"Videocon D2h Limited Fiscal 2017 Earnings Conference Call"

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EDITED TRANSCRIPT

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Moderator: Ladies and gentlemen good day and welcome to the Fiscal 2017 Earnings Conference Call of Videocon D2h Limited. 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 '*' then '0' on your touchtone phone. I now hand the conference to Ms. Nupur Agarwal- Head of Investor Relations. Thank you and over to you Ms. Agarwal.

Nupur Agarwal: Thank you. Good morning everyone, welcome to Videocon d2h's Fiscal 2017 Results Conference Call. We have with us senior management of the Company represented by Mr. Saurabh Dhoot –the Executive Chairman; Mr. Anil Khera -- CEO; Mr. Rohit Jain -- Deputy CEO; and Mr. Avanti Kanthaliya–the CFO.

I now handover the call to Mr. Dhoot for his initial comments.

Saurabh Dhoot: Thank you all for joining our fiscal 2017 Results call. On behalf of our board members and the management team I welcome you all to this Results call. This is for the year ended 31st March, 2017.

This year has been a landmark year for the company, this was the first year where we have achieved net profit, profit after tax. We have also achieved free cash flow breakeven. We have also announced the merger with Dish TV Limited to create the fastest growing and the second largest pay-TV company in the world in terms of subscribers.

Starting with the quick summary on the call we're relating to the entire fiscal; our gross subscribers increased by 2.24 million during the year, net subscribers increased by 1.05 million during the year and totaled to 12.91 million. This was naturally impacted by demonetization which happened in the seasonally strong second half of the fiscal and I will discuss this more in detail later. Revenue from operations came in at INR 30.72billion; this is the 15.5% growth over fiscal 2016 on an apple to apple, like-to-like basis adjusting for the change in the accounting treatment of entertainment tax which was incorporated in this fiscal. Also this has been affected by currency demonetization during the second half of the year which would have again been a seasonally strong quarter. Subscription & activation revenues came in at INR 28.08 billion. Adjusted EBITDAs grown 27.1% year-on-year to INR 10.18 billion. The adjusted EBITDA margin came in at 33.1% during the year that's 280 basis points improvement year-on-year on the EBITDA margin front on a like to like basis.

A very important, in fact the most important metric which is the EBITDA per net subscriber grew a healthy 13% year-on-year to INR 69 per month. This clearly demonstrates the strength of our business and ability to monetize the subscribers we keep adding especially Phase-3, phase 4 market areas.

I am happy to share that we have had achieved a profit after tax of INR 304 million and free cash flows of over INR 1.17 billion, this is in line with the guidance we had shared that the beginning of the year. Talking about demonetization and the adverse effect of demonetization continued in fact in the fourth quarter as well, we saw a much significant impact in Q4 as compared to the previous quarter and we also saw the impact for the entire three months as compared to only 1.5 months in the previous quarter. Also the first half of Q3 which is prior to the announcement of demonetization in November was strong due to the very good festive demand which had set in with Diwali at that time. Having said that the government has lifted all the cash withdrawal constrains during mid-March 2017 and business is coming back to normalcy as well as money circulation in the economy is moving towards early limits. We believe the revenue performance of Q4 as therefore one-off in nature and the business fundamentals clearly remain intact as this is highly visible business. Although growth all across the India did slow temporarily at the end of our FY17, the impact of demonetization is behind us and the coming fiscal, the Fiscal 18 we are already returning to a strong rate of growth and subscribers revenue, EBITDA, free cash flow and all metric.

A quick update on the merger with Dish TV; I'm happy to share that we have received the approval from the Competition Commission of India for the proposed merger. This was the most critical approval in our view. Both the companies Dish TV as well as Videocon D2h have also received the approval from their respective shareholders also earlier this month. We now look forward to receive the approval from the National Company Law Tribunal and the Ministry of information and broadcasting as well in the coming month. We expect the merger process to conclude by October 2017.

An important update is also that we have signed an amendment with the previous scheme of amalgamation; this is to change the GDR listing from Luxembourg to the London Stock exchange. We have also post received of the CCI approval and to ensure smooth integration, appointed PWC, Deloitte and Aon Hewitt to work on the post-merger integration along with the two managements for the next 12 weeks. Deloitte will focus on the overall project management, PWC on the integration of IT systems and Aon Hewitt will develop an action plan for creating an efficient high-performance organization structure and clearly align the policies and processes to the success we expect to achieve from this merger.

