"Videocon d2h Limited Q1 FY2017 Earnings Conference Call"

EDITED TRANSCRIPT

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MANAGEMENT: **MR. SAURABH DHOOT – EXECUTIVE CHAIRMAN, VIDEOCON D2H LIMITED**
MR. ANIL KHERA – CHIEF EXECUTIVE OFFICER, VIDEOCON D2H LIMITED
MR. ROHIT JAIN – DEPUTY CHIEF EXECUTIVE OFFICER, VIDEOCON D2H LIMITED
MR. AVANTI KANTHALIYA – CHIEF FINANCIAL OFFICER, VIDEOCON D2H LIMITED
MS. NUPUR AGARWAL – HEAD, INVESTOR RELATIONS, VIDEOCON D2H LIMITED

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Videocon d2h Limited Q1 FY2017 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nupur Agarwal – Head Investor Relations, Videocon d2h Limited. Thank you and over to you, Ms. Agarwal.

Nupur Agarwal: Thank you. Good morning, and welcome to Videocon d2h's fiscal 2017 quarter one results call. We have with us senior management of the company represented by Mr. Saurabh Dhoot – Executive Chairman, Mr. Anil Khera – CEO, Mr. Rohit Jain – Deputy Chief Executive Officer, Mr. Avanti Kanthaliya – CFO. I now handover the call to Mr. Dhoot for his initial comment.

Saurabh Dhoot: Hello. Thank you all, everybody, for joining our results call for the quarter ended June 2016. On behalf of our Board Members and Management Team, I welcome you all on this call

Dear Shareholders, Q1 FY2017 is a landmark quarter for our Company in its enduring journey. I am pleased to share that we have reported Videocon d2h's strongest financial results ever. We have declared positive profit after tax and a positive free cash flow, plus we have generated an all-time record quarterly adjusted EBITDA of Rs.2.52 billion, that is above expectation and a 32.4% growth over the same quarter last year's blockbuster results.

Our journey to profitability has been amongst the fastest in our industry. We commercially launched our services early 2010 and in no time we became the fastest growing DTH operator in India. We achieved the 5 million subscriber mark well within two years, the 10 million within four years. We achieved a positive EBITDA within three years of commercial launch, today we are widely recognized among the top two DTH operators in India from being the last entrant and the sixth DTH Operator to start the business in India. This is a great achievement by the entire team at Videocon d2h who have worked very hard to achieve these milestones, tirelessly against many odds with competitive intensity at its peak during some of these times. We faced and overcame several challenges to achieve this. Strong execution by them on technology, sales and distribution, customer centric service network has truly been the secret sauce behind our success. Going forward, the team is very excited about generating profitable growth, sustainable free cash flow and also leading the industry in technological innovation and setting unmatchable customer service standards, especially as India embarks on a new digital revolution.

In our journey, we became the first Indian media company to list on the NASDAQ. This not just strengthened our balance sheet but also opened a lot many doors for the Company and gave a further boost in various aspects like our brand perception.

Our financial position continues to be stronger. We have repaid term loans to the tune of almost USD 200 million from the IPO proceeds. We in fact repaid term loans of over USD 55 million in the past few weeks itself. With this balance sheet and growth rate, the Company can further augment its ability to add and create and offer more value and opportunity for its customers and stakeholders.

Our customer satisfaction and retention rates are second to none and provide us with a long lasting foundation. This has been a key differentiator for us. We have been working on further strengthening our high quality customer services, bearing in mind the growing needs of a fast growing subscriber base. I am so happy to share that we are able to resolve over 85% of customer issues at their house within 6 to 8 hours of the subscriber complaint. We have added more direct service centers in the past few quarters to cater to towns and cities that come under digitization Phase-I, II and III. We now have 320 direct service centers and this is a unique strength we have as relative to any other DTH operator in India. We have also further expanded the number and reach of sales & services dealers and service engineers in order to be ready for the high subscriber growth, which we are expecting to come from Phase-IV as the deadline nears towards the end of this year.

These great results and my optimism gets fuelled when I think and see how proprietary services are getting good traction across genres such as cinema, music, kids, educational content, and religious content. We in fact now have close to 1.5 million customers subscribing to one or more of the services in addition to their monthly subscription packs. Dear shareholders, the platform we have today caters to over millions of households in India and is generating a good amount of advertising revenue across these services, many new brands and channels, desire to be available on a platform, we recently had BMW, Hyundai, Jet Airways, Suzuki, Mahindra to name a few who have started advertising on our platform. These are now beginning to contribute meaningfully to revenue and EBITDA.

