"Videocon d2h Q2 FY 2016 Earnings Conference Call"

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**Moderator:** Good day ladies and gentlemen, good day and welcome to Videocon d2h Q2 FY 2016 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the 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. Vikash Mantri from ICICI Securities. Thank you and over to you Sir!

**Vikash Mantri:** Good morning everybody. We at ICICI Securities pleased to host the Q2 FY 2016 results conference call of Videocon D2H. We have the senior management of the company with us represented by Saurabh Dhoot, the Executive Chairman, Mr. Anil Khera, the CEO, Rohit Jain, the Deputy CEO, Avanti Kanthaliya, the CFO and Nupur Agarwal, who heads the investor relation. Over to you Sir for initial remarks!

**Saurabh Dhoot:** Thank you all for joining the call. Thanks Vikas for hosting a call today. Our board members, management team and I welcome you all on a results call for the quarter ended September 2015. I am happy to report that in the second quarter of fiscal 2016, we continued to successfully execute on the plan which we had previously shared with you. Specifically we have achieved an EBITDA growth of over 30% in the first half of the current fiscal year over last year. This is against a guidance of 25 to 30% growth. While we are pleased with the results in the context of Q2 being a seasonally slow quarter, we are particularly excited about the uptick we are seeing in October so far and we are on track to deliver even stronger growth in the second half of this year in line with the guidance shared earlier.

For the quarter, we achieved the following. Q2 FY 2016 subscription and activation revenue grow almost 25% year-on-year to INR6.29 billion. Total revenue from operations grew 20.3% year-on-year to INR6.90 billion, adjusted EBITDA grew 32.3% year-on-year to INR1.91 billion, adjusted EBITDA margin expanded by 250-basis points year-on-year to 27.7%. ARPU grew 7.9% year-on-year to INR205, gross and net subscribers increased by almost 0.6 million and 0.2 million subscribers respectively during the quarter. Net loss for the quarter came in at INR24.6 million which is a 60% improvement over Q2 FY 2015.

Effective September first 2015, we had raised package prices by Rs.12 to Rs.23 on different pack level. We believe the effect of this will be visible in Q3 FY 2016 ARPU as we continue to track towards the annual guidance. We believe ARPU should continue to grow led by package price increases, improving HD mix and value added services. We clearly speak cable companies are also raising prices for the digital offering as analog cable is switched off and a carriage revenues for them continue to come under pressure. More than 30% of new subscribers continue to take HD packages which are clearly very encouraging.

Subscriber growth remains very strong for pay TV in India. We have added an incremental 1.2 million subscribers during the first half of this fiscal. We have consolidated our leadership position with the highest incremental market share in the industry as we have continued to do that in the past four years and we are on track to achieve the overall growth trends laid out by us. We expect years of organic growth ahead of us which digital subscriber based doubling from the current 18 million homes in the next five years in India partly driven by the Indian government digitization mandate for 70 million analog homes as well as let us say around 25-30 million new pay TV homes which will be created as a result of the strong growth of the Indian economy.

This is the unique 100 million connections opportunity for digital pay TV in the coming five years unlike any where else in the world unique to India. Many analysts forecast more than 10 million new DTH homes per year for the foreseeable future. DTH already having more than 70% of the digital pay TV homes in phase III and around 95% of the digital pay TV homes in phase IV makes our industry quite exciting and Videocon D2H expects to continue to lead the market in terms of net additions as we have done again over the last four years consistently.

I will talk about some of the new initiatives which we have been planning the next few quarters. New channel service launches we believe are higher bandwidth and focused to offer more and more regional channels has been one of our key competitive advantages to further strengthen such channel offering, we continue to add more and more regional channels to our platform. Improving our HD channel offering has been a clear focus area for us given a technological edge. Your company continues to add more and more proprietary services for our customer base. We are pleased to announce that we have launched our proprietary Hollywood HD service with close to 300 blockbuster movies. This is exclusively for a subscriber base and a subscription driven service. This we expect to gain traction coming quarters like our successful Bollywood subscription service. Your company also launched a devotional service recently called Dharsan which is also driven by subscription.

