



“Videocon D2HFY15 Earnings Conference Call”

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MODERATOR: **MR. SHALEEN KUMAR – UBS SECURITIES INDIA PVT.
LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Videocon D2H FY15 Earnings Conference Call hosted by UBS Securities India Pvt. Ltd. Please note that this conference call may contain forward-looking statements as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations that are subject to risk and uncertainties. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Shaleen Kumar, thank you and over to you sir.

Shaleen Kumar: Good morning everyone. Thank you for joining us for Videocon D2H first results call following their NASDAQ listing in April 2015. UBS is pleased to host the call today. We have with us on call Mr. Saurabh Dhoot – Executive Chairman of Videocon D2H, Mr. Anil Khera – CEO, Mr. Rohit Jain – Deputy CEO, Mr. Avanti Kanthaliya– CFO, Ms. Nupur Agarwal – Head of Investor Relations. Additionally, we have Mr. Harry Slon who is in process of joining the Board and is also present on the call. I now hand over the call to Mr. Saurabh Dhoot for his opening remarks. Thank you.

Saurabh Dhoot: Thank you all for joining the call and thanks to UBS for hosting our call today. Our Board Members, Management Team and I would like to welcome you all on our first results call following our listing on NASDAQ in April. We have had the pleasure of meeting many of you during our listing process in the last few months and are extremely delighted to have you all on our call. We would also like to thank our shareholders for making a NASDAQ debut a success. Your support has resulted in Videocon D2H now being the largest media company from India to be registered in the United States and the largest Indian company where market cap to be listed on NASDAQ.

I am pleased to declare that with the hard work, dedication and diligent execution of our team led by our CEO, Mr. Anil Khera, we concluded fiscal year 2015 ending in March with record performance ahead of the plan disclosed in our earlier filings. We have delivered the performance we promised and we outperformed in various metrics relative to the market. We have exciting growth ahead of us and we have achieved the following key metrics over 32.5% revenue growth over fiscal 14 to Rs. 23.4 billion. Over 55% growth in adjusted EBITDA to Rs. 6 billion that would amount to a little more than \$ 97 million with the margins coming in at 26.1%. 2.64 million new gross subscribers taking the tally up to 13.1 million subscribers. FY2015 ARPU grew to Rs. 196 which is ahead of the guidance we had with Q4 ARPU coming in at Rs. 202. We continued a tradition of leading the DTH industry in new gross subscriber additions for the fourth fiscal year in a row. We are well positioned for continued success in fiscal 2016 as in the past. We continue to be the fastest growing pay TV operator in India with around 20% of the DTH net subscriber market share in March 2015 up from 9% four years back.

Let me just give you a little background more on the macro opportunity in which we operate. Pay TV in India is strongly positioned for extraordinary growth over the next four to five years with almost 90 to 100 million homes that will be up for grabs by digital cable and satellite operators as the government rolls out its digitization mandate across the country. This will get almost 70 million analog subscribers to take a call to go digital in the coming years and, of course, we will have 25 to 30 million new television homes created by the strong economic growth the country is having as we speak. DTH is clearly well positioned to take a significant share of this opportunity and we expect to maintain our market leadership in new subscriber additions as we have done in the past. With the Indian economy growing strongly, GDP growth rates overtaking China recently, it is expected that overall media sector will grow robustly in the years to come. This will clearly help grow ARPU, TV penetration, HD uptake and overall revenues for the pay TV in general, especially the DTH sector given the industry characteristics and the business structure advantages for the DTH sector. One clear advantage of DTH is HD given the clarity of relationship with content providers, the customer perception and the capacity constraints of analog cable today 95% of the HD subscribers in the overall pay TV market in India are on DTH platform.

Let me give you a little bit more color on customer traction of packages and where the market is most active and innovative on packaging. We continue and are seeing strong demand on the higher premium content packages. In FY2015 almost 30% of our incremental net subscribers opted for HD packages. As on March 31st 2015 HD subscribers represented almost 10% of our total net subscribers which is up from 5% in FY14. We expect this penetration to only increase in the coming year and this will have a very positive impact on ARPU clearly. We keep monitoring consumer demand patterns and we keep modifying our package offerings accordingly. We have introduced a Rs. 99 pack in some regional language driven markets targeting low cost analog, cable subscribers for first-time DTH users in Phase III and Phase IV areas. Given low content loading on this pack our gross margin levels on these are higher and provide a healthy absolute margin. However, so far we have seen limited pickup for this package mainly as customers get attracted to these packs but prefer a higher package due to the higher margin and utility they get out of the content in those higher packs.

