



“Videocon d2h Limited Fiscal 2016 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Videocon D2H Limited Fiscal 2016 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. Thank you and over to you, ma'am.

Nupur Agarwal: Thank you, Ali. Good morning, everyone, and welcome to Videocon D2H's fiscal 2016 results conference 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 CEO and Mr. Avanti Kanthaliya – CFO. I now hand over the call to Mr. Dhoot for his initial comments.

Saurabh Dhoot: Dear shareholders and all, thank you for joining our fiscal 2016 results call. On behalf of our board members and management team, I welcome you all on our results call for the fiscal year 2016 i.e. the year ended March 31st, 2016. While Harry Sloan and Jeff Sagansky have been actively involved with the Company in the past, I also take this opportunity to officially welcome them as Board Members post recent regulatory clearances and approvals.

Fiscal 2016 has been a landmark year for Videocon D2H and also as a first as a NASDAQ listed company. It was a year of very promising developments for the Indian DTH industry and I will highlight some of the ways these changes resonate with our strategy and operational strength. Dear shareholders, as Executive Chairman I am proud of your Company's achievements during the year in gaining subscriber and revenue traction, ceasing the Indian digital pay TV opportunity, delivering superior content in best in class customer service to millions of our subscribers.

What excites me even more is the emergence of us as a major platform that today attracts tens of millions of eyeballs daily and how this is meaningfully enabling value addition to the business through revenue streams of advertising, carriage, our own content plans and value added services sales. I am also excited about the steps we are taking towards rolling out products and services designed for future digital media consumption. I will come back to these in a minute.

Clearly, with a strong subscriber growth outlook, the Indian DTH industry gaining market share over cable and an improving ARPU scenario, I honestly believe we are just at the beginning of building a multi-year track record of strong growth and value creation.

I am proud to share dear shareholders, your Company has reported the highest net subscriber addition amongst DTH operators at 1.68 million for the year. We have now led the DTH industry in adding the most net subscribers for six years in a row. This is a testament to both

our superior product and customer service and your Company's fantastic management. Videocon D2H strategy continues to focus on driving revenue and EBITDA growth while leading the industry and technological innovation and customer service. This will build a durable foundation for strong long-term growth, profitable growth and cash flow generation. Our simple strategy of focusing on pure and simple execution really works, not just net subscriber growth but strong ARPU growth relative to competition is also an important metric for me. Your Company led the industry in ARPU growth this past year too.

Between customer addition and ARPU growth I am happy to share that D2H reported strong EBITDA growth of 31.5% in fiscal 2016.

During the year we achieved the following:

Total revenue grew 22.4% to Rs.28.56 billion with subscription and activation revenue growing and coming in at 26.4% to Rs.26.07 billion. Adjusted EBITDA grew 31.5% year-on-year to INR8.01 billion. This number would have been around Rs.8.44 billion in the absence of service tax increase and implementation of Swachh Bharat or Clean India cess. ARPU grew from Rs.196 for the average of the whole 2015 fiscal to Rs.207 in the whole average of fiscal 2016. The exit quarter ARPU came in at 2014, had it not been for tax increases during the year, the average instead of Rs.207 would have been Rs.210.

Gross and net subscribers increased by tremendous 2.65 million and 1.68 million subscribers respectively. Churn for the year came in lower at 0.73% per month or on an annual basis 8.76% and that compares to the monthly churn of 0.8% in the previous year i.e. fiscal 2015. I think overall this has been a landmark quarter. I am pleased to share it has been a landmark for the industry and also us. We delivered one of the best quarters in history of Indian pay TV industry, we added close to 800,000 gross subscribers and close to 600,000 net subscribers during the quarter. Obviously, Q4 sets up nicely for the current fiscal.

Like I said at the beginning, I feel proud to report that D2H has developed into a strong programming platform or a platform from that perspective over the last year. Today we are able to offer a whole host of subscription value at its services such as D2H Cinema, D2H Nursery Rhymes, D2H Hollywood, our own proprietary value-add services. We also operate or we are in fact the only operator to have a 24 hours 4K service. Alternate revenue streams such as carriage, advertising and these value-added services are beginning to contribute meaningfully to revenue especially EBITDA. As the platform becomes stronger naturally these will continue to support strong margin expansion in the future and I am excited seeing the growth trends coming in way already.