So to sum up in the past six months we have added five proprietary services including the recently launched Hollywood HD and a devotional service, 27 new standard definition channels operated by the broadcasters, 8 new high definition channels operated by broadcasters. We plan to even strengthen our 4K content offering. We are one of the only two who have a 4K offering in the market. With this intention we have been identifying content for our 4K service and have some success in this front in the past quarter.

We believe the 4K service gives us the unique marketing position to attract the up market and high end customer. Our 4K channel will continue to be a multi genre pie which wills premier leading Hollywood and Bollywood films, showcase live event such as FIFA, Cricket World Cup and also breathtaking lifestyle infotainment content. We also have a focus on TV everywhere in OTT. As we have shared earlier we rolled our TV everywhere services for our subscribers. We are continuing to strengthen this offering in line with our overall focus on OTT market space in India. We intend to strengthen our TV everywhere service offering in two ways. We currently offer around 90 channels in the past few quarters we have been securing digital rights for the content wherever possible. We now plan to add more channels with this.

We also planned to build a VOD library around films and kids related content for our mobile app. This will again be exclusively offered to our existing subscriber base only. On an overall perspective the active engagement on various platforms is currently very low in India with regards OTT. Clearly poor broadband infrastructure, high data cost being multiple times higher than what pay TV cost are clear challenges to OTT which is not the case for developed world.

Particularly we also believe this will gradually improve in the medium-to-long term through wireless technology also given Indian OTT market space is expected to be dominated by consumption on smart phones, TV everywhere and other OTT services will have an interesting business model in future but overtime. We are monitoring this space closely and will plan our moves accordingly.

I am pleased to share that our ad sales team is gaining traction ahead of our expectations and many marquee brands have started advertising with us. This includes Pepsi, Unilever, Facebook, Volkswagon, Skoda and many more. We believe this is the effect of having a strong network of 50 to 60 million eyeballs on a daily basis and this continues to grow even further.

Moving on to guidance for the current fiscal year, we reiterate our EBITDA guidance of at least Rs.8.2 billion for the current fiscal year ended March 2016 with guidance increasing up to Rs.8.6 billion if digitization proceeds on a faster side of expectation. This range has provided previously is based on various estimates for timing and pace of digitization. This range represents approximately a 40% to 45% EBITDA growth over H2 compared to last year H2.

We reiterate our prior guidance and ARPU growth and second half subscriber growth exceeding the first half regardless of timing and pace of digitization. We continue to expect that we lead the DTH industry in terms of incremental growth as we have been has been the case in the previous several years.

I am also delighted to announce the shareholder approval for the appointment of Mrs. Geetanjali Kirloskar on our boards subjective to regulatory approvals. We really welcome her and she comes with immense knowledge and experience in the fields of advertising branding and media.

I believe the vast experiences of her bring our table of great advantage to the company. We are hosting a group investor update and reception on Thursday October 29, 2015 in New York. I request you to please register for the event on our website or let our investors been know if you can attend this in person. I really look forward to meeting some of you all at the event on that day in New York.

Thank you so much. I hand over the call to our CEO Mr. Khera for a business update.

**Anil Khera:** Thank you Mr. Saurabh Dhoot. I just take into few transition processes. According to our internal estimates there are 130 million TV homes under phase III and phase IV digitization. Out of this 130 million 40 million homes are already on DTH platforms and around 8 million on digital cable. There are nearly 70 million analog homes and 12 million government free dish. Over and above this we estimate where there are an additional 25 to 30 million new TV homes that would get added in the next four to five years. This leads to a target market of 100 Million subscribers and that would subscribe to digital platform in next four to five years.

Now if we look at phase III digitization alone the deadline for this is December 31, 2015. We believe there are around 50 million homes that come under phase III digitization of this 50 million homes around 25 million TV homes are already on digital platform so about half the homes with phase III have already moved to a digital platform which makes migration for the rest of the market easier with this critical market place already.

This includes 17 million homes that are all DTH platforms are almost 70% on digital migration today. So that leaves the target analog homes of around 25 to 26 million that comes under phase III digitization. We believe DTH industry should continue to gauge substantial market share and phase III digitization covered areas.

