



“Videocon d2h Limited Q1 FY 2018 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,
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MS. NUPUR AGARWAL -- HEAD (INVESTOR RELATIONS)**

Moderator: Good Morning, Ladies and Gentlemen, Welcome to the Videocon d2h Limited Q1 FY 2018 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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Nupur Agarwal -- Head (Investor Relations). Thank you and over to you, Ms. Agarwal!

Nupur Agarwal: Thank you. Good morning, everyone. Welcome to the Videocon d2h’s Q1 FY 2018 Results Conference Call. We have with us senior management of the Company represented by Mr. Saurabh Dhoot -- the Executive Chairman; Mr. Anil Khara -- the CEO; Mr. Rohit Jain -- Deputy CEO; and Mr. Avanti Kanthaliya -- the CFO.

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

Saurabh Dhoot: Thank you, all for joining our Q1 FY 2018 Results Call, first for this fiscal. Dear shareholders on this note, going ahead we now look forward towards a new journey for our company and I feel excited about the new growth and opportunities, a world class scale, strength in market that we are going to have with Dish Videocon. And naturally, all of this is going to be fueled by excellent free cash flows generation.

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

Let me start with a quick summary of our quarter one results, gross subscribers increased by 0.63 million during the quarter that is even better than the last quarter. Net subscribers increased by 0.13 million and totaled to 13.04 million. The net subscriber addition continued to have a temporary increase in churn as a result of the lag effect of demonetization on the subscriber base.

Churn as you all know has a lag effect. Net subscriber base you all know has a lag effect. Barring this temporary impact on churn, I am happy to share the moderation in growth as a result of demonetization is behind us.

Revenue from operations came in at INR 7.73 billion, subscription and activation revenues came in at INR 7.09 billion, these were impacted by the Ramadan period which was entirely in Q1 of this year as compared to last year where the Ramadan period extended into Q2 as well. All are aware this is an important seasonality effect which matters to Q1 & Q2 revenues.

Adjusted EBITDA came in at Rs. 2.49 billion and similar to the same quarter as in line with the guidance we have provided. 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 the quarter.

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

We have filed a prospectus with the UK Listing Authority for setting up a GDR program earlier this month. The communication with the UK, LA 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 a 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 customer service model, convergence and technologies, expanded breadth of content offerings, including expansion and exclusive content, advertising income growth potential as well as synergies from a combine 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 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, which actually gives us far more opportunity going ahead.

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 entire 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 hours to 5 hours in Indian and DTH operators offer unlimited TV 24/7 to a substantial majority if the entire country's population today already.

Data is still not effective alternative to TV but is certainly complementary. Data enabling phones will help expand content consumption and expand PayTV market growth as such.

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PayTV continues to be the most economical forms entertainment with skinny packs starting from INR 99 per month and clearly, that comes without any daily use restrictions unlike 4G phone viewing to an entire family.

The widespread availability of high speed data and phones at affordable prices would create complementary business models for us to grow and prosper with. I am really excited about the improving potential of converge and technologies. The connected Set-Top-Box for example will be an important part of our future. A connected box will allow subscribers to view 24/7 unlimited content to the more than 100 eyeballs we cater to today from more than 600 channels and services and also gross content from Netflix, Hotstar, YouTube, Voot, Spuul, Sony LIV, OZEE, Hungama Play, and so much more. We in fact signed with Netflix this year with Reed Hastings who launched alongside in India this year with an eye for a big scope and 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. It aims to simplify taxation regime thereby improving the ease of doing business and will drive the unorganized segment such as local cable operators towards taxation.

Coming onto 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 and we are already growing again. We have started witnessing a recovery on the ground now that demonetization is clearly behind us. We expect EBITDA to grow low double-digits over Q1 FY 2018 this brings us back on the growth path after almost three moderate quarters which were impacted due to demon and other aspects.

I am happy to share that we are going to begin a new era for Videocon d2h Limited with Dish TV Videocon on a positive note with low double-digit EBITDA growth. Q2 FY 2018 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 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 Dish TV Videocon is likely to be the most profitable media company in India in terms of pro forma EBITDA.

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

Anil Khera:

Thank you, Mr. Saurabh. During the quarter, most DTH operators increase the prices of Set-Top-Box by INR 200. This will not just help lower our subsidy on Set-Top-Boxes but help us to acquire quality subscriber 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 promising run rate. In June, we launched d2h Cooking which shows unique recipe from India's popular chef's. 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 strength our macroeconomic sentiments 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 area.