As far as content and VAS strategy is concerned, we continue to identify gaps in current content offerings and launch these as proprietary value-added services. In fiscal 2016 we added five services, mainly the HD version of D2H Cinema, the D2H Hollywood, D2H Darshan for

religious VAS, D2H Nursery Rhymes which has been very well-received by families with toddlers and D2H Spice.

Additionally, during the year we reported a number of technological advancements which would greatly benefit our subscribers. So we test launched a new hardware like the HD Smart Connect set-top box or the connected box which converts your existing TV into a smart TV. The connected box will allow your subscribers to view normal DTH services as well as also connect to the internet to browse Twitter, Facebook, Daily Motion, Video on Demand slides, OTT apps, true convergence product. Naturally with the improving broadband scenario in India in the near future and a potential conversion with technologies in times to come, the connected box will be an important part of our future and this is only the initial variant, there will be many more exciting variants which will be planned catering to the market demands.

We also are launching a new mobile app that would convert your smartphone into a smart remote but that is not all that it does, it has a host of other convergence advancements built into this which shall also create the whole experience very nicely, I am excited about these things.

With regards to guidance for fiscal 2017, we have set for ourselves the following simple yet powerful goals for the fiscal year 2017 along with focus on key operational metrics on a quarterly basis:

I am very happy to announce to all our shareholders that D2H will turn PAT positive in fiscal 2017. Videocon D2H should be the fastest DTH operator to have achieved this significant positive milestone in India. Fiscal 2017 will be a landmark year as we will achieve positive free cash flow during the year. This is assuming subscriber growth in line with the current growth trend. We will achieve gross subscriber additions of at least 2.5 million during the year, and upside potential exists with the pace of Phase-III and Phase-IV digitization coming in. With the key focus on growth and profitability, we will now be providing quarterly guidance for net subscriber addition and EBITDA on an ongoing basis.

Coming to guidance for Q1 FY17, i.e. quarter ending 30th June 2016, we expect net subscriber additions of 400,000 in Q1 FY17. We expect EBITDA to come in at around Rs.2.4 billion in Q1 FY17; this would be around 26% growth over Q1 of FY16.

With this I would like to hand over the call to our CEO – Mr. Khera for the D2H business update.

Anil Khera:

Thank you, Mr. Saurabh Dhoot. Let me start with giving you an update on Phase-III digitization which covers around 50 million television homes in our 6,100 cities. As per our analysis, the top 1,400 cities that come under Phase-III constitute close to 70% of TV homes in Phase-III market opportunity. These 1,400 cities are extremely important to us and our marketing efforts are largely focused on these towns. I am happy to share that the authorities have already begun the discussion and prepared for Phase-IV where another 70 million of

television homes opportunity is there. As per the recent data provided by Ministry of Information and Broadcasting, Government of India, we are happy to share that close to 70% of new digital customers have opted for DTH over digital cable and digital cable has only achieved around 30% of market share. Phase-III digitization has made good progress barring few states such as Tamil Nadu.

During the quarter, we raised monthly subscription packaged priced by at least Rs.20 across various subscription packages translating to an average price increase of 7% to 8%. This is a significant positive development compared to an average 4% to 5% increase in the previous price hikes. Given the price increase came in early March, these will realize the benefit for the entire fiscal 2017. If you see the history of price increases in the past as we saw price increase in February 2015, September 2015 and now in March 2016. We believe revenue will continue to grow robustly led by packet price increases, improving high definition mix and value added services.

I am pleased to say that in line with our focus of high ARPU customers during the fiscal 2016 we installed high definition enabled boxes for our 50% of our new subscriber acquisition. We believe strong demand for high definition packages and high definition enabled set-top box will continue in fiscal 2017, helped by a pickup in sales of large screen size LED TVs and launch of high definition verses of various regional channels. In the recent past many leading broadcasters have launched high definition version of the regional channels which will further enhance the high definition market size.

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

Rohit Jain:

Let me share the details of the financials for quarter ending March 2016. Mr. Saurabh Dhoot has already shared the annual highlights. For the quarter four ending March 2016, total revenue grew by 23.4% year-on-year to Rs.7.72 billion. The key components of this were subscription and activation at Rs.7.06 billion. Carriage revenue grew +82% year-on-year to Rs.269 million and ad revenue came in at Rs.105 million as against Rs.63 million last year. ARPU grew from Rs.202 in Q4 fiscal 2015 to now Rs.214. Q4 fiscal 2016 EBITDA grew 25% year-on-year to Rs.2.19 billion, this is after adjusting for ESOP expenses. Margin expanded 40 basis points year-on-year to 28.4%, the net loss for the quarter resultant came in at Rs.212 million, this is a 72% improvement over the same quarter last year. Monthly churn for Q4 was 0.58% as against 0.85%. As shared earlier, the monthly churn for the entire fiscal year came in at 0.73%.