Commenting on the results, I am happy to share that Videocon d2h has reported a strong quarter on all key parameters and during the quarter we achieved the following:

- ✓ Net subscribers increased by around 430,000 as against a guidance of 400,000 and net subscribers totaled 12.29 million.
- ✓ The Company added 0.60 million gross subscribers.
- ✓ Monthly churn came in at 0.49% for the quarter.
- ✓ Revenue from operations grew 23.5% year-on-year to INR 8.19 billion.
- ✓ Subscription and activation revenue grew 23.9% year-on-year to INR 7.52 billion.
- ✓ Adjusted EBITDA grew 32.4% year-on-year to INR 2.52 billion. We had guided for INR 2.4 billion; Adjusted EBITDA margins expanded 210 basis points year-on-year to 30.8% during the quarter.
- ✓ The free cash flows achieved were INR 138 million in Q1 FY2017

Now with regards to guidance for the quarter ending September 2016, we expect net subscriber additions of 225,000 in Q2 FY2017. I would like to reiterate here that the second quarter is seasonally the weakest quarter in our business and the numbers are normally flattish quarter-on-quarter. As we all have seen the second half of the year that is relatively and seasonally stronger.

We expect EBITDA to come in at around Rs.2.6 billion in the Q2 FY2017 now that is going to be a 36% growth over quarter two of last fiscal i.e. Q2 FY2016.

We are on track to achieve our guidance for fiscal 2017; I am reiterating that

- ✓ We will turn a full profit after tax for the whole fiscal.
- ✓ We will achieve free cash flow breakeven during the year, naturally presuming a subscriber growth in line with the current growth trends.
- ✓ We will achieve a gross subscriber addition of at least 2.5 million for the entire fiscal.

We are overall bullish and optimistic about the domestic macroeconomic environment, be it the good monsoon this year, the likely passage of the long awaited GST reform, our government's 100% rural electrification plan that’s really excites us. I would request Mr. Anil Khera to provide further business update.

Anil Khera: Thank you, Mr. Saurabh. Let me start giving you an update on macroeconomic front, mainly on three accounts:

Good monsoon, rural electrification and GST.

First and foremost, I am happy to share that India is witnessing a good monsoon season almost after two years of drought. The rainfall deficit has narrowed and should improve the GDP growth prospects for the Indian economy. Rains have so far been above the long-term averages, implying a good crop for the farmers. This is great news for our business as we see descent proportion of our growth comes from areas that come under Phase-III and Phase-IV digitization. We hope for a good festive quarter this year, given an upbeat rural sentiment due to good monsoon season.

Secondly, the Indian Government led by Honorable Prime Minister, Mr. Narendra Modi, is emphasizing to all power distribution companies to go a long way in ensuring affordable and accessible power to all villages, whether big or small, scattered all over India. There have been successful efforts put in to ensure 100% electrification of rural household and 24X7 power supply in urban areas by 2019. Of nearly 18,500 villages, over 9,000 villages have already been electrified since after 2015 which speaks of the commendable efforts that has been put in by the Indian Government towards achieving this. This has direct positive correlation to our business as consumption of pay TV services increase over a prepaid DTH such as Videocon D2H.

Thirdly, the recent press reports indicate that Goods and Service Tax or GST is likely to be introduced in the current monsoon session of the Parliament. This is a reform that not just Videocon d2h but entire nation has been eagerly waiting for. This will not only make our life easy, but also improve profitability as GST will most likely to subsume all types or forms of indirect taxes including entertainment tax.

Back to our business, a positive development that is worth sharing is the introduction of subscription packages tiers by some leading MSOs as compared to one standard pack earlier. This makes their product pricing slightly higher than earlier which is definitely good news for DTH industry. We believe cable pricing is gradually moving up to come at par with DTH operators and it is creating further room for ARPU growth. This has been one key benefit of digitization apart from the subscriber growth.

With the advent of many online payment gateways and mobile wallet companies in the past few years, we are seeing a trend shifting towards online recharges. Given our Pan-India footprints and increasing subscriber demand from Phase-III, Phase-IV areas, we have been also expanding our presence in terms of number of recharge outlets. We are happy to announce our strategic tie-up with Vodafone to enable recharge using their well-established M-Pesa digital wallet and at the Vodafone outlets. It will give our customers an easy and powerful way to recharge their D2H account at their convenience. With the ease of recharge availability deep into country, the customer's ability to recharge on time will improve which could help improve overall subscriber revenue realizations and reduce suspension.