Regarding Free Dish 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. Secondly, large broadcasters are beginning to realize that they would need to increase the minimum windowing for the pay content to be shown on Free Dish, this would help bring meaningful differentiation between pay content and free content. Thirdly, the increase in channel auction carry price on the free dish platform. It will make free dish platform expensive for smaller broadcaster in future. This could mean that amount of content that is available on Free Dish could come down. In the long run, we believe market forces itself will bring in the balance on this front.

Finally, we believe Free Dish is a steppingstone to pay DTH as this is the first time the viewer experience is digital quality content then later they realize that the 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 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 point.

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 is a positive co-relation with our business as it would increase consumption of PayTV services.

Coming onto the tariff order, the hearing of the Chennai High Court have concluded. Earlier this month Videocon d2h presented a case supporting the tariff order and interconnection regulation 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.

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 platform faced while dealing with broadcasters. The propose pricing for distribution platform ensures that our gross profit per subscriber is protected.

I now hand over the call to Mr. Rohit Jain for financial update. Rohit Jain's last conference call as he has decided to pursue other opportunity. We wish him good luck for his future endeavors. Over to Rohit Jain.

Rohit Jain:

Thank you, sir. Thank you for the handover and the good luck. Pleased to announce the results for the quarter in detail.

The total revenue came in at INR 7.73 billion. The breakdown of INR 7.73 billion being: Subscription and Activation at INR 7.09 billion. Carriage revenue came in 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. This was impacted on account of revenue loss of the entire Ramadan period falling in quarter one compared to last year where there 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. We believe that the increase in churn is temporary due to the lag effect of demonetization in December quarter.

Needless to say, we have seen that churn needs to be looked at over a longer period given the impact of seasonality and external factor. However, it seems that the full year churn should be in line with the historical trends.

Hardware subsidy came in at INR 1,865 per subscriber. The decline in subsidy is as a result of INR 200 increases in Set-Top-Boxes prices starting middle of May 2017. In the coming quarter as a result of the 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, we had term loans of INR 19.67 billion and cash and short-term investments of INR 4.35 billion

In summary, we had the demonetization and its impact is behind us and we are back on growth trajectory. 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 very impressive double-digit growth likely, sequentially over the Q1.

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 Vivekanand S. from Ambit Capital. Please go ahead.

Vivekanand S.: Just a couple of questions. One on the gross profit per subscriber. Mr. Khera, you had mentioned that you will look to maintain gross profit per subscriber in the new tariff regime. Just a couple of things on this, one is with respect to the HD subscribers, just to clarify, is it so that we will be allowed to charge the rental only INR 130 per subscriber on standard definition as well as HD Boxes that is one? And secondly, the gross profit and EBITDA per subscriber with skinny pads, can you explain the workings behind the same net result even though you may be selling more skinny packs now that is question one? And secondly, I missed a bit of the opening remarks. Have you given any color on the synergies or any guidance on the synergy, now that you are working on the integration plans and then you will be merged with Dish from 1st October any thoughts on that? Thanks.

Anil Khera: Your first question on TRAI new guidelines which is being argued in court and as per the guidelines which is not yet implemented because it is debated by broadcasters and TRAI. As per the guidelines the minimum charged price is INR 130. The INR 130 should cover any platforms, the basic service of bandwidth cost which will include the bouquet of Free-to-Air channel minimum 100 numbers it could be more also but minimum has to be 100. On top of that the broadcaster is supposed to announce their bouquet pricing as well as their À-La-Carte pricing. And in the bouquet pricing and in À-La-Carte pricing, all the distribution platform will have their margin, bouquet pricing will have different margin and À-La-Carte price will have different margin. As a platform, we are not allowed to change the bouquet but as a platform we are allowed to make our own bouquet from the À-La-Carte offering of the broadcasters. Now, both these bouquets offering or the À-La-Carte offering has certain margin, percentage margin for the distribution platform. The distribution platform can make their own bouquet by picking up channel from the À-La-Carte offering of the broadcasters and make bouquet of entertainment channel, movie channel and various other channels. another advantage of the new guidelines of TRAI which are yet to be implemented that are any channel which has got a minimum penetration level, I mean it is defined in the guidelines will attract, it carries off per subscriber based on the strength of the platform, so that will give us the total transparency in terms of placement cost DTH versus or any MSO cable. So, this answers your query the new tariff order.