The hardware subsidy for customer acquisition in Q4 came in at 17.76 per subscriber, the CAPEX for the full year as a result was Rs.1.74 billion, large part of that is relating to set-top boxes. In line with our growth estimates and business plan we generated operating cash flows which is EBITDA less CAPEX to the tune of Rs.455 million positive for the Q4 and for the entire fiscal year Rs.744 million. As of March 31st we had term loans of Rs.23.15 billion and cash and short-term investments of Rs.7.21 billion. With this from the date of IPO till now we have roughly paid down Rs.9 billion from the IPO proceeds.

To summarize in the end, in terms of key highlights the way we have looked at:

We ended the year with EBITDA growth of 31.5%, achieved net addition of Rs.1.68 million which is the highest in the industry again for the sixth year, we had a historical quarter four adding close to 800,000 gross subs and 600,000 net subs which gives us a strong platform for next year which is the ongoing fiscal 2017. We will be turning PAT positive and free cash flow positive in fiscal 2017, a very important milestone for us. We would be the fastest company to be able to achieve that within the satellite industry and we expect to do 400,000 net subscribers and EBITDA of Rs.2.4 billion in Q1.

With this, we finish our opening remarks and we'd now like to open the floor for Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: I have three questions. The first one is, would like to know your thoughts on the regulatory development on content side. I think your content cost as a percentage of revenue is about 800 basis points higher than some of your peers, so what is the opportunity there in terms of reduction, what is your early assessment of what is happening on the regulatory front? Second question would be, how do you see the Phase-III opportunity, what percentage of the opportunity is already captured by the DTH industry and how much more is left and what about growth beyond Phase-III and timelines for Phase-IV and how things are progressing? And the final one would be on HD, are you seeing some kind of inflection in demand for HD because we have been hearing that there are about 50 HD channels right now and maybe another 20 would come up in the next 12 months, so there is a lot of interest from the broadcasting side, supply side, so how do you see HD? That is it from me, thanks.

Anil Khara: Thank you, Mr. Jay. I will answer your question on your Phase-III digitization market size first. You see the total market for Phase-III is 50 million television homes, out of 50 million television homes, I mean as per the press release by the Ministry of Information and Broadcasting, the total seeding of boxes has happened in almost 40 million television homes and the figures which they have disclosed is around 13 million approximately are seeded by the digital cable operators and between 25 million to 27 million boxes have been seeded by DTH operators. The DTH operator figures are from launch till date, because before the digitization was in progress almost 18 million to 20 million boxes were already seeded by DTH operators. So if you look at the total market size of DTH it is anywhere around 65% to 70% in that market, we still feel that there is a sizable market of almost 10 million analog homes which are yet to be digitized and there is a very big opportunity for all of us. And also while we are talking about Phase-III digitization, the authorities have already started discussions about Phase-IV digitization process which gives us another opportunity of anywhere around 80 million to 90 million television homes which is a very big opportunity.

As regards your question on the regulatory front, the regulator has come out in the recent past with a lot of consultation paper, one of them is of course the content tariff orders and one of them is on the quality of service by all the operators, all the distribution platforms and what we see from the four, five consultation papers is that regulator wants a total comprehensive new policy on distribution of content through the various distribution platform and also from the broadcasting side the sales agreement which happens between distribution platform and the broadcaster, they want to regulate everything, they look at everything again, although there are already some laws there but they want to relook at this again. And the idea of regulator going into details is the implementation of what has been already there and they want the a-la-carte pricing to come in a very realistic way and the whole exercise idea is to bring a total transparency in the transaction between broadcaster and various platforms. And in short, the broadcasters ask price for content is likely to get standardized across all the digital platform which is DTH or digital cable or even analog cable.

