"Videocon D2H Limited Q3FY2017 Earnings Conference Call"

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EDITED TRANSCRIPT

MANAGEMENT: **MR. SAURABH DHOOT – EXECUTIVE CHAIRMAN**
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Moderator: Ladies and gentlemen good day and welcome to the Videocon D2H Limited Q3 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. In case 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 Ms. Nupur Agarwal. Thank you and over to you ma'am.

Nupur Agarwal: Thank you. Welcome to Videocon D2H's fiscal 2017 Quarter 3 results conference call. We have with us our senior management of the company represented by Mr. Saurabh Dhoot – Executive Chairman, Mr. Anil Khera – CEO, Mr. Rohit Jain – Deputy CEO and Mr. Avanti Kanthaliya – CFO. I now hand over the call to Mr. Dhoot for his initial comments.

Saurabh Dhoot: Thank you everyone for joining our results call for the quarter ended December 31st 2016. And on behalf of our board members and the management team I wish you and welcome you beginning of 2017 and wishing you a happy and prosperous one at that. Starting with the quick summary of our results for the quarter, I'm delighted to report that we have delivered a strong quarter despite the moderation naturally there in the market due to currency demonetization during the quarter. Our adjusted EBITDA grew over 33% year-on-year in line with our guidance which is a great performance and clearly demonstrates the strength of our distribution network, our captive customer service network and of course excellent execution by management team. Revenue from operations came in at INR 7.8 billion, on a like to like basis adjusting for change in accounting treatment of entertainment tax which we started after first quarter, revenue from operations would have come in at Rs. 8.35 billion that's 14.2% up year-on-year. Subscription activation revenues came in at Rs. 7.11 billion adjusted EBITDA grew 33.2% year-on-year to Rs. 2.67 billion in line with our guidance. Adjusted EBITDA margins came in at 34.4% during the quarter that's 460 basis points growth on a like to like basis. We achieved a profit after tax for INR 218 million and we had free cash flows of INR 514 million in the third quarter. Demonetization has impacted our net subscriber's addition during the quarter and net subscribers increased by 250,000 totaling to 12.77 million.

During the quarter starting November our honorable Prime Minister announced demonetization of all INR 500 and INR 1000 currency notes which constitutes basically 86% of the value of currency in circulation in the country. Of course, subsequently the entire process also required cash withdrawal limit etc. during the entire phase of changing over which lasted till 30th of December. Naturally we believe demonetization is a great move and in the long run we will have many-many benefits for the entire country especially ushering in digital cashless era for transaction.

Though of course an exercise of this scale is unprecedented and was expected to lead to temporary shortage of cash availability and of course leaving the consumers holding on to cash for essentials delaying their buying decisions where it is not supercritical. There were other priority items which became top of the mind for the customer and this had a short-term impact across industries. It affected our new subscriber acquisitions of course as it was hard to get that much cash for few weeks' post demonetization especially in Phase 3, Phase 4 areas.

It also impacted B2B revenue streams like advertising and carriage, also recharges were also impacted for the first few weeks. People recharged in smaller denomination for example. But having said that of course this is a temporary issue and we are beginning to see normalcy and demand return in the situation very well. In fact the business would be absolutely back to normal with the entire new currency coming in sufficient circulation and the impact for any business cannot be more than one or two quarters depending on the cash circulation absorption to digital payment mediums and so will the B2B revenue stream follow immediately once the B2C revenue streams come in place.

So clearly I would like to highlight here what is important over here is that and what is clear from our results that we have worked very well with regard minimizing the impact of demonetization, minimizing the impact to our customers, our retailers and the entire supply chain and I think we have worked very well with all our partners in achieving a very good optimum results with no disruption to our customers. And I think we are very confident of the clear business fundamentals ahead of us with regards a very strong subscriber and revenue growth outlook.