Lastly, in financial year 2015 when we had reached a sizable number of 10 million subscriber base mark, we had started working towards developing an alternative headend as part of our business continuity plan, so as to be able to serve to our large subscriber base without any interruption in Pay TV signal. We received all the necessary government approval for the disaster recovery site in western India a year ago and we are confident that we will be able to rollout the state-of-the-art alternate headend in the current fiscal year.

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

Rohit Jain: Thank you so much. We are happy to share the details of our results for the quarter ended June 2016.

- ✓ Total revenues grew 23.5% year-on-year to Rs.8.19 billion.
- ✓ The key components of that was Subscription and activation revenue grew 23.9% year-on-year to Rs.7.52 billion.
- ✓ Carriage revenue grew 47.3% year-on-year to Rs.271 million.
- ✓ Ad revenue grew 12.5% year-on-year to Rs.91 million.

Adjusted EBITDA grew 32.4% year-over-year to Rs.2.52 billion. Adjusted EBITDA Margin expanded 210 basis points to 30.8% for the quarter.

Content cost came in at 36.1% as against 37% in the same quarter last year.

Fixed cost as a percentage of revenue came in at 15% as against 16.1% in the same quarter last year.

We are also happy to announce a positive net profit of Rs.27 million as against a net loss of Rs.244 million during the same quarter last year.

ARPU grew from Rs.205 last year to Rs.219 now.

Monthly churn came in at 0.49% for the quarter as against 0.46% in Q1FY2016. Needless to say, this is something that has to be seen on a longer period of time to get a better understanding of trajectory, given the seasonality impact in India.

Hardware subsidies came in at 1,872 per subscriber,

CAPEX for Q1FY2017 was Rs.1.63 billion, primarily relating to set-top boxes.

Adjusted EBITDA less CAPEX came in at Rs.887 million for the quarter.

As of June 30th 2016 we had term loans of 21.87 billion and total cash and short-term investments of Rs.6.12 billion. With the pay down in the last few weeks, we have now brought down the term loan to Rs.19.28 billion as of today.

In closing, to summarize,

- ✓ Q1 has been a landmark quarter for your Company as we have achieved a net profit and free cash flow breakeven for the first time in the history of the Company.
- ✓ During the quarter, we achieved a net subscriber addition of 430k as against a guidance of 400k. And EBITDA was Rs.2.52 billion as against the guidance of Rs.2.40 billion.
- ✓ In continuation of our growth ahead, the guidance for 225k net subscriber addition and EBITDA of Rs.2.6 billion for Q2 FY2017.

With this, we conclude our opening remarks. And we would like to open the floor for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our next question is from the line of Rajiv Walia from Edelweiss. Please go ahead.

Abneesh Roy: Sir, this is Abneesh here. Sir, my first question is, the S&D expense last three quarters has eased up sharply YoY, what is the reason for that?

Rohit Jain: Can you repeat your question?

Abneesh Roy: Sir, selling and distribution expense is up around 25% YoY this quarter and previous two quarters also on a YoY basis it is up sharply, what is the reason for this?

Avanti Kanthaliya: This is because we have incurred more expenditure in this quarter on Mumbai Indians and similar other expenditures that is why there is slight increased S&D expenditure in this quarter as compared to that YoY.

Abneesh Roy: And overall, competitive intensity, does it remain benign or has it gone up? Why I am asking this is, now if you see Phase-III large part of addition is already behind. So if you could comment on that part also. So competitive intensity it seems that it has gone up a bit, what is your sense on this?

Saurabh Dhoot: The market has been competitive and intense for many, many years. I think there is I would not say any significant change from that front. As you know probably overall the market has organically consolidated to amongst top four key players out of the six and the competition has been robust but also healthy.

Abneesh Roy: And how has the market share been this quarter, any sense on that?

Anil Khera: Market share continues to be same as we enjoyed last quarter which is on the new acquisition front it is 27% - 28%.

Abneesh Roy: And sir, in terms of ARPU you have done quite well, around 7% growth, so how much is coming from rack rate increase and how much is coming because of mix change? HD is now close to 12% of the portfolio so how much is getting helped from there? And where do you see this 12% from two to three-year perspective, HD as a mix?

