviously be available in our investor website in few days. I would like to mention that we have retained the service of Taylor Rafferty this is a leading cross border Investor Relations firm. Taylor Rafferty would be working closely with our management team to ensure we have got best-in-class Investor Relations program and they will be supporting our overall capital markets goal of building long-term shareholder value. On that note, I would like to thank everybody again on behalf of management and board.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.