- Vivekanand S.:** Sure. Sir, just one small follow-up on the tariff order, is there any provision for you to charge higher bandwidth fee from consumers if you deploy an HD box or any HD box with recorder compared to a bare bone standard definition box?
- Saurabh Dhoot:** The bandwidth charges are not driven by the box, they are driven by the channel, as of now the regulation say that one HD channel will be counted as two bandwidths. So, effectively, the charges do get extrapolated as per channel again, I mean we are all discussing hypothetical scenarios till the time it is actually implemented but they count one HD is equal to two bandwidths.
- Vivekanand S.:** Right. So, you will not be allowed to charge a separate box rental, I am just curious, what is the incentive for us to deploy expensive HD and HD recorders.
- Saurabh Dhoot:** No, the whole model has got nothing to do with the box, it has got to do with the service. We have in any case always maintained, we are in the service of charging subscription and providing services not in box rental. Also, the difference between the standard definition and high definition box is marginal. So, at least we are not to perturbed by that. I mean you are already aware for the last couple of years close to entirely whatever we are seeding is high definition boxes in any case. Can you repeat your other questions?
- Vivekanand S.:** So, the other question is with respect to the EBITDA per subscriber math, I would just like to understand, how are you able to maintain your EBITDA per subscriber even with the skinny packs? Can you explain the math behind the content pricing there and the effective EBITDA per subscriber?
- Saurabh Dhoot:** I mean, I can explain you the principle. The principle is simply allocation of whatever content you are showing on that, right? For example, INR 99 essentially Free-to-Air packs. In a Free-to-Air pack your content cost is obviously negligible. So, it is a apportionment of content cost depending upon consumption patterns and what level of PayTV are you showing on that. That is the principle.
- Vivekanand S.:** Right. And on these skinny packs, just to understand the way you apportion costs and the content contracts, many of your contracts would be fixed fee and some of them would be variable as you have explained on that in the past of subscriber basis. In that scenario, in your content cost computation are this skinny pack customer counted as full subscribers, full service subscriber to the broadcasters or do you have deals which are very-very granular with the broadcasters?
- Saurabh Dhoot:** The deals are very granular in terms of their negotiation, in their discussions. Obviously, deals take into account the actual penetration of pay channel.
- Vivekanand S.:** Right, okay. This is helpful. And lastly, my question was on the merger synergies, any discussion that you had. I miss the initial part of the call. So, I was just hoping to understand if

you have done any internal working which can be shared with us at this point given that the merger is now eminent.

Anil Khara: No, you did not miss any guidance on merger synergy. But that said, yes, clearly the key areas of synergies would be content cost, fixed cost, interest cost, Set-Top-Box sourcing, other capital item synergies, revenue synergies, value added services, advertising, carriage, and of course, the whole power of such a scale. That said, we would put together giving a lot more clarity on the merger synergies and the benefits. As such various analysts have done extensive work on this front and have synergy estimates in terms of free cash flows generation additionally beyond what the two companies do today of over U.S.\$ 60 million to U.S.\$ 80 million, these estimates look reasonable.

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

Rohit Dokania: Just two questions, one is on a sequential basis the employee cost and admin and other expenses have significantly fallen. So, what could be the main reason for that?

Rohit Jain: Well, that is simply because on the last quarter there was apportionment of acceleration of ESOPs charge and sweat equity to Executive Chairman, so essentially all non-cash items. The only reason you are saying decline is because of that. So, last quarter was essentially an abnormal sort of quarter. What you are seeing now in this quarter are the sort of right figure.

Rohit Dokania: Rohit, it is down on a Y-o-Y basis as well.

Rohit Jain: Yes, also because there is legal cost that have been passed generally in the Q2. So, it is really not having apple-to-apple. Generally, it is either an impact of ESOP expenses or legal expenses and admin. But what you are seeing now is the stable employee cost that in real term has not changed over the last few years.

Rohit Dokania: Okay, sure. So, I was wondering are the synergy benefit sort of are we sort of working towards them right away or will that be visible only sort of post the merger because the cost has fallen by 20% on employee which I take your point and there is another 11% - 12% fall sequentially on admin cost as well.

Rohit Jain: Yes, I think on synergies, Mr. Saurabh Dhoot has shared his thoughts anyway, so I think it is same for that.