Rohit Jain: Well, the ARPU growth is coming from various components, needless to say price increases was one of them, customers upgrading to high definition or more premium packs was the other one. Needless to say, also our focus on value added services and providing more content around education, music, movies, and various genres, that is contributing to growth as well. So while it is difficult to break it down in various components, our belief is that overall ARPU trajectory should continue to go up, as you have already seen in the Company's results over the last few years of data available. Also, the fact that the industry prices continue to go up, gives us a lot of confidence about more scope for growth of ARPU in India in the years to come. I think cable, rolling out gearing is also good news. So overall I think we remain very positive towards growth trajectory of ARPU in the future.

Abneesh Roy: Sir, I had a follow-up question on the last part, you said the education, movie is gaining, is the Indian consumer paying for these value added services? All DTH companies are doing this but obviously there are so many choices already in terms of 700 - 800 channels overall available, so where do you see this in terms of actual consumption in terms of paying for the services? Has it become substantial in terms of ARPU?

Saurabh Dhoot: So to answer your question, yes, the consumers are actually seeing value in the offering. They are happy with the content provided, they feel it is adding value and they are paying for the value.

Rohit Jain: And to your question around there are 700 - 800 channels, remember that at least in our case I think we are looking at constantly areas of gap in the markets where we can fulfill the demands of customers and the consumption requirement which are not met currently, education is a prime example, or for example any specific content for a toddler. So we are constantly looking at areas of consumption patterns that are not necessarily met by the content available today.

Saurabh Dhoot: In terms of visual modes of content, naturally the television remains to be substantially the mode which is enjoyed by consumers in India today as we speak.

Abneesh Roy: But sir, all put together, is the 5% - 10% of the consumers now taking value added services or it is low single-digits, all services put together?

Saurabh Dhoot: There is no such thing as all services put together, it is the customer who has to pick and choose what services are required.

Abneesh Roy: That is my question, if I add all that, if the super set is adding every service, not getting into the money part, I am asking if total number of subscribers is x so is 5% of the subscriber taking our value added services or it is still a miniscule low single-digit?

Saurabh Dhoot: It would be double-digits.

Abneesh Roy: And sir, lastly you mentioned in the opening remarks a comment on rural electrification that is a new point I have heard. So if you could elaborate how big is the opportunity for DTH companies because of this?

Anil Khera: You see, there are many villages where the electric wires are there but the light supplies do not reach them and now as per the new program of the government, all these villages are getting electrified and we have seen a new trend of pay TV consumption coming up from these smaller cities. Also, this is giving boost to the consumer durable industry as well and also 24X7 supplies to urban areas will give a consumption boost to the pay TV operators like us.

Saurabh Dhoot: This is a good question because it is very relevant; you see there are many states such as Bihar, Uttar Pradesh, the east part of India, Madhya Pradesh. For example in Bihar the household's electricity penetration is still less than 25% for example. Now you can just really imagine the opportunity we are looking at over here once rural electrification really gains prominence.

Abneesh Roy: Sir, won`t those be already running on batteries and won’t such consumers first come to TV direct, so are you looking at this as more of a longer term, maybe three-four years in terms of opportunity?

Saurabh Dhoot: Well, naturally electrifying our country is a longer term initiative but the faster it catches momentum the faster it is for the market.

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

Gautami Desai: Sir, this is a question in comparison with cable, actually I have been following this industry, DTH and cables since a long time and as a matter of fact various explanation from industry leaders, the thing that confuses me the most is that why does cable attract much more carriage income then DTH in spite of the load now substantially going down. So would you like to throw some light on this?

Saurabh Dhoot: You are asking as to why cable… the nature of the industry is changing and once the nature of industry changes it is a gradual process which happens through digitization more and more coming forward. So if you see carriage per subscriber for cable, it appears to have come down over the course of digitization starting from Phase-II, Phase-III, especially Phase-III. So I think you are seeing progress on this front.

Gautami Desai: So sir is there a fundamental reason is what I am asking, like is there a fundamental reason and what is that reason is what I am being trying to find out?

Saurabh Dhoot: I think it is facilitation of change.

Rohit Jain: But what you are saying is pretty correct in a way, in a digital environment we are not sure what should be the difference of driver of carriage for DTH and cable. The government seems to sort of taking this agenda as well and if you look at the recent tariff order or the discussion government is having around tariff in bringing in commercial clarity and redefining the whole content regulation environment seems to be a step in the same direction. I am not sure we might have all the answer of the legacy system and the rationale for that, but we surely look forward to the agenda the government is driving to bring in more transparency and size into this.