We are currently also in the integration meeting which are on in full force in the process of identifying and quantifying the synergy estimates and would update the investor community on the same in due course. Naturally we expect and believe the key areas of synergy would be around content cost, fixed cost, interest cost, sourcing of set-top boxes, technologies, various revenue synergies especially also on primarily value-added services, advertising, carriage I mean all over all said and done I think the prospect of having this canvas of more than 28 million subscribers on the revenue side we are using such a platform and taking it to a whole new level with new technology offering to OTT I think I can say on behalf of the management team at both the entities it's a very exciting time at here in the company. We feel in a open media market like India the kind of growth which continues to be out there, digitization in phase 4, the merged entity is a very interesting media investment opportunity at the fastest-growing and second largest pay-TV company in the world in terms of subscriber base I think and I'm very excited to see how significant value gets created for long-term investors by this company going forward.

During the quarter the upper house of the parliament cleared the necessary GST bill. You would be aware and I'm sure you would be expecting this as a favorable outcome rightly so. It will come into effect from July 2017 as per media reports, recently the rates were also shared and DTH sector would attract 18% at the subsumed entertainment tax which means the total tax outgo would decline from the current 21%-22% to around 18%. I think we clearly welcome this move by the government to simplify taxation regime and we see it will clearly improved ease of doing business in India especially in our sector, in our business. Also GST drive the unorganized segment towards taxation, it would also bring the cable business, analogue cable business especially the local cable operators in its umbrella. It would create further room for ARPU growth for the pay-TV sector in India because of further transparency in the sector. I think it's a landmark transformative reform. The whole country over a period of time despite there being any new regime leading to bottleneck, leading to a transition phase I think all said and done from a long-term perspective the entire country, the trade, the consumers are going to benefit immensely from this.

Now regarding the forward guidance we are pleased with the trends we are now experiencing again, as you know the fourth quarter of the year was affected dramatically and negatively by demonetization, for the Q1 of this fiscal, Ramadan, which is one of the reasons for weak first half, which is the usual case in our sector—also falls earlier by a month this year, so in fact the entire Ramadan period falls in Q1 as compared to last year when Ramadan period extended up to July as well. Though the demonetization effect is behind us and with normalcy coming in we are already seeing the EBITDA levels and subscriber levels catching up to last year's Q1 level and going way forward than what you have seen in Q4. We are also going to see net add situation far better than what we have seen in Q4.

Overall before I hand the call to Mr. Khera for a business update, I would like to say it's we are extremely excited about the opportunity ahead of us given the several tailwinds which we have that will support growth and very good profitable growth in the near term. I think when we look at the benefits of the GST over our business, when we look at the benefits and flexibility provided by the tariff order on the content cost, when we look at the very-very exciting integration and synergies on the revenue and cost side which we have achieved from the landmark merger and of course the force with which phase 4 is beginning to be seen in many areas becoming a reality, I think we are clearly looking at a strong fundamental EBITDA growth and margin expansion for this whole fiscal of 2018 and beyond.

Anil Khera: Good morning everyone. Thank you Mr. Saurabh, this is Anil Khera. I'm pleased to share that we have increased prices of monthly subscription packages by 3% to 4% on average during April, 2017. We expect the benefit from this price increase to reflect in high revenue realization starting Q2 FY18. Given the prepaid nature of the industry and the price protection clause for existing subscribers, the combination of price increase and expected fewer suspensions with realization of demonetization should help stabilize ARPU from this point. During the quarter the regulator TRAI issued revised and final tariff order. This covers content price guidelines from distribution of content from broadcasters to distribution platform like DTH and cables and also from distribution platform to end consumers. During the past few weeks most of broadcasters published their new channel rates. We strongly believe that the tariffs published by broadcasters are temporary in nature and they are likely to revise the rates downwards post the court judgment and closer to the actual implementation of the new tariff order. As of now Supreme Court has extended the stay on tariff order until September 2017. The next hearing regarding the tariff order is scheduled for 12th June and the further await clarity in the matter. We continue to maintain that the tariff order is a game changer regulation given its aim to bring transparency and commercial parity in content deals across distribution platforms. This is a positive for DTH operators that currently all DTH operators have been paying a lot more for the same content as compared to the cable operators. We believe the pricing for distribution platform at Rs. 130 plus tax for free-to-air channel—ensure that our gross profit per subscriber is protected. We believe the tariff order is a positive for distribution platform as it addresses some of the concerns of the distribution platform faced today thereby enhancing the ease of doing business with the broadcasters.

Regarding GST, talking about on ground implementation of GST our team has been educating dealers and distributors on GST rollout. We are pleased to share that majority of our distribution network has registered for GST and are GSTs at ready.