Rohit Dokania: Sure, okay. And the second question would be, you did talk about the sort of impact to Free-to-Dish and so on and so forth. I was just wondering, are you seeing anything on the ground happening which makes you believe that the larger broadcasters are actually increase the windowing that they do between pay and FTA channels in terms of fresh content?

Saurabh Dhoot: Yes, in fact I did share our thoughts on Free Dish and I did mention that all the broadcasters have now started playing a very important role to save the PayTV industry by windowing the content for minimum one year. That means what they are showing on the PayTV and when they move the same content to a Free TV they will keep a gap one year. And not only that, for the movie channels they have decided to keep two separate library, one for the PayTV channels and separate library for which will have non-premium free movie channel for the Free Dish. So, that is going to protect the PayTV industry to a very large asset and keep those Free Dish subscriber motivated to upgrade themselves to PayTV.

Rohit Dokania: Sir, I understand I was just wondering, has this already started happening are you seeing initially?

Saurabh Dhoot: Yes. It already started happening. In fact, with two DTH platforms, windowing thing has already been integrated in the agreement and some of the broadcasters have asked for some extra time to create the content for windowing purpose. But most of the leading broadcasters have already started the windowing concept.

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

Vikash Mantri: Sir, just wanted to understand, what is the progress of digitization in Phase-III and if there is any broadcaster still giving out analog signals?

Saurabh Dhoot: Okay. As we mentioned earlier, Phase-III and Phase-IV is a very big area to be covered for digitization and we maintain earlier also that it would take 2 years to 3 years for Phase-IV to complete, what we are most excited about is the state of Tamil Nadu which is to be digitized as per the new order is now open state of Tamil Nadu getting digitized will have very positive impact for the PayTV industry and there are some areas in Phase-IV which are still running on analog but broadcasters have taken all the steps to ensure these analog signal stops immediately and the industry outlook keep pointing out where all the analog signals are there and broadcaster immediately switch it off. And we are sure that looking at the complexity of Phase-III and Phase-IV switching off, they switch off one village the 20 - 25 villages gets switch off. We are hopeful that in next few months the entire analog broadcaster will stop.

Vikash Mantri: Sir, the Phase-III, Phase-IV digitization was announced 2 years to 3 years back so that was sufficient. And there were enough notices by the government saying analog has to be switched off by broadcasters, MSO's and everybody else and I think there was some statement also saying that it would be criminal to carry analog signals as of now. However, any action from body's collectively to enforce this which is basically showing that may be digitization, they are not serious about and I have not seen any, if you see the same Star and Airtel and Tata Sky have all gone to the courts respective the tariff order whereas, nobody is in court or fighting the government against the process of digitization, not able to understand this process. I would be

more glad if everybody would start and initiate this process of actually completely digitization quicker and this could immediately happen if all analog was switched off. My second question is on the churn and the gross subscriber adds in this quarter. There has been some increase in both gross adds and the churn in this quarter. Can you help us understand what was the higher seasonality in this quarter and reasons for the same?

Rohit Jain: Well the churn Vikash as I had spoken really there has been lag effective impact of demonetization, it is a 120-day lag effect. What we are seeing essentially now is what happen in December quarter which we are all aware about.

Vikash Mantri: But Rohit, these would mean that I do not have money or cash to subscribe for a month or two months but I should come back.

Rohit Jain: Yes. But different people come back at different speed, right? And we have seen the lag effect of demonetization carry on recently till the last quarter. Naturally we expect, these things to continue to improve which reflects and guidance we are giving for the next quarter. So, Yes, different people have varying degree of bouncing back.

Saurabh Dhoot: Yes, and that is why gross subscribers are also high.

Moderator: Thank you. The next question is from the line of Sidharth Bera from Nomura Securities. Please go ahead.

Sidharth Bera: I have a couple of questions. First, can you share the carriage income in the ad revenues for this quarter?

Rohit Jain: We shared so carriage revenue for the quarter was INR 258 million and ad revenue was INR 69 million.

Sidharth Bera: Okay. Sir, in terms of the ARPUs now like one month has passed this quarter. Have we seen any major improvement in the ARPUs compared to last quarter, how is the current attraction?

Rohit Jain: Well, the current attraction is certainly quite positive. Again, at the cost of repeating that is the reason we are giving sort of historical guidance in terms of sequential growth, we do expect this to be a fairly strong and profitable quarter.