We continue to see positive approach and intent from government towards digitization agenda. A top most for the earlier setup monitoring progress of digitization, in my regular interaction with various operative in my capacity of Videocon B2C or as well as DTH Association President, I feel positive about traction so far. As a deadline phase III the digitization is approaching a very constructive step is the joint awareness campaign that has been started by the broadcasters in the past few weeks. This advertisement about digitization is running on top channels in India. We believe this is a significant positive development and we are excited and fully prepared to benefit from this one time subscriber land rate.

I am also happy to share that Q3 has been a terrific start in terms of subscriber addition having said this we continue to believe this would be a process that is the implementation is likely to happen in the phased manner. We are sufficiently geared up in terms of inventory to cater immediate spurt in demand as the digitization deadline approaches. We currently having well over one million set top box in inventory and can source an additional one million set top box on very short notice from our vendors given a domestic manufacturing. While the deadline is another year away, there is already substantial migration to digital platform for phase IV with over 95% or 23 million homes go into DTH voluntarily.

I would also like to talk about two key marketing initiatives that we have started. We have extended our Rs.99 pack to all India which was earlier available only in the regional language driven market in nine states. Effective October 13, 2015 this pack offers around 143 to air channels. In order to target subscriber in areas those come under phase III and phase IV where analog cable is very, very cheap we have tailor-made packages so as to enable consumer to switch analog cable to DTH network. We are also targeting the consumers that are currently on the government free dish services.

The intention of launching this pack is to expand the market organically. This pack targets first time DTH users to sample our services given the limited content provided in this pack gross margins in these packs are very healthy. The idea is to acquire customer at a lower entry pack and let us offer them pay channel as part of upgrade or add on pack. For example we are also providing an additional pack of Rs.86 over and above Rs.99 which offers 14 Hindi entertainment channels and pay channels in regional language of their choice. This will enable us to expand the footprint in phase III and phase IV market. We are now focusing on upgrading our existing customer to high definition especially higher end standard definition customer to high definition.

We expect to see good result out of this in the coming quarters. I would like to reiterate that this marketing initiative will not be a margin dilutive in our view. With this I now hand over call to Mr. Rohit for a financial updates.

**Rohit Jain:** Thank you so much. I am pleased to share our results for the quarter in detail. The total revenue grew 20.3% year-on-year to Rs.6.9 billion. Subscription and activation revenue grew 24.6% year-on-year to 6.29 billion. Carriage revenue grew 33% year-on-year to 196 million. Ad revenue came in at Rs.109 million as against 14 million in the base quarter and balance 306 million is the other revenue.

Adjusted EBITDA grew 32.3% year-on-year to 1.91 billion. This is after adjusting for ESOP expenses to the tune of 29.44 million. I am happy to share that H1 EBITDA grew 30.3% year-on-year. This is slightly ahead of guidance of 25% to 30% growth. Adjusted EBITDA of margin expanded 250 basis points year-on-year to 27.7% for the quarter, this is despite the higher content cost in the base quarter.

Fixed cost as a percentage of revenue declined from 17.6% in Q2 of the fiscal 15 to 15.6% in this quarter. Net loss came in at 246 million. This is a significant 60% improvement over the same quarter last year. We have added 0.57 million gross subscribers and 0.2 million net subscribers in this quarter. We closed the quarter with the total of 14.27 million gross hubs and 10.84 million net hubs. Churn for the quarter was 1.19% given the impact of seasonality with H1 churn level at 0.84%, we remain in line with our estimate of approximately 10% churn for the full year.

Hardware subsidy declined to 1775 per subscriber during the quarter. With this our subsidy has come down by almost Rs.100 in this current fiscal year which is in line with the guidance base provided at the beginning of the year. The capex for the Q2 was Rs.2.46 million. This is primarily relating to the set top boxes. Capex was relatively high in this quarter as we are building up the set top box inventory ahead of the festive season and digitization phase III.

As of September 30 we had a gross debt of 24.86 billion and total cash and short-term investments of 8.75 billion. Net debt essentially remained flat at the levels of Q1. As we shared in a last call during the quarter, the condition for the first half performance driven earn out was met as a result 7.19 million ADS and ADS equivalent will be issued to the founder and silver eagle sponsor taking up our total ADS count to 105.44 million. We have received the shareholder approval for the same. This is now pending the MIB approval for the final process to be accomplished.