On competition scenario we continue to maintain a competitive advantage for various reasons. Latest technology enjoyed by subscribers and before the ABS-2, far more compression which gives us a massive effective bandwidth advantage, more HD channels, more regional channels, especially in a market where bandwidth is controlled by the government, largest distribution network we keep increasing our penetration across the country to increase convenience for recharging and sale and getting the subscribers across the country, we continue to improve our focus on customer service, we are the only pay TV operator with our own captive service network which enables us to have the best industry installation and repair turnaround timelines. 97% of our new subscribers get installed on the same day. We are very innovative in hardware technology because of our control on the entire box supply chain and R&D with development of local manufacturing capabilities. As you all are aware upon closing of the business combination with Silver Eagle Acquisition Corp. with which we finally listed on NASDAQ,

we now have 393 million equity shares which is equivalent to 98.25 million ADSs outstanding. The net proceeds we raised after all our expenses were \$ 273 million. Of this we have repaid gross debt of around \$ 100 million. We have plans of repaying \$ 80 to 100 million soon in H1 of this fiscal. The gross debt of the company at year end was close to Rs. 26 billion and cash and bank balance including the restricted cash was around Rs. 13 billion in FY15. We also continue to actively explore alternative sources of debt financing in the Indian and international market that overall helped reduce the borrowing and finance costs and make it more optimized.

Now given the strong visibility in our business due to the nature of pay TV we are in a position to provide a high level of guidance at this time. I am happy to share with business delivering strong growth we expect to achieve the significant milestone of achieving free cash flow breakeven after finance and interest cost as well as achieving a positive PAT level towards the end of FY16.

On the subscriber front we are guiding towards 1.3 to 1.4 million gross subscriber additions in H1 of this fiscal which is as per the current run rate. This is equal to last year and last year we in fact had the strong pickup due to the National elections in H1 of FY15. H2 we believe will be stronger and it's also linked to the timing and pace of digitization. We are confident we will maintain market leadership as we have in new additions as we have in the past.

On the EBITDA front we expect H1 FY15 EBITDA to grow 25 to 30% year-on-year despite the lower content cost we enjoyed in H1 FY15 earlier and that is the reason why we also expect a higher EBITDA growth in H2 of FY15 than the H1 growth as content operation leverage kicks in. On the ARPU front we expect FY16 ARPU to grow to around Rs. 215 levels in FY16. On content cost we see it declining from 38% levels we saw in H2 FY15 by 100 to 150 basis points in FY16.

I now ask Rohit Jain, our Deputy CEO to take a bit more details to the financial summary.

Rohit Jain:

Thank you so much. I am happy to share that our results for fiscal 15 were strong and ahead of the guidance provided earlier. The total revenue grew by 32.5% year-on-year to INR 23.38 billion. This further breaks down into subscription revenue that came in at 20.58 billion which is more than 38% growth over fiscal 14. The lease rental revenue came in at 927 million which is a 22% growth over fiscal 14. Carriage revenue came in at 580 million which is a 75% growth over fiscal 14. Advertising revenue came in at 100 million, this is a new activity that we have started in fiscal 15, there wasn't any revenue on account of this in fiscal '14 and the balance is miscellaneous revenue. We achieved an adjusted EBITDA of approximately 6.1 billion for fiscal 15 as against 3.92 billion for fiscal 14. This resulted in a growth of more than 55% over last year. This is ahead of the guidance we had provided of 5.9 billion during our investor meetings before the listing process. Also this adjusted EBITDA is before accounting for one-time security issue expense and the impact of ESOP scheme, both of which totals to INR 135 million. Adjusted EBITDA margin expanded 390 basis points to 26.1% and this is

despite the recent increase in content cost. Having said that the new content agreements provide great security and visibility on our content cost over the next three years, that gives us a great operating leverage as our subscriber base and ARPU increases. The fixed cost percentage of revenue declined from 20% in fiscal 14 to 17% in fiscal 15. The net loss for the year came in at Rs. 2.7 billion; this is a 15% improvement over fiscal 14. We added 2.64 million gross subs then 1.74 million net subs in fiscal 15 that represented a 25% and 20% growth over year-on-year. We finished fiscal 15 with gross subs of 13.1 million and net subs of 10.2 million. The subscriber acquisition cost came in at Rs. 1984 for fiscal 15 as against 1890 for fiscal 14. The increase is mainly on account of improving high definition mix that we saw in the fiscal 15. Having said that, we expect the subscriber acquisition cost to reduce by \$ 1.5 to 2 in fiscal 16. The overall CAPEX for fiscal 15 was Rs. 7.65 billion as against 6.25 billion in fiscal 14. This increase was on account of higher subscriber addition this year and also higher high definition additions.