Sidharth Bera: Okay, sir. My last question will be on this GST, we have seen that prices has largely remained stable after GST. So, can we expect that entertainment tax now we do not have to pay, so that should benefit margins from the next quarter onwards?

Rohit Jain: Well, I mean the impact of GST is really Service Tax has gone up by 3%. I think Entertainment Tax is completely separate issue. As of now, cost has gone up by 3%, we have absorbed that for the time being within our budget, we have not passed it on to the customer.

Sidharth Bera: Yes, sir. But effective tax like before GST would have been closer to 7% to 8% and right now I mean after a 3% - 4% price increase I think there should be benefit which we should see over the next few quarters.

Rohit Jain: Probably, and we will have to see because we are also sort of adding more content, as we speak I think that is happening as well. Generally, we tend to sort of price increase as a result of the content. I think these are things that we will contemplate, we will have a better view of these things and probably couple of quarters' time, it is too early to evaluate that.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Just one sort of clarification on the windowing bid that you talked about. So, we have very recently seen Star essentially launched their sports channel on the Free Dish platform, Star Sports First and what we are seeing there is really some of the content will be released on that platform as well. You are basically saying that broadcasters will sort keep one-year window. So, I could not sort of reconcile these two sorts of positions. If you can just help me understand, what is your understanding on the Start Sports First and what Star is doing there?

Saurabh Dhoot: Okay. Your first question Start launching sports channel on Free Dish, as we understand, that Start Sports or any other Sports channel is currently forced to share their feed for all India playing in India which is anyway coming on DD Sports from past 10 years to 15 years. So, that is part of the life already whether it is coming on DD Sports channel or is coming on Start Sports channel would not make much difference to us or anyone. And about launch of the sports, first channel, we understand from Start that will be mainly, they will be covering the Kabaddi matches or the other non-international important matches like Ranji Trophy and these kind of matches which is hardly anyway today also having very less traction.

Amit Kumar: Sir, just one small follow-up on this, I appreciate the fact that they have to already share some of the India especially cricket matches and Olympic, etc., with Doordarshan. But your point on Kabaddi, our understand is Kabaddi is number two and this is data coming from Start only that it is number two most watched sports event in India. And that also, there no compulsion to sort of share those Kabaddi matches with Doordarshan but they will be telecasting them live on Start Sports First. So, does it not sort make that in the sports content also sort of available out there on Free Dish.

Saurabh Dhoot: Yes. Kabaddi in order to make it each to all the penetrated customer on the platform, the Kabaddi from day one is available on the base pack and mostly in all the languages channel of the Star bouquet whether it is Bengali, or whether it is any other channel is South India. So, they have ensured from day one that it reaches out to all packs in the country. That is how it has caught up. And if you look at cricket, although cricket viewing is very high in India but again, it is available only on the sports and other packs for India playing matches outside India.

- Amit Kumar:** See, my only point is that there is no windowing here. I mean content which we are not even force to share you basically offering it live without that one-year window in operation basically. So, what is the sanctity of that one-year window is all I am asking?
- Saurabh Dhoot:** Not on sports. One-year delay is not relevant on sports.
- Rohit Jain:** Yes, I think the windowing is more GEC concern. I think in sports it is more tiering.
- Saurabh Dhoot:** One over delay for example, I mean that has always been the case this is nothing new from that perspective. Naturally the broadcasters themselves understand that meaningful differentiation is very important between free and pay content. Otherwise they are anyways canalizing their own revenues and we will anyway cut the costs. So, it does not matter actually to us. It is for them to decide this.
- Amit Kumar:** Fair enough. Just two bookkeeping questions at my end. On the content cost side, we still see content cost as a percent of revenue sort of going up. Videocon has already been at a fairly high level in this regard, if you can just help me understand that? And the other point is that when we look at the operating cost overall, so the direct operating cost and take out content from there. So, that line item is basically declining quite sharply down 14% Y-o-Y, so is there an accounting change here anything that I have missed on this line.
- Rohit Jain:** I think on the content really it is an impact of demonetization and revenue not going up. Really nothing has changed as far as the content cost from our budget is concerned. Over the next few quarters as we come back to growth any you see increase in revenue you will see some of that, some of that leverage will start to come in. Naturally it will be a big item of synergy as well, going forward.
- Saurabh Dhoot:** No, I think with how discussions are progressing, I think one can clearly see decline in content cost going forward, this is probably going to be the highest you will ever see it at.
- Amit Kumar:** All right. And second point is that, if I take out content cost from the direct operating cost line that you report then the remaining whatever is left essentially in terms of cost that has actually declined by double-digits Y-o-Y, so I just wanted get a sense of what is going on.
- Rohit Jain:** Yes, I think direct cost has several elements like satellite transponders and all, many of them are fairly strict in nature. So, naturally the inflation rate on fixed is much lower, compare to what we see on other overheads and content that is the reason you see leverage on that much faster.
- Amit Kumar:** Rohit, I understand that inflation is lower but I am seeing this cost line actually decline I mean the two primary elements which are there is one is license fee and taxes and the other one is satellite. So, I presume satellite cost would be constant or may be marginal decline because of