Of course as you all know we announced the scheme of arrangement for the amalgamation of Videocon D2H into Dish TV. We are seriously evaluating our GDR listing on the London Stock Exchange as an alternative to the earlier announced GDR program in Luxembourg. This is keeping in mind feedback from all our shareholders, both the companies are in favor of GDR in London and we are studying legalities in the process of making it happen. We have applied already for an approval from the Competition Commission of India and we expect an update and we are hopeful of concluding the deal by the September-October 2017. We are extremely excited about the deal and the long-term benefits of the complementary skill sets which the two companies bring to the table. I think we can create a powerful service offering for our customers, which will create sustainable shareholder value for all our investors and all the stakeholders involved with the company.

Coming onto guidance; with the moderation out there through demonetization we expect net subscriber additions of 250,000 in the fourth quarter. We expect EBITDA to come in at INR 2.7 billion in the fourth quarter. Now before I hand over the call to Mr. Khera, who will take us through an industry and business update, I would like to again reiterate how excited and fully prepared we are all to seize the growth opportunity in the fastest growing Pay-TV market in the world through a leading distribution network, a strong customer service focus, a differentiated content offering, our launches and technology and apps in the new digital age and all of this supported by very healthy strong balance sheet and free cash flows. I think with this and the proposed merger we are really so excited about the growth outlook of the company.

Anil Khera: Thank you Mr. Saurabh. An important development during the quarter was with regard to Phase 3 and Phase 4 digitization. In November 2016, the Delhi High Court cleared all the stay orders, an order to switch off of analog signals in Phase 3 digitization area. The Ministry of information and broadcasting provided an additional time for the remaining analog cable subscribers in Phase 3 areas to switch to digital platform by 31st January, 2017. It was also made clear that no further extension would be allowed. Additionally, the deadline of Phase 4 digitization has moved forward to 31st March 2017. We believe Phase 4 is a huge opportunity ahead of the industry and there would be over 40 million analog cable homes covered in this area. This ensures that DTH industry will continue to grow its subscriber base for many more years to come.

In line with our strategy of content, localization and premiumization during the quarter, we have launched two regional value added services. These are D2h Mauja for Punjabi viewers from North India and D2h Rangilu for Gujarati viewers in Western India. We also continue to strengthen our High-Definition offering on our platform. We now offer more than 600 channels and services including 60 High Definition channels and services. We're also happy to share that driven by our manufacturing cost advantage we have now started installing High Definition enabled set-top boxes in all our new subscriber acquisition. This will help promote our high-definition offering and enhance our ability to upgrade subscriber from standard definition into high definition in future. To do so we offer high definition add-on on various genre making it possible for our subscriber to sample the content in smaller quantities instead of upgrading to full high definition packs all the time. This enables of a wider range of customer to sample high definition content.

Taking demonetization as a trigger we have launched education and awareness campaign on several fronts with our subscriber base. Some like, method and ease of recharging through e-method and e-wallets encourage customers to recharge their account for full package value instead of recharging part amount or a lower round figure encourage the customer to recharge on time before the next recharge due date and is while they are in active mode, encourage customer to offer a long-term recharge. We believe all this will help reduced suspension of customer and win back churn customers, additionally to increase penetration of high definition by introducing small sachet pack high-definition channels.

Talking about tariff order, during the quarter a draft tariff order released by TRAI was challenged by one of the broadcasters. We await more clarity on tariff order from High Court. As seen in the regulatory processes in India these things evolve over a period of time. This tariff order is still in draft stage and mainly this tariff order talks about ceiling of channel pricing from broadcasters to platform and from platforms to the customer. It also talks about regularization of high-definition channels from broadcasters to platform and to the customer. It also talks about various bouquets to be offered from the broadcasters' side to the platforms, a platform like DTH and cable and bouquets which can be tailor made by the platforms to the customer.

Additionally we have talked about GST and its benefit many times in the past. News flow suggests that implementation starting April 2017 looks difficult. And that the Finance Minister has clarified that GST can be implemented from any date not only from the beginning of the financial year. We expect some clarity on GST and the union budget which we are expecting tomorrow and look forward to hearing the Finance Minister on GST rates, implementation and timeline in his budget speech tomorrow.