Gautami Desai: Well, a lot of the carriage I believe comes from channels which do not pay them, so it is not a set off. So won't those channels even approach you and then want to pay a carriage for that?

Rohit Jain: Well, I guess you will have to probably ask some of these questions to a cable company, and maybe the broadcasters. But we very much welcome the move of the government and try to move in a regulation environment which has more transparency to it.

Gautami Desai: Yes. One of the schools of thought was that this carriage they get because they can actually identify the area within the city, where you get maximum carriage. So for DTH is it possible to say, like say in Mumbai a Malabar Hill or JVPD would attract much more carriage than the other areas. So for DTH is that possible that I have so many customers in this particular area?

Rohit Jain: We are an entirely technology driven transparent industry, we have entire data around our subscribers, their addresses, their details. So needless to say, we have whole lot of details of these kinds.

Gautami Desai: So it is not that somebody moving can just carry the dish and he could be at a completely different location whereas your system just shows the name and the address as he has previously registered? He has to give a change in the address?

Saurabh Dhoot: No, they contact us to relocate them which we do very clearly.

Gautami Desai: They have to do it right, I mean they just cannot pick up the dish and walk?

Saurabh Dhoot: They would like us to do it, we do it best.

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

Vikas Mantri: Just wanted to understand the growth dynamics in terms of subscriber additions, can you give us some quantitative or qualitative color on how is the growth in Phase-I, Phase-II versus Phase-III and Phase-IV? This is basically trying to model in and say that what the growth is still coming in from a mature or a rarely penetrated market like Phase-I and Phase-II.

Rohit Jain: So while we do not break it down, Vikas I think this sort of question you had asked last time as well. We do not break it down by phases but I think the good news is we continue to get growth in all the four phases and importantly from your modeling point of view we still get a very-very healthy growth from even Phase-I and Phase-II. Naturally, Phase-III and Phase-IV are big drivers of growth given the mandate of digitization. But we are seeing subscribers coming from all sort of buckets, we are seeing growth coming from the analog to digitization regime, we are seeing growth coming from digital markets in Phase-I and Phase-II, we are seeing new homes, first time buyers. So at this point the growth pattern is really being contributed from all the buckets.

Vikas Mantri: Can you just like-to-like qualitatively explain Phase-I over II the additions would have gone down or have remained vis-à-vis a year or two years back?

Rohit Jain: Well, it will boil down to the same thing of breaking it down, but nevertheless I think in the last one year at least we have seen the growth of Phase-I and Phase-II being pretty stable. I won't say there is any massive fundamental change in our Phase-I and Phase-II contribution to the growth that we have been getting in the last year.

Vikas Mantri: Another question is, sir we recently heard about Tata Sky switching off Zee Network channels from their network. Now whenever we encounter these issues between distributor and broadcaster it basically shows a sign of somebody trying to exert his dominance or strength, be it in this case either the broadcaster or the distributor. Now we have not seen Videocon do it very regularly, we see that, at least I would see that as a positive sign where a network is trying to put his dominance across. Your any thoughts on that?

Saurabh Dhoot: Well, we would not like to make any comment on a move by our competition.

Vikas Mantri: No, sir I am asking about you not getting into any of the states you should try to do that so that control your prospects.

Saurabh Dhoot: We continue to enjoy a very good relationship with all the broadcasters, so there is no need to do things like this.

Rohit Jain: And hopefully the same is reflected in the growth of your company over the last few years.

Moderator: Thank you. Our next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Firstly, what are your thoughts on industry consolidation? Like, for quite some time now we have had four strong players and two weak players, do you think the industry can consolidate, like there were news reports that Videocon has been in talks for like stocks for sell out. So what are your thoughts on that? And secondly on your debt level, so I understand that let's say around Rs.22 billion of debt and cash of Rs.6 billion, that is about Rs.15 billion - Rs.16 billion of net debt. So does that include the license fees, like potential license fees payout which could happen to the government, they give you the part of that. And if it is, what kind of numbers are we looking at? That’s it.

Anil Khera: So on the consolidation front in the sector, as in the past I have mentioned and explained, organically the sector continues to grow very robustly, more importantly over the last three four years we have seen automatic organic consolidation in the market, there were six players, today sizably in fact all the growth comes from top four players in the industry. So you have already seen organic consolidation happening in the market. On a standalone basis, we continue to have beautiful high double-digit growth and I see that continuing for quite some time. That said, I have also always said in the past, consolidation in the market further has its own merits and has strong industrial logic, but on a standalone basis we are reliant on superior operating performance of our Company which we have in the past and you also see the trends going forward in the future.