With this we finish our opening remarks and open the floor for questions.

**Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

**Jai Doshi:** Good morning and thanks for the opportunity. This question is around the 25-26 million opportunity that you are seeing for phase III now when we look at MIB numbers they are sort of indicated that the TV households for phase III is about 38 million and the number that you are suggesting is something that even some of your peers have been talking about, just wanted to understand if you have been able to figure out where is the gap and what is the disconnect between MIB number and your estimates?

**Rohit Jain:** The MIB estimates the figures which they have published is as per the sensex report 2011 and after that the consumer electronic industry has added many TV homes so we have taken that into account and also the multiple television ownership we have taken that also into account and that is how our figures are slightly more brighter than what is announced by the MIB.

**Jai Doshi:** Right, so according to your estimates its about 50 million pay TV homes in phase III markets?

**Rohit Jain:** Very true.

**Jai Doshi:** Of which I think you mentioned 25 are already digital, which would largely be DTH, is that correct?

**Rohit Jain:** DTH as well as digital cable, out of which 17 millions are DTH and around 8 million are digital cable.

**Jai Doshi:** Understand. But this is purely phase III and not the contiguous areas which technically may fall under phase IV but are you factoring in that as well?

**Rohit Jain:** We have factored in only phase III, only phase III towns which list has been published by the MIB.

**Jai Doshi:** Thank you and one more question, your net subscriber additions in this quarter are a little tad weaker than what you sort of been delivering for the past few quarters, so just want to understand that this is the sort of industry phenomenon or may be specific to you and how do you see the overall market? I am aware that gross subscriber relations are somewhat similar to the previous quarter?

**Rohit Jain:** The net addition for H1 is 0.66 million have been a bit lower than the historical trend but this has the factor of seasonality build into this. But with the festive season ahead of us a rich cricket calendar which has the World Cup T20 taking place in India and obviously the big digitization phase III opportunity, we expect the second half of the year to be very strong. Our expectation is Q3 also given the kind of charge we have seen in October is likely to be much stronger than the historical numbers. Overall we remain on track for a strong ethical growth of almost 40% for H2.

**Jai Doshi:** Thank you so much and all the best for the coming quarters.

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

**Yogesh Kirve:** Thanks for the opportunity. I wanted to ask our content cost has increased quite sharply in FY 2015 and also in the first half of this year and also if we look at in absolute terms of our content cost seems to be quite higher than the listed peer, so any comments on that and when could we see the increase in the content cost to taper off, as I am sure there will be lot of the fixed cost deal with the broadcasters as well?

**Rohit Jain:** So we have guided for approximately 37% content cost for the year as against 38.4% last year. If we look at H1 our content cost for H1 has been 37.6%. If you also look at the historical numbers you would realize much of our renegotiations as well as anniversaries tend to fall in the H1 which means in the H2, we should get some extra additional leverage. So we are reasonably on track for the 37% guidance that we have given for the year. There is no reason for us to believe otherwise. With respect to competition it is difficult to compare each of us has different cycles of renegotiation. We believe over a period of two three years generally we all tend to kind of average out in similar range.

**Yogesh Kirve:** Sir can you also comment I mean what percentage of our deals are on cost per subscriber basis and what percentage are on fixed deal basis just some broad indications?

**Rohit Jain:** This is something we have shared in our earlier calls as well. We have a reasonably similar proportion split between the two.

**Yogesh Kirve:** Just finally regarding the churn you have already made few comments on that, wanted to check was there any sort of write off, one of sort of write off of inactive subscriber base or any such thing which impacted churn during this quarter?

**Rohit Jain:** Not at all. There is been no such activity, this is largely in line with the seasonality that we see.

**Yogesh Kirve:** That is all from me and all the best.

**Moderator:** Thank you. Next question is from the line of Vivekanad Subbaraman from Ambit Capital. Please go ahead.

**Vivekanad Subbaraman:** Thanks for the call. I wanted some comment on D2H market size in India particularly in the context of the offering that you are proposing any estimates on the size of the DD Free Dish market and the opportunity there? That is one. Secondly with respect to the content are there any major pending now or are we with the negotiation? Thanks.