the currency. But still seeing almost upwards of a 10% decline in that cost line, if you can just help us understand what is the key driver behind it please?

Saurabh Dhoot: I am not sure which year are you comparing with. But do remember one of the changes we had done last year was Entertainment Tax earlier use to be part of the cost which all the DTH operators last year onwards have started netting-off from the revenue itself. So, I do not know whether you are comparing apple-to-apple. But you know with that taxation accounting kept aside, really the primary reason is that the inflation rate in fixed cost as low.

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

Vikash Mantri: On the skinny packs or the lower end packs. Now, we have seen in the last two quarters, Airtel and Tata Sky launch packages at INR 180-odd effective and if you look at the quality or quantum of content that is there in these packs is actually very similar that of the INR 280 packs. The only genre which is missing is the infotainment genre which was anyways available in all base packs earlier and not very expensive. So, in a INR 200-odd pack regime, I do not really understand how can we still maintain the EBITDA per sub given that at INR 200 ARPU your direct cost, operating cost and EBITDA are split one-third each. So, how can the same economics of EBITDA per sub be given at an INR 180 subscriber pack assuming that the ARPUs will be of that subscriber at INR 145 150?

Anil Khera: It is will difficult to get into specific of any particular pack launched by a particular DTH operator.

Vikash Mantri: No, sir, I am not trying to I am saying the theory behind it.

Anil Khera: At the broad level, these packs are designed to improve revenue realization from non-paying subscriber base and on incremental. For example, the discount on long-term recharges aims to lower temporary suspension and reduce churn to some extent. Over a time, idea would be to bring in a change in recharge habit of the subscriber and get them to start recharging for a longer period. We have shared many times in the past also that we will continue to experiment with skinny pack to acquire subscriber especially in Phase-III and Phase-IV markets. These packs are designed in such a way the absolute margin profile is similar to our current margins and these packs have lesser paid contents. There have been strategies that we acquire the customer at the lower pack to begin with and then start selling him various add-on services and value add services to realize a better revenue from the same subscriber. The key driving factor behind these packs are that EBITDA per subscriber. As long as we continue to grow or maintain our absolute EBITDA per subscriber, we will continue to acquire the subscriber at the low price point. As far as ARPU the point which you raised, we request the investor community, not to look at ARPU in isolation but also along with EBITDA per subscriber.

Rohit Jain: Vikash, the point Mr. Khera is saying is some packs sometimes are tactical. I think it is not about specific packages, I think the long-term focus on portfolio management, focus on improving revenue realization and EBITDA per sub is obviously there. But some operators might do some pack sometimes tactically which might be driven by market forces or market condition.

Vikash Mantri: So, exactly Rohit, I thought so to and my argument was that this is just a tactical or a reaction to the Free Dish subscriber addition, against that Free Dish's windowing. So, tactical move that necessarily support the EBITDA per sub argument.

Anil Khera: I do not think this is probably something I would link to Free Dish, it is actually a technical, tactical move which has been deployed by various DTH operators to anyway attract, increase and improvement Phase-III, Phase-IV realization. And realization is the key word here I am using. So, even if you play around with pack prices or strengthen the packs or reduce the strength of the pack, this is all design to in effect look at what realization you get in a 30 days billing cycle with the customer. So, actually the effect of those are incremental in nature to revenue and because it effects subscriber behavior and how they operate. So, it is actually more to do with improving realizations or improving traction and traction linked to revenue, so it is not to do in response to Free Dish or any other aspect. Already I mean even if you are talking about a INR 200 pack it is a INR 200 pack, it is way higher than the free item. So, there is no comparison to Free Dish.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Just one small follow-up question, these value-added services, what is the kind of penetration within your network, within your 13 million subscribers base these services, in a sense the number of subscriber which basically takes at least one of these services essentially.