Rohit Jain: And with respect to your question around loan and cash, so if you look at the trend of the last few quarters, you will see your Company is gradually trending towards an operating leverage coming in the range of almost 1.5x, which most people would believe is a very-very healthy balance sheet today. This does not include the contingent viability on account of license fees, that amount could be another Rs.4 billion to Rs.5 billion. And in even taking such contingent liability into account, we are looking at a balance sheet trending towards less than two times leverage. Naturally, the license fees matter is sub-judice right now so it is difficult to say which way that will go. But under any sort of scenario we believe we are now having one of the strongest balance sheets.

Kunal Vora: When do you expect the licensee fees issue to get resolved, any timelines?

Rohit Jain: Well, it is difficult to speculate it on things that are outside of our control, so it is difficult to say.

Kunal Vora: Just one last question, your subscriber acquisition cost has gone up marginally this quarter, what are your thoughts on subscriber acquisition cost in the medium term? Is there a scope to lower that than this number, especially once our Phase-III and like maybe even Phase-IV is behind?

Rohit Jain: Well, again our subscriber acquisitions over the last couple of years have been very stable, sometime coming down marginally. The slight increase in this quarter is largely on account of higher seeding of high definition set-top boxes and some marginal impact of FOREX fluctuation as a component. But I think in the medium term, we expect the subscriber acquisition cost to remain stable or come down marginally, but by and large in the same range.

Saurabh Dhoot: I think from an overall perspective we are very happy and with regards to the return on capital employed per subscriber which we generate on this, I think it is very comfortable.

Rohit Jain: And obviously you have to look at this in the context of growth opportunity ahead.

Kunal Vora: But industry will continue to do subsidized boxes, is that the thought process?

Saurabh Dhoot: So other way of answering or repeating what I said just now is that there is the opportunity for growth in this business still remains fantastic, we are talking about very high double-digit growths adding a large number of subscribers in this country year-on-year for many years going forward. So with that in perspective, I am going to enjoy as many subscribers I can add on my platform and keep growing this, especially when the return on capital per subscriber I generate is so accretive.

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

Vivekanand S: I have two questions. One is with respect to HD, could you outline the steps that you and the industry are taking to improve HD penetration? And also run us through the current HD contribution to the new subscribers and your total base? That is one. And my second question pertains to the content deals where there are several regulatory changes in the offering, what is your take on the discussions that you have had with the regulator and how is the new policy or the new guideline going to shape, will it materially alter the way you have structured your deals with broadcasters? Thanks.

Rohit Jain: So I will take up the HD part. So in terms of increased uptake of HD, we continue to as a company focus on seeding more and more HD boxes, naturally in addition to carrying more and more HD content and a range of services for our subscriber. During the quarter, for almost 50% of the new customers we installed a high definition box, and again our domestic manufacturing advantages enable some of these things more efficiently for us. Also, some of these demand will also be correlated to the pickup in demand of LED TVs and high definition television, plus launch of channels in more genres like regional, kids and all. In terms of contribution for HD from what used to be 5% or 6% couple of years back is now slightly above 12% contribution in subscriber base. We do not breakdown the revenues but in terms of total base it is gaining good momentum over the last few years.

Anil Khera: As regards your question on the regulator is concerned about the regularizations of the content cost, you see the regulator is working towards making the transactions very transparent between the broadcasters and the various platforms in order to avoid any discriminatory pricing and non-transparent deals or any other benefit one platform is getting and other is not getting. They are working towards À la carte pricing which could be on the realistic mechanism and give a level playing field to all the distribution platforms. In short, broadcasters ask price for the content is likely to be standardized among all the digital distribution platform, it could be DTH or it could be digital cable and we are hoping that the regulator will balance out the interest both for the platform as well as for the broadcaster in a very transparent way.

Vivekanand S: Just a couple of follow-ups. So on HD you mentioned that half of your new subscribers are being seeded HD boxes, now what proportion of these customers are opting for HD services? Or is it so that all of them are being given or all of them are opting for HD trails?

Rohit Jain: Well, lot of the people who are opting for HD box depending upon quarter-to-quarter, the people who might opt for service could range from 40% to 60% of that contribution.