With this we conclude our opening remarks. We would like to thank you all for your support and participation and would now like to open the floor for any questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the ARPU, 202 exit ARPU. First is, on service tax increase any increase you have taken and if you have not any plan to increase that? And exit ARPU for the FY16 end, what is the plan for that?

Anil Khara: In fact we have recently hiked our prices in middle of February so as per the guidelines we cannot increase the price again for next six months. From 1st June service tax has gone up and we can now only increase the price in the month of September so we are planning to do so and we will also make sure that we cover the shortfall of service tax collected from customer in this September hike which will take care of the entire years' service tax collection.

Abneesh Roy: The exit ARPU of 202 where do you see this financial year and the average ARPU for the full year also?

Rohit Jain: As Mr. Saurabh Dhoot shared the guidance, we expect ARPU over fiscal 15 to grow by about 10%. We expect fiscal 16 ARPU to be in the range of 215.

Abneesh Roy: One follow-up question on the other DTH broadcaster is trying differential pricing in Phase I, Phase II. So what is our thought process on that and have we also started some pilot project on this? So does it really work because till now the DTH industry hasn't really tried it, for the first time it is being tried in the past few months, so does it work?

Saurabh Dhoot: Look, we believe that the strategy behind these skinny low cost packs getting introduced is purely to expand the market organically especially in Phase III and Phase IV markets. This is

an innovative welcome initiative by the industry. The purpose of lower cost package is to offer in certain states the opportunity for new customers to migrate to DTH from cable or first time pay TV customers to sample a service. For us at Videocon, because of our technology advantage our focus continues to primarily be on the high end HD packages and launching new ARPU generating channels. We have been the leader in bandwidth total channels, HD channels and also high end HD packages and driving high realizations per sub is really a primary strategy and we have successfully done that and also led the market with regards annual subscriber growth addition. But though let me add here, we have an innovative team here with us where we believe these low price packages do offer a decent utility to our customers and also maintain a higher variable gross margin than the average. We have introduced it in some markets as it's actually a win-win, gaining new subscribers who later can upgrade and generate even more positive marginal revenue than they do. But as of now the attraction to these particular base packs remain attraction to our premium packs. So that's the answer to your question.

Anil Khera: No sir, actually my question was different. My question was in Phase I, Phase II the DTH player has hiked prices by Rs. 10, so it's not the low end for Phase III, Phase IV. My question is in Phase I, Phase II differential price is being tried out for the first time. The cable if you see there is a differential pricing within the city itself. So in the Tier-1 and Tier-2 is there a probability of success of this plan by the other player and any thought process of our also hiking prices in Phase I and Phase II cities?

Saurabh Dhoot: Like Mr. Khera explained in the call earlier that we have hiked ARPUs in these regions in February. We continue to see a very strong traction in all markets whether they are Phase I, Phase II or Phase II, Phase IV markets.

Abneesh Roy: So it's not differential, it's for pan India same price?

Saurabh Dhoot: Yes.

Abneesh Roy: My last question is if you could tell in terms of HD how much is the incremental share we are getting and the on an overall incremental share the other DTH player also claims market leadership and you have also claimed. So if you could elaborate what is the incremental market share in the past few quarters of yours and also for the peer that will be very helpful?

Rohit Jain: Let me share Abneesh, we have added 2.64 million gross subs last year and we have added 1.75 million net subs approximately last year. We believe this is the highest in the industry that anybody has done in the last year. We do believe for the last multiple years we do hold the market leadership. With regard to high definition we are seeing higher uptake of high definition, almost 30% of the net addition that we have done in fiscal 15 came in in high definition and that is a trend that we expect to continue. The overall high definition base for us has now gone up to 10% at the end of fiscal 15 as against the 5% at the beginning of the year.