**Saurabh Dhoot:** There is no authentic figure of free-to-air subscriber base but there is an estimate from the ministry that anywhere around 12 to 15 million customer base could be there for government free-to-dish DTH service. Mostly these subscribers come first on free-to-air then they switch to pay TV after experiencing for six months or one year so the subscriber base keep fluctuating but there is no way actually to track down.

**Vivekanad Subbaraman:** Second one was on the content deals, are there any major dips?

**Rohit Jain:** We do not have any major renewals coming up any time.

**Vivekanad Subbaraman:** Thanks.

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

**Rohit Dokania:** Good morning and thank you for the opportunity. I just had a few questions. One was on your content cost side, there appears to be almost a 7% increase on a sequential basis so could you please explain what relates to that?

**Rohit Jain:** Well this is in line with some of the anniversaries of the piece falling in place during the quarter.

**Rohit Dokania:** Also can you, if you could throw some light on do you see any competition coming from the hits platform which probably you guys are trying to launch or have already launched?

**Saurabh Dhoot:** You see hits platform actually have not been able to rollout their services yet and we are yet to see how they roll out and what is their content quality and what is their rough share between LCO and themselves; they are still struggling to get the content from all the broadcasters so far, there have not been able to sign with all the broadcasters.

**Rohit Dokania:** Was there any impact of forex in this particular quarter because of the movement in the Rupee Dollar rate, any significant impact which is worth mentioning?

**Anil Khera:** Given we have domestic manufacturing capability we do not have much of a dollar impact on the P&L as well as balance sheet.

**Rohit Dokania:** Just one or two more questions. One was I think the first of ARPU is almost in the range of 205 whereas I think the full year guidance is 215 so which means the second half ARPU should be closer to 225 so are we confident on that particular numbers given the fact that probably it could take a while before the new prices are affected over the company?

**Anil Khera:** So if you see in the H1 we have already achieved about 5% ARPU improvement over FY 2015 and we have recently done a 4% to 5% price increase this should reflect into the coming quarter largely in the Q3 as well. We expect this to give a strong uplift to the ARPU as well. Also with the upcoming festival period and the Cricket World Cup as we spoke about we also expect improvement and strengthening of the subscriber mix. On all of this account, I think we remain on track for a healthy ARPU growth. At the end of the day I think we are looking at all primary drivers of EBITDA and not just ARPU, we are looking at net of ARPU margins all of this and with the kind of start we have seen for H2 in all the parameters, I think the overall end some in terms of the EBITDA guidance remains to be on track.

**Rohit Dokania:** Just one last question, if I look at the revenue which you get x of subscription activation carriage and also ad revenue there appears to be a sharp decline on a year-on-year basis, I think from almost 52-odd Crores fallen into 30-odd Crores so I was just wondering if there any rental accounting change or what exactly is leading to the sharp decline?

**Anil Khera:** This is largely because in the Q3 of last year we had outsourced the whole activity of installation revenue as well as expenses, this is something that till last year otherwise, we used to featured in other revenues so the sharp decline that you are seeing is an account of that going away.

**Rohit Dokania:** But was it EBITDA neutral Sir, just to understand that?

**Anil Khera:** This is EBITDA neutral completely.

**Rohit Dokania:** Perfect. That is all from me. Thanks a lot and wish you all the best.

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

**Jay Li:** Hi, I just want to clarify sort of understand the full year ARPU guidance because for the first half of the year it has been up by 8.5%, but your guidance implies that for 2H should be up somewhat closer to 14% to get to your average of 215 for the full year. Am I thinking about that the right way?

**Anil Khera:** If you look it with respect to fiscal 2015 the average ARPU of 196 that is about a 9%-10% growth for the year.