Vivekanand S: And sir, just a small follow-up on the content side. So if you are saying that the regulator is working towards leveling the playing field and realistic À la carte rates, does this mean that even if a DTH platform were to combine with another and say a new platform gets created with 25-30 million subscribers, will it mean that the content rates for the new platform will also be similar to the rates that you are getting now or would there be scope to have specific discounts on scale exceeding a certain limit?

Rohit Jain: Well, we will have to wait for the regulations to come out from the government. It is difficult to speculate, otherwise a hypothetical scenario.

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

Rohit Dokania: Just few quick questions from my side, could you talk about the potential loss in ARPU because of late recharges, how much could that be as a percentage?

Rohit Jain: Well, that percentage quarter-to-quarter could vary from 10% to 15%.

Rohit Dokania: The other one would be, you spoke about the alternate head-end for the disaster management, so would it add greatly to our fixed cost in this fiscal whenever this thing happens?

Rohit Jain: That is a P&L neutral expenditure, it is a capital expenditure, some of it has already been done in the last few years, some of it will happen in this year but it has no implications on the P&L.

Rohit Dokania: And the third one would be, could you just speak about how much percentages of our recharge is online currently?

Rohit Jain: Well, 100% of the recharge is e-recharge, I cannot break it by segments but really in terms of convenience to the customer all of it is really through convenient options of various e-recharges.

Rohit Dokania: So I was actually referring to let's say the Paytm's of the world and all that.

Rohit Jain: Yes, we term Paytm's of the world as e-recharge options and where e-recharge options come to 100%, we may not be able to break it down in to various segments of e-recharges currently.

Rohit Dokania: And lastly, could you talk about what percentage of revenue could you be deriving from Phase-I and Phase-II subscribers? Any rough percentages would also help.

Rohit Jain: Again, that is not a segment breakdown we do.

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

Amit Kumar: Sir, just a couple of questions at my end. One is that, I just wanted to understand the timing of the price hike, I understand it was driven by Videocon this time, I think March you took a price hike of over Rs.20 to Rs.30 across your packages. Now where I am really coming from is affordability of consumers in Phase-III and Phase-IV markets, our understanding is Phase-III just around Rs.200-odd kind of ARPU and Phase-IV even lower, I mean low single-digit or low triple-digit kind of ARPU number. While the pricing on DTH even at the basic package has gone to Rs.275, so just wanted to understand, I mean how do you sort of drive affordability for a Phase-III, Phase-IV consumer? And corollary if we see to that if you will, I mean do you really consider Phase-IV as a viable market given the current pricing scenario?

Anil Khera: To answer your questions, we have seen in last few months the cable pricing also moving up, so there was a room we have created for them to further go up, we went up to Rs.275. And during the year we have added lot of number of services for which we did not hike any pricing and also we had almost 2% of service tax hike during the year. And currently your questions on Phase-III, Phase-IV not able to afford Rs.275, if you look at our packaging we have also introduced customized packaging, specially to attract Phase-III, Phase-IV customers from free-dish or from analog cable to suit their requirement. And this kind of packaging has definitely had very low loading on the content cost and good margin for us. Right now we are signing up as many customers as possible from Phase-III, Phase-IV in order to have the new acquisition. And given the good margins is a good thing for the Company.

Amit Kumar: Sir, just two small points on that. One is that, I mean as I understand it the pricing on cable sort of still remains at a significant, I am saying even before the Rs.20 - Rs.30 price hike even at a base pack of Rs.250 cable is probably still below Rs.200 as far as Phase-III markets were concerned. So the price premium was already there, so you had sort of adding on to that adding another 8% to 10% on that price premium, even how is your existing consumer reacting? That's one. The second is, I know there is a special package that you sort of mentioned which is I think the free to air basic package and plus consumers get an add on packages to that, out of your incremental subscriber base what is the kind of contribution which is coming from these kind of packages?

Anil Khera: we are definitely attracting some analog customer and customer who is graduating from free dish to a pay TV, 99+ customer. But the new customers are very few but choice is available and also it is very convenient for a regional customer who wants 99+ only renewal pack sufficient for him, for him we are able to retain him by giving him a customized package for him. So although there is availability, but ultimately customer continues to pay high ARPU, more than Rs.200.

Rohit Jain: Also I think the Company fundamentally believes that the intrinsic value of what we are providing is far greater than what we are charging. And over a period of time I think the industry would try and continue to put effort in correcting that.

Saurabh Dhoot: The behavior of our customers enforces this view again.