- Abneesh Roy:** HD margins can you give us some color?
- Rohit Jain:** While we are not breaking out the margins by PAT but we do continue to enjoy premium pricing and higher margins on a high-definition.
- Moderator:** The next question east from the line of Manish Adukia from Goldman Sachs. Please go ahead.
- Manish Adukia:** I have three questions if I can ask. Firstly, on your subscriber additions, so you have been strongest for the past few years on subscriber addition front, do you think that the competitive dynamics would change once you go into Phase III and Phase IV markets, as somebody like a Dish TV would you lose grounds to them, what are your thoughts? Secondly on margins do you see that there is further room for improvement on the margins front and what kind of impact do you see with the TRAI CPE Tariff Orders that have recently released and would they impact margins? And thirdly, if you can just elaborate on your domestic manufacturing capacity of set top box, that will be great?
- Rohit Jain:** Sorry, could you just repeat the questions one by one for us to take?
- Manish Adukia:** Firstly, I was asking on subscriber additions, so if you can just tell us do you think that the competitive dynamics would change in Phase III and Phase IV markets, I mean you have been doing very well in Phase I and Phase II but as digitization happens in Phase III and IV do you think you might lose grounds with somebody like a Dish TV who is more strong in the rural areas?
- Rohit Jain:** We believe that more than half the share of DTH industry already is in Phase III and Phase IV and irrespective of digitization DTH has continued to voluntarily digitize Phase III and IV for the last several years and we have continued to maintain our market leadership. We don't believe there is any reason for us to feel otherwise for years to come as well.
- Manish Adukia:** My second question was on margins, so from current levels you have already seen a significant increase in last 12 months in your margin front, so do you think there is further room for improvement on your margin level and what kind of margins are you aiming for in, let's say, 2 years from now and also what kind of impact do you see from the TRAI CPE Tariff Order which it recently released. Would it impact margins for you?
- Saurabh Dhoot:** As we have already mentioned, we of course continue to experience very good margin expansion. I have already mentioned that in H2 we expect that to be even higher than H1. We see margins coming in closer towards 30% in long run. Mr. Khera would you like to address the question on the tariff order?
- Anil Khera:** The TRAI CPE matter is already in court, so it's a subjudice matter so we would restrain from commenting anything on that right now.

- Manish Adukia:** The last question on your domestic set top box manufacturing capacity, so if you can just elaborate on that, what kind of capacity do you have domestically?
- Saurabh Dhoot:** Our suppliers are well equipped to scale up to a very high level of supply. It can be more than double of what we purchased annually today.
- Manish Adukia:** My question basically was what percentage of your set top box is currently sourced domestically?
- Saurabh Dhoot:** We source all of them domestically, almost 99.9%.
- Moderator:** The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead
- Vikas Mantri:** Two bookkeeping questions, first, I think I heard gross sub addition guidance of 1.3 million for FY16, is it right?
- End of file: 26.00**
- Saurabh Dhoot:** No you heard it rightly but for H1 FY15 not the full-year FY15.
- Vikas Mantri:** In terms of your breakup of revenues now you mentioned your carriage fee revenues for the full year is 58 crores, can you help us with the outlook on that especially given that your peer has at least started to double his quarterly run rate? So what is your view on this and how are broadcasters behaving on incremental carriage fee?
- Saurabh Dhoot:** This has been a key focus area for us as can be seen from our fiscal 15 results carriage revenue grew by more than 75% in FY15 which was partially also due to the low base effect but we continue to focus on this stream of revenue, clearly we have achieved a significant scale in our business and having a big chunk of the last mile subscriber base in India on a platform today we are the premium choice of many new broadcasters, the new channels coming up in India so we only continue to see very good traction and very good increase in carriage revenue going forward.
- Vikas Mantri:** Can you help with the Q4 exit rate of carriage fee?
- Rohit Jain:** We are not breaking down the revenues quarterly at this point.
- Vikas Mantri:** On the content cost just wanted to understand in terms of your content cost. How much percentage of your contracts are on a CPS basis or linked to in a way revenues, just to understand how will we position to deliver the 100 to 150 basis points decrease in FY16.
- Rohit Jain:** At this point almost half of our contracts are fixed fee and almost half of the contracts are linked to subscriber growth. So with scale of subscriber coming in as well as increase in ARPU we do expect 100 to 150 basis points leverage to come-in in fiscal 16.