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

Rohit Jain: We will be happy to share the details of the results for December quarter. During the quarter as mentioned earlier demonetization adversely impacted in gross subscriber addition, subscription recharges, advertising and carriage revenue. In spite of that the total revenue came in at INR 7.77 billion comprising of subscription and activation at INR 7.11 billion, carriage revenue at INR 277 million and Ad revenue at INR 71 million. While the new currency circulation is picking up and business is coming back to normal we think that the impact of demonetization would be partly felt in Q4 as well specially with respect to the B2B revenue stream such as advertising and carriage revenue. Adjusted EBITDA grew 33.2% year-on-year to INR 2.67 billion, margin came in at 34.4% for the quarter. On a like-to-like basis adjusting for change in accounting treatment for entertainment tax, EBITDA margin would have been 32% which is 460 basis points growth over last year. Content cost came in at 39.6% largely as a result of impact of demonetization on revenue. Fixed cost as a percentage came in at 13.9%.

We reported for the quarter net profit of INR 218 million as compared to loss of INR 220 million during the same quarter last year. ARPU which is now reported on total revenue came in at INR 205 again this was a factor that has some impact of demonetization on account of higher suspensions by customers. However, we are quite happy that our overall churn is in control. We are not losing customers. The monthly churn rate for the last nine months has been 0.78% compared to 0.8% last year. Hardware subsidies came in at INR 1924 per subscriber. CAPEX for Q3 was INR 1.51 billion and adjusted EBITDA less CAPEX came in at INR 1.15 billion for the quarter. As of December 31st we had term loans of INR 18.29 billion and cash in short-term investments of INR 3.82 billion.

In end in summary we delivered EBITDA of INR 2.67 billion largely in line with the guidance, for the Q4 we are guiding INR 2.7 billion of EBITDA and net subscriber addition of 250,000. With this we are happy to open the floor for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Jay Li from Trafelet & Company. Please go ahead.

Jay Li: I just wanted on the annual cost I notice that your overall operating cost are relatively flat relative to Q2 but your content cost went up so I was just wondering what are the areas of the operating cost where you able to reduce?

Rohit Jain: In the Quarter 3 there is some amount of marketing, sales and distribution cost that have come down, since we have the impact of subscriber addition during the quarter some of that has come down.

Jay Li: So as the impact of demonetization starts to fade you would expect some of those expenses to move back?

Rohit Jain: Yes and those expenses will move in line with the growth, largely speaking minor variations apart, I think the cost has been fairly stable over the year. I think the variation in that is fairly minimal of upwards or downwards.

Saurabh Dhoot: The only thing additionally which favors those kinds of costs whether it's sales, distribution, advertising, marketing, on an absolute basis they have been pretty stable over the years and so what benefit to enjoy over them is the economies of scale of our higher revenue and our higher subscriber base.

Moderator: We have the next question from the line of Randy Barron from Pinnacle Associates. Please go ahead.

Randy Barron: Can you summarize the feedback that you received over your conversations with investors related to the new co-deal structure and the GDR in particular. I am curious why you are considering London versus Luxembourg any other market.

Saurabh Dhoot: If you could be more specific I could be more helpful with the answer. But I would say that the focus with regards London versus Luxembourg is more to do with logistics of our current shareholders and their transition to holding the stock through a depository.

Rohit Jain: I think some of this is probably slightly more to do with experience of various markets with trading patterns. The feedback that we got from a lot of our investors was, historically US investors have been more used to dealing with London Exchange and London GDR. I think Asian and Indian companies tend to have more experience dealing with Luxembourg. From the company point of view technically there isn't really any difference between the two. But given the higher comfort levels of the investor base in our case which is more centric around US and there are some finer nuances in that. Some of them have issues in terms of their back end supporting London over Luxembourg slightly better. So, all of those things I think those are the feedbacks that we have received.

Moderator: Thank you. Ladies and gentlemen that was our last question. On behalf of Videocon D2H Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.