**Jay Li:** Your guidance for fiscal 2016 is that should be about to 215 for the full year, correct?

**Anil Khera:** That is right.

**Jay Li:** So am I correct in then thinking that 2H it should average around 225 given the 1H has averaged 205?

**Anil Khera:** Yes, H2 I think we surely believe H2 should be stronger than H1 in terms of the ARPU growth and given the price increase done recently, I think we fairly comfortable about it and like I said at the end of the day we are looking at all the three matrix and our healthy growth on that which is net of ARPU and margin and as of now the way numbers are looking as well as the coming quarters I think all the three are kind of working out in a fairly healthy way in order to deliver a good 40%-45% EBITDA level.

**Jay Li:** Then, just you are speaking about second quarter versus the first quarter your ARPU stayed even on a sequential basis but since 30% of your new subscribers are taking on HD is there a reason that that increase in HD penetration did not lead to some sequential increase in ARPU?

**Anil Khera:** Given our total base because of the seasonality factor since the net sub addition during the quarter was not very high, the overall impact of any of these on the overall base is very minimal.

**Jay Li:** Thank you.

**Moderator:** The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

**Jai Doshi:** Thanks for the opportunity again. Just you mentioned that you have about a million set top boxes in inventory and you can source another one million in a short duration given your in-house manufacturing but what is the upper limit that you may, if at all the digitization picks up then how much does it usually take for you to may be procure more a million or two more set top boxes?

**Saurabh Dhoot:** Yes, see our factory can deliver half a million set top box in one month period that is the peak production rate. So we have one million in hand and we can get half a million on notice of 30 days so that is good enough to cover any spurts during the digitization or also the Cricket World Cup which we had in this February month next year.

**Jai Doshi:** Second, it appears that broadcasters may sign content agreements with MSOs at a rate which will be for phase III which will be significantly below what you may be paying for phase III phase IV market may be half what you were paying so how do you see, given that context how do you see your ability to reduce or maintain your content cost per subscriber basis from a three year or a four year perspective, have you had this discussions with broadcasters?

**Saurabh Dhoot:** Well it does not appear that broadcaster will give concession to phase III being the national operator who is operating and phase I, phase II and phase III. So far we have not heard any such things happening that phase I is expensive and phase III are cheaper. So we do not feel any threat from these kinds of message or any news like this.

**Jai Doshi:** I was referring to deals with cable MSOs?

**Saurabh Dhoot:** We have not heard any such deal happen and the carrier is also going down so in fact the net content deals are going up, I mean the trend is content dues are going up for all the MSOs.

**Jai Doshi:** I understand, my question was not from the perspective of threat to DTH, would you have a better bargaining power in that case to restrict your increase or installation in content cost beyond the year or two, I do not know, maybe I will take it off-line thank you so much.

**Moderator:** Thank you. The next question was from the line of Jay Li from Trafelet Brokaw. Please go ahead.

**Jay Li:** Just wanted to follow quickly, the churn for the quarter with the trend fairly consistent throughout the quarter or did you see the churn pick up at all after the September 1, price increase?

**Saurabh Dhoot:** The churn actually had no impact of the price increase. The price increase actually flows into the P&L in this quarter. This is largely in line with the seasonality of the consumer business in India during this quarter and it has reflected the same in most of the consumer business and excess across the industry. Overall H1 churn as 0.84% we still feel quite comfortable about that. Also remember when you comparing it with last year and remember churn has a certain amount of lag effect the last year churn levels also had certain benefit of the elections in that half, but we have had a pretty strong start to the October and the way we are looking at numbers we are fairly confident that the Q3 churn for example is likely to be much lower than the Q3 churn that we saw last year. On the churn we remain fairly comfortable about the guidance so far.

**Jay Li:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kevin Daly from Five Corner Partners. Please go ahead.

**Kevin Daly:** Thanks for taking my call. Can you speak through the cost wherein the subscriber's cost per gross and can you give some numbers that might have been for this quarter and relate that to the last what it would have been in the first quarter and the last year?

**Anil Khera:** The cost of adding a subscriber for us is 1775 and that is essentially the amount of subsidy at a company level we are investing into. If I look at the same figure last year this figure was more closer to almost Rs.2000.

**Kevin Daly:** Then in a first quarter when it is comparable to the second quarter?

**Anil Khera:** The first quarter was approximately 1793. Second quarter as we have shared earlier in the call is 1775.

**Kevin Daly:** Thank you. You gave some capital expenditure guidance I think a month or so ago looking out I think the next couple or three years more can you remind me what the guidance was and if that is all if you are going to be able to fund that internally or do you have to go to market to raise capital to fund those capex?