Vikas Mantri: Thank you.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Now FY2015 was a strong year in terms of subscriber additions for yourself as well as industry and I believe you are expecting another 30-40% kind of increase in your gross subscriber additions based on your guidance for 1H. So what is it that is exactly happening on the ground? Are you gaining share or you expect industry to grow at a similar level in FY2016?

Saurabh Dhoot: So I think this year as I spoke H2 we expect the subscriber addition to be stronger than H1. The reason being of course we have digitization deadline coming up in December 2015 which would clearly expand the market beyond the market we had last year. We continue to maintain our leadership position and we grow subscriber addition and especially net subscriber addition so we will be maintaining that and adding a robust growth going forward organically.

Jay Doshi: My question was more from the perspective that your gross subscriber additions were about 1 million in the first half of FY2015 and your guidance indicates you are expecting about 1.3 to 1.4 million in first half of FY2016. So at the margin are you gaining share or you think overall DTH industry gross subscriber additions will be higher in FY16 because we are looking at FY16 after a year where we had World Cup and good festive season. So I just want to understand if the outlook for DTH industry has improved or there is some sort of these expectations build in benefit of digitization?

Saurabh Dhoot: No clearly the organic growth in the market remains very strong and robust. So the market continues to grow very well on every year basis. Clearly events like the World Cup are given impetus but also we had events like national elections last year. So we continue to maintain that but of course the digitization would be a big kicker coming in at the end of this fiscal year.

Jay Doshi: And my second question would be you mentioned you took a price hike in the month of February. So typically when you take price hike and your ARPU growth has been quite good. So just wanted to understand your ARPU growth is largely driven by the mix and increase in mix of HD. How much as a thumb rule if you take a 5% or 10% price increase how does it reflect on your ARPU? Do you see down trading usually when you take price increases?

Rohit Jain: So we are continuing to see ARPU increase historically. The ARPU increase for us is coming in on account of 3 things. It's coming in on account of the price increase which we are able to do each year on account of inflation adjustment. We are also seeing ARPU increase on account of higher HD uptake and also thirdly we continue to introduce more and more value-added services for consumers that also kick in gives additional kick in on the ARPU.

Jay Doshi: Would it be possible for you to break down your increase in ARPU that you may have seen in FY2015 into these three buckets at a very broad?

- Rohit Jain:** All the three factors are contributing; we are not breaking it down by these 3 things but all the three factors are having an impact but just for your reference the price increase done last year was about 6 to 7%.
- Jay Doshi:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, two follow up questions, one on ARPU. Last one year for DTH industry has been good from ARPU perspective but you see the prior 4-5 it was extremely tough and now if I see the margins the DTH companies have really expanded quite a lot for everyone. So sir is there possibility that the discipline in industry can again get broken because margins are quite high and growth is also quite good on the top line. So ARPU hike how much is the confidence and discipline in the industry, how much confidence is there and can geo also again derail over longer-term in terms of growth for the industry?
- Saurabh Dhoot:** Right well you know if the triggers ARPU; we continue to see, we have various scares in the industry. So like I mentioned earlier right from the premium HD packs going all the way down to skinny packs even on the Rs 99 front. We have also ourselves launched low cost skinny packages. I also mentioned earlier that the traction we have on our premium packs is actually much more than the traction we get on these low cost base packs. So this kind of gives a flavor of what or where the market is moving or where the consumer traction is coming in, I think that's very encouraging.
- Abneesh Roy:** And sir one of the DTH operators has come with a per day kind of billing, of course it has seen limited traction as per media reports. But do you see long-term potential for that or it's more of a marketing gimmick only?
- Saurabh Dhoot:** Yes everybody feels it is a cool marketing angle to think about. As we see on the ground it seems like the process is quite cumbersome for the consumer, the daily recharge process and seems impractical. The trade margins are too low on them; they are not probably likely to push this product as per our ground intelligence. I don't think we need to worry about this. It didn't seem like its working like you mentioned.
- Abneesh Roy:** One question on Phase-3, Phase-4 DTH market and Phase-1, Phase-2 a delay expectation and if you could share your own thoughts on how much was the share? And Phase-3, Phase-4 obviously DTH at has the upper hand in terms of low last mile connectivity for cable players. So can you share your numbers in terms of what will be the split of the 70-80 million subscribers Phase-3, Phase-4 between cable and DTH?
- Saurabh Dhoot:** When the digitization happened, we all have learned and experienced digitization in India happening in Phase-1, Phase-2. We see that it is not an overnight process, it happens over time.