Anil Khera: You see the total subscriber were availing value-add service on our net subscriber is to the tune of 15% to 20% of subscriber and who have opted for 1 or more than 1 our value add services. And there are customers who subscribe for some value add service now and may unsubscribe after a year but we have one of the set of customers who will come in and subscribe for the same services again. So, continuously we have a growth on our value-added services and in order to expand and taste new content to our subscriber we have been launching time-to-time various new services and our total value add services are to the tune of currently 12 to 15 channels which we have been offering. And the company has identified this as a very important revenue area and we are in process of identifying another 10 to 15 value-add services and going to roll out very soon.

Moderator: Thank you. The next question is from the line of Vivekanand S. from Ambit Capital. Please go ahead.

Vivekanand S.: Could you give us an update on your HD business, number of subscribers that you have and the ARPU range of these HD subscribers, how much of the premium are they paying to standard definition subscribers, that is question one? And secondly, with respect to the skinny packs, is there also an effort to roll out skinny packs in HD to increase adoption and any update on that would really help? Thanks.

Rohit Jain: So, I mean Vivek, our HD penetration is sort of low-to-mid double-digits and we do get a incremental revenue over standard definition. Incremental revenue really varies from literally almost INR 50 to INR 200 depending upon what package customers have taken. And to your second point on skinny pack, so we did actually start that few quarters back, we did share few quarters back, we have started a concept of sachet pricing, which is really providing the ability and empowerment to customer to opt for smaller number of bouquets within HD which could be genre wise, which could be broadcaster wise, so there are different cuts for HD for subscriber to take sachet of HD rather than the whole bouquet. So, those have been there for some quarters as well.

Vivekanand S.: Right. Just one last question. On the tie-ups that you are mulling with the OTT platforms, is there a carriage fee or a fixed fee that you receive from these platforms or as of now is it driven by consumption?

Rohit Jain: Well, these are driven on principle of revenue sharing. It is too early for me to give you color in terms of what kind of agreement but these are absolutely on the principle of revenue share.

Vivekanand S.: So, these consumers will need to recharge Videocon d2h to avail let us say Netflix pay services, is that how it works?

Rohit Jain: Well, they will have to pay for the Netflix for sure one way or the other and it will be revenue sharing.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie Group. Please go ahead.

Alankar Garude: Just one question from my side. Can you give some indication how cable operators especially in Phase-III and Phase-IV how they are responding to the Set-Top-Box price hike by all the DTH operator?

Anil Khera: Okay. You see, every time we increase the price in Set-Top-Box we definitely create some room for cable operators to increase the prices and all along they have been maintaining a price gap of INR 200 to INR 250 lower than the DTH operators price. The moment we raise the price to say up by INR 200, they are also very happy to raise the prices, up by INR 200. So, the price gap between the cable operator and DTH continues to be same as it was three months to four months before.

Alankar Garude: Okay. So, basically, most of them have already responded to the price hike and increased their prices accordingly?

Anil Khera: Yes.

Alankar Garude: Okay. Sir, and just one very small follow-up to this. What would be your estimate of the average price paid by a Free Dish subscriber to get the receiver apparatus, any estimate on that?

Anil Khera: That varies from town-to-town and dealer-to-dealer because this is highly unorganized retail outlets for Free Dish Set-Top-Box, there are instances that these Set-Top-Box some of them come with warranty and some of them come without warranty. The Set-Top-Box is sold separately and the outdoor unit and the cable and all the accessories are sold separately and the installation cost depends from area to area. If there is a big competition in that market then installation cost could vary from INR 100 to INR 300 and even the Set-Top-Box the cost will vary from INR 600 to INR 700. And customer has to separately pay for outdoor unit to the tune of INR 500 to INR 600 and installation cost separately. And also, in many places the remote is sold separately to the customer at the rate of INR 200. So, more or less the total cost which directly indirectly the subscriber pays to acquire a Free Dish box is almost to the tune of what a pay DTH operator charge.

Moderator: Thank you. Ladies and gentlemen, that was the last questions, I now hand the conference over to the management for their closing comments.

Nupur Agarwal: Thank you everyone for joining us on this.

Moderator: Thank you. Ladies and gentlemen, on behalf of Videocon d2h Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.