Rohit Jain:

On the content cost part I do not think as per our understanding the difference between us and the competition is certainly not to the tune of 700 - 800 basis points, that might be the case of differences in accounting policies of revenue recognition and all of that. But not getting into that, I think if we look at the entire industry we would probably be better off by some players by 100 - 200 basis points, we might be worse by some by 300 - 400 basis points. Our sense is that the content cost differentiation across the industry within the satellite is probably in the range of 300 to 400 basis points depending up on who you are comparing with. And of course, the difference would be much more if you were to compare it with digital cable. Needless to say that the regulatory change that is expected to happen can only mean very-very positive news for satellite industry as a whole and it should be a positive news for us as well. And with regards to your question on high definition, coming back to your last question, I think that is probably right, it is inflection point on high definition. If you will look at it the all the satellite operators put together still they have now seeded close to 20 million high definition boxes. There are actually currently more than 60 high definition channels in India, our sense is that this number over the next year, year and a half could go close to 100 and we have already seen a lot of popular segments like movies and general entertainment launched high definition channels. We are seeing currently a wave where regional channels are getting into this and you might see kids and other segments getting into that. So there is certainly a point of inflection and we have done our own bit in experimenting to sort of increase the pace in the last year. We introduced a concept of genre wise high definition pricing where the customers had an option to pick-up a smaller segment of high definition depending on their viewing habits rather than upgrading to an entire full scale high definition pack. And according to our estimate this will give a larger customer base and ability to sample the high definition contents. So it is an inflection point for sure.

Moderator:

Thank you. Our next question is from the line of Arvind Bhatia from Sterne Agee CRT Capital. Please go ahead.

Arvind Bhatia: I have a couple of questions, first on the free cash flow generation outlook, can you maybe narrow that down, and how is it going to be on quarterly basis if you think about it? And then thinking about Phase-III, the adoption curve so far in light of the court situation, could you compare and contrast that with what happened in Phase-II just for the clarification. And then in Phase-IV conceptually do you expect the trajectory of growth to be any different given the different markets that you are going into? Those are my first questions, then I have a couple of follow-ups.

Rohit Jain: Arvind, could you sorry repeat your questions, I think in between we lost you for few seconds.

Arvind Bhatia: So on free cash flow you guys are talking about full year free cash flow positive and I am just wondering when from a quarterly perspective should we expect that to be, I guess when should we start to expect that on a quarterly basis, is that going to be starting in the second quarter or is the curve that the second half is going to be much more profitable and first half is going to be losses?

Rohit Jain: So Arvind, I think to answer that and the reason we did not break it down in to quarterly because look, there are three variables into that, two of them are fairly stable and one of them it is sort of variable. Its base EBITDA, we have already obviously given out guidance for that for Q1, there are the interest expenses which will be fairly stable and then there is a CAPEX. Now the CAPEX might vary quarter-to-quarter as you might expect depending upon whether how the market opportunity plays out. And that is the reason it is difficult to pinpoint or predict quarter-by-quarter, that might see a little more volatility depending upon the CAPEX and the subscriber addition. But the good news is, I mean it will be sort of variable depending upon the growth rate really. Feel fairly confident about the mass and the full year, but given the variability it is difficult to pinpoint this quarter-by-quarter.

Arvind Bhatia: And then the second question was on the adoption curve, the growth trajectory in Phase-III and if you could kind of compare and contrast that to how things progressed in Phase-II.

Saurabh Dhoot: So yes, I mean of course the court process does delay the adoption curve or does delay the traction or delay the momentum which gets built in, but after all like in Phase-II and like we have always mentioned in the past it is not an overnight process. So you see very good adoption and you see an uptick after the deadline date whether it was Phase-I or Phase-II or Phase-III and then subsequently you have as the enforcement of the digitization process gain strength quarter-on-quarter and you see good momentum building up further. So it basically gives visibility on strong organic growth of the industry on an overall trend basis. So it cannot be completed in one quarter or two quarters, but yes, it starts with an uptick, it settles down but that momentum continues. Similarly you would expect for Phase-IV as well, in Phase-IV also cannot, in fact Phase-IV is so large and so dynamic, it would also not be an overnight process even at the Phase-IV deadline date. Did I answer your question?

Arvind Bhatia: Yes, that is very helpful. And then a small one on the churn rate, I am sorry if I missed it, what is your guidance in terms of churn rate for the full year?

Rohit Jain: The reason we did not put out this guidance on churn rate, frankly for the last three to four years that we see churn rate has been pretty stable at 0.8%, call it 0.75% to 0.9% per month. And every reason to believe it should be in line with historical trend, we have not seen a massive variation in that on an annualized basis, barring the seasonality that is there. And I think it should be in line with the last two, three years of stress, now whether it will be 0.8%, 0.85%, 0.75%, it is very difficult to narrow it down to the last 0.05%, but whether we look at our numbers or the numbers for the industry, we get a lot of confidence in the last three to four years of history of churn rates being fairly stable for the industry.