**Rohit Jain:** I do not think we have given any guidance about the next few years except for the fact that over the next multiple years we expect the market price to be very good and largely our capex almost entirely our capex is around set top boxes which is really Rs.2400 at this point per subscriber. So depending upon whatever assumption we make around a market size and a market share our capex will be in line with that. As a company, we feel we are on track to achieve cash flow positive perhaps by the end of this year certainly for fiscal 2017 and we do not think this any reason for us not to be able to fund this growth internally. If you look at our numbers our EBITDA minus capex actually has been positive in any case already. So we are fairly being able to fund the growth on our own except for this quarter where we have build up a higher level of inventory in order to be prepared for the festival season and digitization.

**Kevin Daly:** Thank you very much.

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

**Vikash Mantri:** I have two questions, first on the HD can you help us how has been the offtake like how was the share of incremental subscribers, how would the HD be and the ARPU from that portion? Second is on the subscription revenues now while your reported ARPUs remains flat the growth in subscription revenue is higher than the subscriber growth so can you help me get that right?

**Rohit Jain:** So on the high definition the growth that we are seeing by and large is in line with the averages that we have so far. I think the larger impact of ARPU from high definition is something we expect to see from the second half given all the activities that are lined up. The subscription revenue over Q1 has really grown by 3.6%.

**Vikash Mantri:** Sorry I have 5994 as your last quarter number and 6290 as this quarter number?

**Rohit Jain:** So one of the things that we have done is as a result and also the feedback that we were getting from the investors we wanted to make sure it becomes more and more easier for the investors to be able to calculate ARPU, though there is certain amount of changes that we are seeing in terms of the way the clubbing up the numbers and that is the reason you are seeing, but if you look at subscription and activation revenue clubbed and growth of that number that is actually 3.6% apple-to-apple.

**Vikash Mantri:** That helps. Thanks.

**Moderator:** Thank you. The next question is from the line of Rahul Maheswari from IDBI Mutual Fund. Please go ahead.

**Rahul Maheswari:** First of all the set top box which are being sold out so what is the amount of the subsidies and if there is a kind of subsidy what is the breakeven for a particular subscribers when particular set top box is been breakeven and how is the accounting of the subsidies being taken into the picture?

**Anil Khera:** Well, the subsidy per subscriber is 1775, the breakeven period in our view is between one and one and half years depending upon what pack the customer takes.

**Rahul Maheswari:** How is the accounting been done for the subsidies part means how it has being taken into picture?

**Anil Khera:** Subsidy is not really an accounting thing it is just expression of cash flow, the accounting really goes into where the elements of P&L and balance sheet.

**Rahul Maheswari:** But as the HD set top box are coming into picture though there is a higher amount of the subsidies which is taking place or they still they lower?

**Rohit Jain:** It is by and large little bit plus minus in line with the average that we declared.

**Rahul Maheswari:** Thank you.

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

**Rohit Dokania:** Thank you for giving me the followup opportunity. Just two more questions from my side. One is are you seeing any increase in the competitive activity closer to the deadline of phase III in terms of let us say higher margin be given to the distributors or retailers from the competition or anything on that Sir?

**Saurabh Dhoot:** We as well as the competitions have already opened their cards for this festival as well as for the digitization phase III so all of us we are not have launched a Rs.99 pack to suite the phase III and phase IV customer as the analog is very cheap there, so we have the pack of Rs.99 and also all the other competition. So I di not see anything more than this happening in the competition.

**Rohit Dokania:** Sir, but you believe that you know closer to the deadline there is a possibility of competition dropping down the prices of the entry box?

**Saurabh Dhoot:** Right now the prices are already on the verge of market absorbing the price. Any price below than this will result into rotational churn as such so nobody will drop below this.

**Rohit Dokania:** Just one other question was on the price increases if you look at the pay base pack already almost Rs.250 to Rs.253 so I was just wondering you know from a slightly medium term perspective what do you think would be your ability to continue to increase this base pack price, so let us say three years out do you think this base pack could be closer to Rs.325-odd or where do you see that?