During the year we further strengthen our regional and high-definition content offering for our customers. We added more than 90 standard definition channels and more than 20 high-definition channels in fiscal 2017. We now offer more than 650 channels and services including 62 high-definition channels and services. In February 2017 we launched sachet pricing of high-definition which is beginning to receive good traction. We have continued to install high-definition set-top boxes for 100% of our new subscriber acquisition. This helps us push our high-definition package to consumers and enable us to upgrade standard definition subscriber to high-definition. We now have more than 14% of our subscriber base on high-definition pack despite the impact of demonetization. We also launched four new services this fiscal, this includes recently launched services called d2h Nachle where the viewers can learn various dance forms with the popular Bollywood celebrity and actress Madhuri Dixit and several well-known choreographers.

Quick update on phase 4 digitization; in the coming few years we expect strong subscriber growth to continue led by implementation of phase 4 digitization opportunity. Given the large size of analog cable subscriber base in phase 4 markets, the regulatory push towards digitization in state of Tamil Nadu would further contribute to subscriber growth in coming year. However it is worth noting that DTH industry continued to grow subscriber base regardless of digitization implementation. The DTH industry gets around 70% of new subscribers acquisition from Phase-3 and phase 4 markets, given Phase-1 and Phase-2 are nearly digitized, largely except state of Tamil Nadu. In the absence of digitization we would continue to grow our subscriber base in line with the current trends. I now hand over the call to Mr. Rohit Jain for financial update.

Rohit Jain: Thank you Mr. Khera. I will be happy to share now the details of the Quarter 4; having understood that this quarter is a bit of an aberration, not just for us but across industries in India given the impact of demonetization. The total revenue for the quarter came in at INR 7.55 billion, this comprised of subscription and activation at INR 6.89 billion, carriage revenue at INR 288 million and ad revenue at INR 55 million. Adjusted EBITDA grew 7.9% year-on-year to INR 2.36 billion. Margin came in at 31.3% for the quarter. On a like-to-like basis adjusting for the change in accounting treatment of entertainment tax carried out at the beginning of this fiscal, margin would have been at 70 basis points year-on-year. Content cost came in at 42.5% and fixed cost as a percentage of revenue came in at 16.6%. We reported a net loss of INR 87 million for the quarter as against INR 212 million loss during the same quarter last year. ARPU been a key metric impacted by higher suspension in demonetization came in at INR 196 per month. During the quarter we added 470,000 gross subscribers and 140,000 net subscribers. Monthly churn for the year came in at 0.80% as against 0.73% for fiscal 16. Hardware subsidies came in at INR 1,923 per subscriber. The CAPEX for the quarter was INR 1.38 billion which meant adjusted EBITDA less CAPEX was INR 981 million positive for the quarter. As on year and we had term loans of INR 19.95 billion and total cash and short-term investment of INR 4.61 billion. As reiterated earlier the fourth quarter was certainly weak, we have the debt from been a negative quarter we are coming back to flattish and with the tailwinds behind us the trend is starting to look upwards and hopefully we will have a strong second-half of the year ahead of us.

With that we conclude our opening remarks and would leave the floor open for questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Randy Baron from Pinnacle. Please go ahead.

Randy Baron: Can you just talk about elaborately of the government's free service, the free dish that seems to impact Dish’s numbers, has it impacted Videocon at all? Then secondly the VDTH number seem great especially relative to Dish as they did at the time of the merger, I am curious if you can remind us the terms, is there a potential to tweaking the terms through VDTH’s Shareholders. It seems that 44% of the new company isn’t really reflective of the value of the new enterprise, so is there a breakup fee can you remind us or your take on that and congratulations on getting the approvals as well.

Rohit Jain: Let me take the second one first, I think when we had done the deal there were certainly several parameters that we had taken into account which comprised of all the financial parameters we were imagining including growth, profitability as well as market cap. I think some of those parameters haven't changed significantly from the time we did the deal, notably the market cap as well. In our opinion, I think this is a deal that has been beneficial for both the set of shareholders. This was roughly at 32% premium for our shareholders at the time the deal was done and given where the various metrics are pegged today it continues to be an accretive deal for our shareholders. I will request Mr. Khera to throw some light on your first question on DD Free Dish.

Anil Khera: The Free Dish services are available in India from past 7 to 8 years but definitely the proposition has become better from last one year after the large four broadcasters added the second line free-to-air channels on Free Dish. We strongly believe that Free Dish is a steppingstone to pay TV as this is a first time the viewer experiences digital quality content. Then later they realized the content which they have been watching are stale in nature because they are not current content what is being offered on the pay TV platform by cable or DTH. With the new tariff order in pipeline which protects our margins we as a merged entity can come up with the interesting skinny pack for this target segment. Secondly, as all pay TV operators, as DTH operators and large cable operators they are separated talking to all the broadcasters to have an increase the minimum windowing for pay content to be shown on a free TV and we all have demanded one year windowing for entertainment content and a separate library which is Class-2 type movie library to be shown on free TV and the premium movie will not be shown on free TV. And more or less we have come to an agreement on this and very soon that will be implemented. Thank you

Randy Barron: If the deal were to break because I agree everything about the market cap at that time and obviously it stock per stock deal so it’s not necessarily reflective of how the market cap has evolved, I'm just curious what is the dollar amount if Videocon were to walk away from the deal?