Amit Kumar: Would it be possible for you to quantify how much of the incremental subscribers are taking that 99+ customer add on packages?

Rohit Jain: Well, we do not break it down in to segments, but it is not a material number at this point of times.

Amit Kumar: Just a quick follow-upon the content cost bit, when we look at some of your peer companies, when we sort of analyze their P&L, any content cost is sub-30% of the total revenues while it is almost 36% for the Company. So just to say, I mean there could be gaps because of differences in terms of timing etc, etc but here we are looking at a gap which is almost 600-odd basis points, very high and sort of then filters down to your EBITDA margins. I mean anything that you would want to comment or call out on that?

Rohit Jain: Well, while it is difficult to comment on any competitor but generally speaking when we hear of such data, I think we are made to believe that it could be contributed to differential growth rates, it could be a contribution of having a different level of subscribers overall and more importantly in high definition, it could be a contribution of having different revenue streams which might not be like-to-like, it could be due to with renewal cycles of content. So there are many variables that sort of go into such differences. And our sense is that, this is something that you should look at over a period of two to three years to get a better sense. And then of course, there will be elements of normalization that you as analyst would be able to do better, but I think what we are excited about is overall growth of the Company in terms of profitability, margins, as we saw our margins have now gone up to almost 31% level and that is what we continue to focus on.

Amit Kumar: Sir, you sort of mentioned that over a two to three-year period you sort of expect this to normalize a bit, would it be possible for you to give us some sort of broad sense, we have seen a 100 basis points decline in terms of your content cost as a percentage of revenue, would you expect this sort of trajectory to continue over the next two to three years and probably get down to, if not a 30% then probably a 32% - 33% kind of benchmark?

Rohit Jain: Well, at this point we have a good visibility of fiscal 2017, it is difficult for me to comment on years later than that but naturally if you see the last two years you would see some margin expansion has happened on account of content, we would have probably seen more of margin expansion in fiscal 2016 had it not been for some of the tax increases. But I think within fiscal 2017 we should see some more decline in content cost, you have already seen a very good ratio improvement in the Q1 results. And that is why we should continue to see at least in terms of overall trends, I think towards the end of fiscal 2015 we were at, if I remember correctly, around 38.5%, so from 38.5% in five quarters we are now down to about 36%, that is certainly displaying the operating leverage of the business and our visibility on the content cost and the way agreements are structured. And at least in terms of overall trend, that is why you see the numbers come in.

Moderator: Thank you. Our next question is from the line of Arjun Khanna from Kotak Mutual fund. Please go ahead.

Arjun Khanna: Sir, just a clarification, you mentioned license fees contingency was roughly Rs.400 crores to Rs.500 crores, if you could breakup between the principle and the interest component?

Rohit Jain: Sorry, could you repeat that question?

Arjun Khanna: You had stated that the contingent license fees payable to the government were in the region of Rs.400 crores to Rs.500 crores. If you could break up how much of this is principle repayment and how much is the interest on it?

Rohit Jain: Well, I cannot break it up for you, but it has been calculated as per the provisions of the government around the contingent liability and the license fees.

Arjun Khanna: Secondly, the government has been talking of the TRAI recommendations of 8% AGR, but they have also mentioned that for that all dues need to be paid. So what is our stand on that and how do we see that going forward?

Rohit Jain: Again, it is very difficult for us to speculate, we are eagerly waiting for guidelines of the government to come. I guess we will be in a better position to assess some of these things when we are in actual fine print on these things. At this point most of this is really market speculation.

Arjun Khanna: Secondly sir, in terms of the HD boxes, you mentioned 12% of our subscribers are using HD, what percentage of our universe would the boxes be seeded?

Rohit Jain: Well, that number would be somewhere in the range of 30% to 40%.

Arjun Khanna: So, of the 40% we have 12% actually using?

Rohit Jain: Yes, out of the 30- 40% we have about 12% who are using the services on a regular basis, and of course there is a moving population that keeps sampling on various events and all of that. Having a larger base allows us to give the opportunity to more customers to sample content.

Arjun Khanna: And what would be the churn rates in this, sir?

Rohit Jain: Well, right now the churn rates what we put out in the public are for the company, we do not do the breakdowns on these things.

Anil Khera: Just to clarify on high definition boxes, the universe which has been put in just now, people continue to enjoy standard definition services and from time to time like world cup season or football season, they sample the high definition and come back to standard definition. They continue to be as active subscribers.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. On behalf of Videocon d2h Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.