**Saurabh Dhoot:** If you look at the base pack over the last four years we have seen the base pack come up from almost Rs.150 to 250, so we have seen ability to create healthy levels of increase in that and we believe if digitization as transparency comes and in a digital cable environment I think and again we have seen that in phase I and II cable companies are also taking the prices up. I think there is a tremendous room for improving the prices in years to come. From our point the bottomline remains that the utility value of what we are providing versus what we are charging today there is a big gap so there is no reason to believe why we should not be able to continue to bridge that gap especially in the environment of more and more transparent.

**Rohit Dokania:** Thanks a lot and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

**Gaurav Bhatia:** Thank you for taking my question. I had three questions. One, if I look at your balance sheet your debt of about 2500 Crores still sits in the current liability why is that not part of a long term liability? That is one. Is there a scope for a renegotiating? Are you renegotiating your debt terms and condition? Two, your net subscriber addition of 0.2 million from your internal sense how does this number compare to the other three top DTH companies? Third question in the beginning you have made a comment that cable had taken up prices, is that comment relevant to the last three to six months or this is more like a general a comment that last couple of years cable has taken up prices? Thank you.

**Saurabh Dhoot:** Let me take them one-by-one. In terms of net ads in the last multiple years we have seen, we have maintained very, very healthy level of industry leading net ads level, while it is difficult to provide a commentary quarter-to-quarter I think we believe on a full year basis we will still come out strong. We believe all our three major players who are in DTH companies or competitors do a really decent job as well chances are we would probably just do a little bit. On the debt, we are in discussions with all our banks both in order to bring down the debt levels as well as in order to bring down the cost of debt. Given, this is a long and tedious process over a period of time, we should continue to see some incremental benefit out of that. On the cable prices, I think this is something whichever market we have seen analog cable is converted into digital, we have seen this happening whether that happens before digitization all may be a little following up with that or they get into a newer content deals and more transparent environment might differ market-to-market but as a trend that something we have seen in each and every phase I and II so far.

**Gaurav Bhatia:** Sir my question on cable prices was more to do with the fact that do we have headroom to increase ARPUs even more from the last price increase that we have made?

**Saurabh Dhoot:** We just did one last one so we definitely believe there is a headroom to do that.

**Gaurav Bhatia:** Thank you.

**Moderator:** Thank you. The next question is from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

**Ishpreet Kaur:** Out of the net subscribers added of 42 million, how much is HD subscribers?

**Saurabh Dhoot:** That is in line with the overall penetrations of HD that we have had so far in the last few quarters.

**Ishpreet Kaur:** In terms of percentage in terms of subscriber addition in HD?

**Saurabh Dhoot:** So we are not breaking it down quarter-by-quarter but at an overall level we have achieved now slightly over 10% penetration level and by each passing quarter we are seeing an improvement in that.

**Ishpreet Kaur:** Okay and what is the upfront amount that we collect from the new subscribers for the acquisition revenue?

**Saurabh Dhoot:** High definition customer pays us 1820 a standard definition customer pays us 1620.

**Ishpreet Kaur:** Thank you.

**Moderator:** Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

**Gaurav Bhatia:** Sir, one book keeping question. In the balance sheet there is other non financial assets was about 112-odd Crores is this customer advance?

**Anil Khera:** We will just settle back on that.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

**Saurabh Dhoot:** Thanks a lot for joining us in the call. Just to summarize, you know we have ended H1 with adjusted EBITDA of 3.8 billion. This is marginally area of guidance of 25% to 30% growth. We now have 14.27 million gross and 10.84 million net sub. We reiterate our EBITDA guidance of at least 8.2 billion, which could go up to Rs.8.6 billion depending upon the timing in phase of phase III. A copy of this call's transcript would be available in our investor website. Also just to reiterate we are hosting an investor update and reception on October 29th, Thursday in New York. We would request for anybody you can attend to that in person and you could let our investor relations team and Nupur know about it. We really look forward to meeting some of you in person especially the one who based out of US and do a far more detail one-on-one conversation. On that note, we would like to thank everybody in the call on behalf of the management team, thank you so much.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.