Arvind Bhatia: And my last one is, I know you talked about the new subscribers, I think 50% of the boxes are HD boxes, what is your actual mix of HD subscribers versus standard? Thank you.

Rohit Jain: So there are multiple things on this, look in terms of subscribers of course to first address that part we were at about, if you remember we shared with our investors, two years back we were staring at 5%, we are now upwards of 12% on a subscriber base. So the overall subscriber number has grown but I think some of the things that we are excited about that have happened in the last year is, we are seeing more HD boxes more aggressively, this is almost surrogate to home passed in a broadband business if you sort of compare, so having more and more subscribers, having HD box gives us a higher opportunity to upgrade them. The second is, us breaking down high definition genre or as a viewing pattern into smaller packets for the subscriber to sample or to take as add-on. In India as we know there are people who have different viewing habits, there are some who might want to watch only sport, some English, some local and some maybe everything. So I think our most flexible approach resonates with our belief this is the inflection point and some of these things will help fast forward more mass uptake over the next years to come. And lastly, I think one question that came up earlier, as more and more broadcasters are obviously launching more high definition channels, in the last one year alone we have seen more channels getting launched then what we saw for many years and we expect a lot more to get launched in the next 12 months. So all of this particularly we are quite excited about it.

Saurabh Dhoot: I think overall Arvind, one aspect I would like to further add is that naturally the Company has a clear competitive advantage with regard its purchase of HD set-top box and the price related to HD set-top box and the premium which it has to pay for that, and you can use that as an opportunity which we have done to seed it, or populate it probably would be one way to look at it, as many HD set-top boxes to the customer irrespective of the pack which they are asked to take initially. What this allows us is of course a roadmap which is also very interesting where customers get to sample HD, customers get to look at maybe or create a potential for skinny HD packs to come in where they can take and not necessarily get tied to it forever but for a few months or even on an event basis or on content basis. So I think it opens up a lot more interesting potential opportunity to increase HD revenues in the long run and not just

specifically focused on how many of them are actually taking a full on HD pack on an absolute basis.

Moderator: Thank you. Our next question is from the line of Hemant Lohia. Please go ahead.

Hemant Lohia: I have couple of questions. First question is regarding ARPU, how do you think about ARPU going forward? And the second question is why fixed cost went up as a percentage of revenue over Q3 FY16?

Rohit Jain: That is an interesting question on the ARPU front specially, and I am glad you brought this out. We are getting into now Phase-III, Phase-IV and we saw some of that starting to rollout in last year, we believe these are phases where we will see the industry doing a lot more experimentation and customization depending upon the customer profile, depending upon the segment of customers that we get into. We saw some of that last year where we created packages to shoot the customer base who is currently watching the free government services, we saw packages that were created tailor made to suit the very-very low ARPU customers in smaller segments on analog cable. Our expectation is how these experiments over the next couple of years will continue and that kind of shifts our approach or view on more revenue realization basis or revenue growth basis rather than just ARPU as a parameter. While ARPU as a metrics will continue to grow, I do not think there is any doubt about it, we have continued to see prices go up, our shareholders must have seen price increase happening in the month of March 2016, some of that will obviously flow into the fiscal 2017, high definition value added services, all of those growth drivers will continue to play its role. But I think in these phases of customization it is sort of difficult to pinpoint in terms of actual ARPU number as much as our ability to focus on revenue growth.

Saurabh Dhoot: Yes, clearly the upward trajectory in ARPU will continue, that said, and the key drivers o ARPU whether it is value added services, HD and more importantly the entire industry with digitization, transparency coming in, piracy going out, I think clearly you have the clear roadmap available to do a good job on that.

Rohit Jain: And with respect to your question on fixed cost, so if you remember we added some transponders in Q4 and that is obviously something that we are very excited about given the future bandwidth capabilities that it provides us. As a result of that fixed cost went up in Q4 as compared to Q3 and that is the reason you saw the percentages varying out, but I do not think that is something we are worried about. The impact of this on EBITDA would be much lesser as against the potential benefits it will carry in terms of the carriage revenue opportunity in the next fiscal year in terms of our strategic ability to launch more content, more channels, more high definition. This is certainly a very strategic investment which will pay off handsomely in the years to come, but the blip that you saw temporarily for a quarter was on account of that.

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

Nupur Agarwal: Thank you, Ali. On behalf of the management team I would like to thank everybody on this call today. A copy of this call's transcript will be available on our site in the next few days.
Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Videocon D2H Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.