Digitization we saw happening in 2012 and 2013. Despite the Digitization happening in and on Day Zero basis cable or digital cable taking a more share from the DTH sector in Phase-1, Phase-2 digitization markets. What we see two years down the line is that DTH sector has outperformed digital cable in those two markets specifically increasing the market share substantially than what have been on Day Zero. So clearly it means that the DTH sector the is seen as a premium aspirational service in Phase-1, Phase-2 markets and specially so because of its superior HD offerings by all the players in the HD and DTH sector, the customer service, the B2C relationship, the direct relationship we have with our customers still this is all working in favor with us along with a very-very important factor of having us very experienced after sales infrastructure network, not just Videocon D2H but even from our competitors.

Abneesh Roy: On geo if you could tell us from a longer-term perspective, do you see that as a threat for you and DTH industry in general. They have applied for license and globally it may not work that much on the technology, but say much large corporates and they can do HD, pricing etc. So is there a threat they can come with a new business model also tying up with the LCO last mile? So are you worried from them from a longer-term perspective?

Saurabh Dhoot: Anybody who expands the market only expands the market for everybody else that said we are not in the business of broadband Internet. And you know the broadband entered with Internet penetration increasing in the country is actually beneficial to the entire media ecosystem. So it will just increase the market size and opportunity as also allows for more and additional services which our subscribers can have been the also have digital connections and broadband connections.

Abneesh Roy: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jay Li from Traftlet Brokers. Please go ahead.

Jay Li: Just to clarify the content cost that you expect to decline 100 to 150 basis points, is that for year 2016 versus for year 2015?

Rohit Jain: That is correct.

Jay Li: Can you help us understand how that will phase between the first half and the second half?

Rohit Jain: While we are not breaking down the content cost by H1 and H2. But as we guided earlier we expect the margins to grow by 25 to 30% in H1 compared to H1 last year and this is in spite of the fact that H1 last year and enjoyed the trail impact of our earlier agreements whereas this year we have the front in impact of the new agreements. But we still believe our H1 over H1 should grow 25% to 30% and H2 should grow much stronger.

Jay Li: And that works well for EBITDA.

- Saurabh Dhoot:** That's right.
- Jay Li:** And then you mentioned that 30% of your incremental net subscribers at this year were HD. Do you expect to continue that percentage of net ads being HD?
- Saurabh Dhoot:** We hope to grow it; we hope to increase it beyond the 30%.
- Jay Li:** And can you help me understand in order of magnitude what's the difference between the ARPU is for an HD subscriber and a non-HD subscriber?
- Saurabh Dhoot:** In fact just to add a little bit more quality to your earlier question and Mr. Khera can actually take this forward but we are being very innovative by actually seeding in HD boxes and beginning to reduce the seeding in of HD boxes.
- Anil Khera:** You see if we have to take the subscription package for standard definition and high-definition, the enterprise for standard definition is Rs 240 and high-definition is average around Rs 550. But when we talk about ARPU we take the combined average ARPU when we are talking about ARPU, we take a combination ARPU for standard definition as well as high-definition.
- Jay Li:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Just two questions from my side, what would be the activation revenue that we would be booking per gross addition?
- Rohit Jain:** At this point for this year the activation revenue that we charge a customer on the P&L is roughly around Rs 700 to 800 net of distribution expenses.
- Rohit Dokania:** Secondly could you quantify the amount of regulatory liability that sits on the balance sheet as of FY15?
- Rohit Jain:** As of FY15 our total contingent liability on account of regulatory is about Rs 3.6 6 billion.
- Rohit Dokania:** And sir does this also include the interest amount?
- Rohit Jain:** It includes the interest amount to the extent government has raised it.
- Moderator:** Thank you. The next question is from the line of Shaleen Kumar. Please go ahead.
- Shaleen Kumar:** Just on the side of balance sheet so can you elaborate on kind of the funding right now you have and for how long you can sustain without raising a next round of fund and how do you

see that a next level of funding? Will it going to be through debt or equity or what kind of debt-equity you're going to manage?

Saurabh Dhoot: We entered this year with a very-very strong balance sheet and as I mentioned in the call we already free cash flow positive on operational basis and we also expect to achieve the significant milestone of being free cash flow positive even after finance cost and interest. So we are able to fund the entire CAPEX ourselves internally. We also have very low give away and we also have ample liquidity and credit lines to fall back on to take advantage of digitization as well.

