"Videocon d2h Limited Q1 FY2018 Earnings Conference Call"

July 31, 2017

EDITED TRANSCRIPT

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

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Videocon d2h Limited Q1 FY2018 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 phone. I now hand the conference over to Ms. Nupur Agarwal – Head, Investor Relations. Thank you and over to you.

Nupur Agarwal: Thank you. Good morning, everyone. Welcome to Videocon d2h's Fiscal 2018 Q1 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: Thank you, Nupur. Thank you, all, on behalf of the management and the Board of Videocon d2h for joining our quarter one FY18 results call. Our dear shareholders, going ahead we are now looking forward towards a new journey for our company, I feel excited about the new growth and opportunities, a world-class scale and strength in market we are going to have with Dish-Videocon. Obviously, I am also really fueled with excitement about the free cash flow generation potential this will have.

The management feels we have done a great job of handling demonetization for the past few quarters, and I am excited to say that period of moderation is behind us and we are looking forward to strong growth ahead which we are already witnessing.

Let me start with a quick summary of our quarter one results. Gross subscribers increased by 0.63 million during the quarter, which is better than same quarter last quarter. Net subscribers increased by 0.13 million, bringing us to a total of more than 13.04 million subscribers. The net subscriber addition was impacted by temporary increase in churn as a result of the lag effect of demonetization on the subscriber base, this is in line with what we had predicted and thought about. Though, barring this, I am happy to share that the moderation in growth, as a result of demonetization, is completely behind us, as we can witness that already.

Revenue from operations came in at INR 7.73 billion, subscription and activation revenues came in at INR 7.09 billion. This was also impacted by the Ramadan period which came entirely in Q1 of this year. You all well aware that Ramadan has an important seasonality effect on Q1 and Q2 revenues. Last year, Ramadan effect extended into Q2 as well.

Adjusted EBITDA came in at INR 2.49 billion, that is similar to the same quarter last year and is in-line with we had thought about it would be. And adjusted EBITDA margins came in at 32.2% during the quarter.

I am happy to share that we have achieved a net profit of INR 12 million and free cash flows of over INR 0.5 billion in this quarter.

A quick update on the merger; we are pleased to share that the NCLT has approved the scheme of amalgamation with DishTV India. We are awaiting the certified copy of the order and the appointed date would be 1st October 2017. With this approval, the only remaining regulatory approval is from the Ministry of Information and Broadcasting and that process is also on.

We have filed a prospectus with the UK Listing Authority for setting up a GDR program earlier this month. The communication with the UKLA has started and we have already received the initial comments on the filing. We believe the GDR program will be in place well in time before the merger process concludes.

In the past few weeks, the management has been working on an integration plan. The merged entity plans to adopt and implement the best practices of both the companies. We believe this merger provides exciting opportunities through the consumer service model, convergence with technologies, expanded breadth of content offerings, including expansion of exclusive content, advertising income growth potential as well as synergies from a combined subscriber base of more than 28 million. The merged entity would be one of the largest PayTV platforms in the world in terms of subscriber base. I am very excited for this new journey of our business that commands strong business fundamental growth opportunities, and obviously, supported by a very strong balance sheet and growing free cash flows.

There has been speculation in the market that 4G pricing is going to be disruptive for our core business. This could not be further from the truth. The primary objective is to grow the very low double-digit wireless penetration broadband in India today. This actually gives us far more opportunity ahead. If you all recall, since our NASDAQ listing we have been saying that data prices are high in India as compared to PayTV and are not conducive to cater to the mainstream TV watching habits of the population. We also said that data prices would decline in India, and all this has been playing out just as we have predicted. The average TV consumption is 4 to 5 hours in Indian and DTH operators offer unlimited TV 24/7 content to a substantial majority of the entire country's population today already.

Data is still not a cost-effective alternative to TV but is certainly complementary. Data enabling phones will help expand content consumption and expand PayTV market growth efforts. PayTV continues to be the most economical form of digital entertainment with skinny packs starting from INR 99 per month, and without any daily restriction, unlike a 4G viewing phone.

The widespread availability of high speed data and phones at affordable prices would create complementary business models for us to grow and prosper with. With the improving potential of convergence of technologies, the connected set-top box for example, will be an important part of our future. A connected box will allow subscribers to view more than 24/7 unlimited content from more than 600 channels and services, but also browse content from Netflix, Hotstar, YouTube, Voot, Spool, Sony LIV, OZEE, Hungama Play, and so many, many more, they all have lined up and partnered with us already. We have signed with Netflix this year with Reed Hastings coming, who launched alongside us in India this year with an eye for a big scope in potential from our platform.

I am happy to share that the long-awaited GST reform came in to effect start the 1st of July, 2017. GST aims to simplify the taxation regime, thereby improving the ease of doing business and will drive the unorganized segment, such as local cable operators towards taxation. We wholly welcome this.

Coming on to the guidance for the quarter ending September 2017; I am pleased to report that the period of slow growth is over and we will be growing again. We have started witnessing a recovery on the ground and demonetization is behind us. We expect EBITDA to grow low double-digits over Q1 FY2018; this brings us back on the growth path after almost three moderate quarters which were impacted due to demonetization among other things.

I am happy to share that we are going to begin a new era for Videocon d2h with DishTV Videocon on a positive note with low double-digit EBITDA growth. Q2 FY2018 is likely to be the best quarter for Videocon d2h in EBITDA terms ever.