Rohit Jain: I think more than the breakup fees, there are certain criteria laid down for the deal breakup. There isn’t principally an idea of deal breakup in the current scenario.

Moderator: We take the next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: I have three questions. One is pertaining to the carriage fee and the benchmarks that have been set up by DD Free Dish; given that the merged platform will have an equivalent reach at the free-to-air alternate, is it fair to assume that channels which pay carriage to the free platform may also pay a similar amount to us? Second is with respect to the content contracts; are we negotiating for content jointly or are there any deal renewals that have happened in the interim which have bumped up the content cost? And lastly with respect to the OTT platform; thoughts on the OTT platforms that DTH companies are planning to launch, you have also mentioned about OTT investments, so just wanted to understand does it make sense for distributors in India to get into OTT given that the market is so crowded right now?

Anil Khera: We strongly believe that what Free Dish started charging the carriage fee as Rs. 8 crores per channel is very high and we believe that only the large four or few others would be able to afford and continue the renewal on Free Dish. In a way, I mean it's good for us that they will be coming back to all the distribution platforms like DTH and cable and offer much reasonable carriage fee than what they are currently paying to us already. Right now they have an alternative to go to Free Dish and get few eyeballs. But Rs. 8 crores is definitely very high and we feel that only the large four and few others will be able to afford.

Vivekanand Subbaraman: One small follow up on that, so you are saying that the Rs. 8 crores per annum benchmark right now is very high and most of the channels right now on DD Free Dish will not be able to renew their deals, is that a correct assessment?

Anil Khera: Most of them won't be able to renew barring the top four broadcasters which have got around 12 to 13 channels and largest eyeballs shares on the Free Dish currently.

Vivekanand Subbaraman: So right now the smaller broadcasters are paying somewhere between Rs. 4 and 5 crores, is that correct?

Anil Khera: To the private platform it varies from platform to platform and what is the aging of the deal and, what are the escalation clauses in the transaction.

Vivekanand Subbaraman: Right, yes this is very helpful. Sir you can continue with the rest of the responses.

Saurabh Dhoot: On the OTT front I think your question was with regards the ability or opportunity in the crowded market, so that is not how we view OTT as something which we are competing with a particular OTT operation. Let me tell you what is it that we like about we as a player and in fact going forward when we will have the combined entity, we are talking about millions of households and hundreds of eyeballs in a given date, I think the platform with which we have wherein we can enable consumption of content on various devices of the customer as well as through various technologies, whether it is through the satellite or through broadband. We have the ability and the ready customer as we speak to consume this content whether through OTT or whether through satellite. So from that perspective we have a very clear proposition to the customer for our product and our service. With regards our ability to do so successfully in the right economic manner I think through a connected best platform, through the content relationship which we have, through all the content relationship we have tied up for the dot com online experience to our customers whether the partnerships we have done with Netflix, Facebook, Twitter and all the other OTT app companies, whether it is all the top 15-20 video apps which gets consumed, I think we have approached this with the idea of collaboration and ability to offer choice and offer content to the customers because that's what we do. We give them lots of content sourced from all over and give them; we are agnostic whether the player should only watch content by a production house versus content from other production house. So there are lot of ample opportunities and USPs which we will find given the scope of our presence of our market, the number of households and number of clients and customers that we have.

Vivekanand Subbaraman: Specifically on the OTT side, do you want to comment a bit on what your rival is doing, Tata Sky is doing, is that a strategy that you feel is credible them offering their own OTT app is a complimentary consumption service to their customers, is that something sensible you think?

Rohit Jain: It is difficult for us to comment on competitors. I think each of us would come out with our own strategy, markets are very dynamic but I think it's difficult for us to comment on others.

Saurabh Dhoot: If you follow from what I said just now is that our idea is to give a very holistic wholesome content consumption experience to the customer on various devices and from various providers of content. So I think one part of the service whether it is complimentary, non-complimentary it is just a sub-set of a particular whole idea which one needs to have, I think the idea which is important.

Vivekanand Subbaraman: Lastly on the content side?

Rohit Jain: Content I mean needless to say the integration is still in the process, so naturally there are no joint negotiations that can happen till the time merger becomes effective. We continue to negotiate our own independent contract the way it should be. Naturally post integration as many of you analysts and including yourself have pointed out, this is a potential big area of synergy going forward.

Moderator: Thank you. As there are no further questions from the participants, on behalf of the management of Videocon D2h Limited we thank you for joining us on this call. This call concludes and you may now disconnect your lines. Thank you.