Shaleen Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Jay Li from Traftlet Brokers. Please go ahead.

Jay Li: Just a follow up on the ARPU question asked earlier, when you take a price increase back in February, is that across both basic and HD packages, and is it the same percentage for both?

Rohit Jain: We took a price increase in the month of February across all our packages. The percentage of increase varied from different packs, it varies from 5% to 10%. But the average increase that was done across the packages was around 6 to 7%.

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

Gaurav Bhatia: Sir I wanted to know what was the exact content cost in Q4?

Rohit Jain: The exact content cost for Q4 was Rs 2.4 billion.

Gaurav Bhatia: Does this cost fully factor in the 3 months of new contracts?

Rohit Jain: Yes this is a fully built out cost.

Gaurav Bhatia: So this should be the run rate going forward I mean if I were to take fixed and variable according to what split you had given?

Rohit Jain: Arguably, yes.

Gaurav Bhatia: Sir then I am actually a little surprise why are you guiding for a 25% to 30% EBITDA growth for the first of next year? In Q4 our EBITDA growth is 55% and in the base there would be old cost and in the Q4 we would have the fresh cost. Why are we guiding for the lower EBITDA growth for first half?

- Anil Khera:** So there are also certain content contracts that will come up for their anniversary and there is that an amount of cost increase that will come in as well. So after factoring in all of that we feel comfortable about 25 to 30%. But remember we are talking about 25 to 30% increase over H1 last year.
- Gaurav Bhatia:** But H1 last year would have the old contracts and we already factored the new contracts in Q4.
- Saurabh Shoot:** Yes so H1 last year then that's why benefited from till end of prior content deals while H1 2016 has front-loaded content cost from the new content so that's why the growth is actually lower and that's why H2 can be higher.
- Moderator:** Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jay Doshi:** A small book keeping question, what would be your entertainment cost either absolute amount for FY2015 or as a percentage of your total revenues?
- Rohit Jain:** Its approximately 7% of our expenses, 7% as revenue.
- Jay Doshi:** And your license fees would be in the range of about the one that passes through P&L?
- Rohit Jain:** License fees is as per the AGR calculation which is the current regulator the environment as per the court ruling.
- Jay Doshi:** If you could share an absolute number for the number that you pay as a percentage of your revenues, the revenues that we look at?
- Rohit Jain:** That comes to almost 5 to 6%.
- Moderator:** Thank you. The next question is from the line of Nikhil Desai from Karma Capital. Please go ahead.
- Arshpreet:** What would be your active paying subscriber base?
- Rohit Jain:** We have a net subscriber base of 10.2 million at the end of fiscal '15. Our temporary suspension at any point of time in the recent years is in the range of 13 to 15%.
- Arshpreet:** And if you could help us arrive at the ARPU that you mentioned of 196, what would this include apart from your subscription revenue?
- Rohit Jain:** This is largely subscription revenue with some small impact of activation revenue.
- Arshpreet:** And how much is activation for the entire year?

- Rohit Jain:** We are not breaking that down but that impact is very small in the overall ARPU.
- Arshpreet:** Because if we look at plainly so the subscription revenue divided by 10.2 gives us a different number so I just wanted how do we fill in the gap for the same.
- Rohit Jain:** Once we get the full financials when we file the 20-F you will get some sort of reconciliation on that that will help you tying all the numbers.
- Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICIC Securities. Please go ahead.
- Vikas Mantri:** Just to understand on the churn, how has it behaved and can you help us with the guidance on churn going forward?
- Rohit Jain:** Churn for the last year was 0.8% per month. This is reasonably in line with what we saw in fiscal '14 that came in a 0.76% per month. So we have seen churn rate to be fairly stable over the last 2 to 3 years. We are writing towards churn rate to remain in the similar kind of growth for the year to come.
- Vikas Mantri:** In case of subscribers upgrading to HD to, do we count it as churn or it is not counted?
- Rohit Jain:** That's only an upgrade, churn is a subscriber who stops paying for more than 120 days, and upgrade to a higher back does not amount to a churn.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to management for closing comments.
- Rohit Jain:** Thank you all for joining in for the call. We hope to see you in the next quarter. Thank you so much.
- Moderator:** Ladies and gentleman, on behalf of UBS Securities India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.