It has been a great performance last 2.5 years and it is going to get even better with the merger kicking in from the third quarter. We are now at the beginning of another exciting story as the growth will accelerate with the merger. This puts us in a very strong position in times to come and DishTV-Videocon is likely to be the most profitable media company in India in terms of pro-forma EBITDA.

With this, I now hand over the call to Mr. Khera for business update.

Anil Khera: Thank you, Mr. Saurabh Dhoot. During the quarter, most DTH operators increased the prices of set-top-boxes by INR 200. This will not just help lower our subsidy on set-top-boxes, but also help us acquire quality customers and also improve churn for the industry to some extent, as switching cost will increase.

We continue to identify gaps in current content offering and provide it to our subscriber as value added services. Our value-added services continue to gain attraction. These value-added services contribute meaningful to our EBITDA and are growing at a promised run-rate. In June, we launched D2H Cooking which shows unique recipe from India's popular chefs. I am happy to share that both D2H NachLe, which was launched in May 2017, and D2H Cooking have received encouraging response from our subscriber within just few weeks of launch.

I am happy to share that the monsoons have been in line with long-term average. We believe this will strengthen our macroeconomic sentiment and imply good consumption from rural India. This is great for our business as our 60% of our subscriber acquisition come from Phase-III and Phase-IV digitization areas.

We have been receiving numerous queries regarding government service of Free Dish. First of all, Free Dish is not something new. It has been there for more than 12 years from the government. Secondly, the large broadcasters are beginning to realize that they need to increase the minimum windowing for the pay content to be shown on Free Dish platforms. This would help bring meaningful differentiation between pay content and free content. Thirdly, the increase in channel auction carries price on the free dish platform will make free dish platform expensive for smaller broadcasters in future. This could mean that the amount of content that is available on Free Dish could come down. In the long run, we believe market forces itself will bring in a balance on this front. Finally, we believe Free Dish is a steppingstone to PayDTH as this is the first time the viewer experience is digital quality content then later they realize that the lack of pay content and upgrade and upgrade to PayTV platforms. We keep acquiring subscribers from Free Dish platform.

As we have shared several times in past, we will continue to experience with skinny packs to acquire subscriber, especially in Phase-III and Phase-IV markets. These packs are designed in such a way that their absolute margin profile is similar to our current margins, as these packs have lesser paid content. The key driving factors behind these packs is the EBITDA per subscriber. As long as we continue to grow or maintain our absolute EBITDA per subscriber, we will continue to continue to acquire subscriber at low price points.

The Government of India continues to make commendable progress towards 100% electrification of rural household in India by 2019. Out of nearly 18,500 villages, nearly 14,500 villages have been already electrified. In the long-term, this has a positive co-relation with our business as it would increase consumption of PayTV services.

Coming onto the tariff order, the hearing at the Chennai High Court have concluded. Videocon d2h presented a case supporting the tariff order and interconnection regulations suggested by TRAI. We now await the High Court order on this matter. As seen in all regulatory processes in India, these things evolve over a period of time.

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 platform, which is positive for DTH operators as it reduces the ability of cable operator to underprice the product.

The Tariff Order also addresses some of the issues that distribution platforms face while dealing with broadcasters. The proposed pricing for distribution platform ensures that our gross profit per subscriber is protected.

I now hand over to Mr. Rohit Jain for financial update. Incidentally, this is Rohit's last conference call as he has decided to pursue other opportunities. We wish him good luck for his future endeavors.

Rohit Jain: Thank you, sir. We are pleased to share the results in detail for the quarter.

Total revenue came in at INR 7.73 billion. The breakdown being, Subscription and Activation INR 7.09 billion, Carriage revenue came at INR 258 million and Ad revenue came in at INR 69 million.

Adjusted EBITDA came in at INR 2.49 billion and margin came in at 32.2% for the quarter. Content cost came in at 42% and fixed cost at 14.9% of revenue. We reported net profit of INR 12 million and free cash flows of INR 572 million during the quarter. ARPU came in at INR 198, largely impacted by revenue loss on account of entire Ramadan falling in Q1 as compared to last year when it was a spill over across quarter one and quarter two.

During the quarter, we added new 630,000 subscribers and net 130,000 subscribers. Monthly churn came in at 1.27% for the quarter, largely due to the lag effect of demonetization in December quarter. Having said that, over a full year period we think churn would be in line with the historical trend.

Hardware subsidy came in at INR 1,865 per subscriber. The decline is largely as a result of INR 200 increased in set-top-boxes prices starting middle of May. In the coming quarter, with a full quarter impact subsidy should come down further.

CAPEX for the quarter was INR 1.24 billion. And adjusted EBITDA less CAPEX came in at INR 1.246 billion.

As of June 30th, there were term loans of INR 19.67 billion and cash and short-term investments of INR 4.35 billion

In end, we are very excited about the fact that demonetization and the sluggish period is behind us. Quarter two is likely to be the last quarter of the company as a standalone entity. It is also likely to be the best quarter in our history with a strong double-digit growth over Q1 sequentially.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Jean Garfield from Revere Wealth Management. Please go ahead.

Gene Garfield: Could you please let me know if you have any time table for providing cost synergies with regard to the merger please?

Rohit Jain: The company, with all the regulatory approvals except for MIB being done, is now working on that. We hope to set up an Investor Day or Analyst Day soon over the next couple of months to be able to share that in detail. We have just about started that exercise.

Moderator: As there are no further questions from the participants, on behalf of Videocon d2h Limited that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines. Thank you.