



“Videocon d2h Limited Q1 FY2017 Earnings
Conference Call”

EDITED TRANSCRIPT

July 26, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Videocon d2h Limited Q1FY2017 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 '*' then '0' on your touchtone phone. I would now like to hand the conference over to Ms. Nupur Agarwal -- Head of Investor Relations. Thank you and over to you, ma'am!

Nupur Agarwal: Thank you. Good morning and welcome to the Videocon d2h's Fiscal 2017 Quarter One 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 handover the call to Mr. Dhoot for his initial comments.

Saurabh Dhoot: Thank you. Thank you, all good morning for joining us results call for the quarter ended June 2016. On behalf of our Board members and management team I welcome you all on this call

Dear shareholders this quarter Q1 FY2017 is a landmark quarter for our Company in its enduring journey. I am pleased to share that we have reported Videocon d2h's strongest financial results ever. We have declared a positive profit after-tax and positive free cash flows plus we have generated an all-time record quarterly adjusted EBITDA of Rs. 2.52 billion, that is above expectations and a 32% growth over the same quarter last year's blockbuster results.

Our journey to profitability has been one amongst the fastest in our industry. We commercially launched our services early 2010 and in no time, we became the fastest growing DTH operator in India. We achieved a 5 million subscriber mark within two years and the 10 million subscriber mark within four years. We achieved an EBITDA positive within three years of the commercial launch.

In fact, today we are widely recognized amongst the top two DTH operators in India from being the last and the sixth DTH Operator who have started in 2010. It is truly the great achievement by the entire team at Videocon d2h they have all worked very hard to achieve these milestones tirelessly against many odds and with competitive intensity at its peak during some of these times. We have faced and overcome several challenges to achieve this in that journey.

Strong execution by them on technologies, sales distribution and an unrivalled customer centric service network has been the secret sauce behind the success.

In fact, going forward the team is very excited about generating profitable growth and sustainable free cash flows and that leading to changes in leadership in industry and

technological innovations and setting unmatched customer service standards especially as India embarks on a new digital revolution.

We are the first Indian media company to list on NASDAQ in our journey. This not just strengthen our balance sheet but open a lot many doors for the company and give it a further boost in various aspect such as brand perception.

Our financial position continues to be stronger and stronger. We have repaid term loans to the tune of almost USD 200 million from the IPO proceeds. In fact, over the past few weeks, we have repaid term loans of over USD 55 million itself.

With this balance sheet and this growth rate the company can truly augment its ability to add and create and offer more value and opportunity for its customers and the stakeholders.

Our customer satisfaction and retention rate are second to none. I am very proud of this and this provides us with a long lasting foundation. This is a key differentiator for us. We keep working on further strengthening our high quality services, bearing in mind the growing needs of our fast growing subscriber base.

I am happy to share that, today we are able to resolve over 85% of the customer issues at their house within six hours to eight hours of the subscriber complaint being registered. We keep adding more Direct Service Centers. In fact, in the past few quarters to cater to towns and cities that come under digitization of Phase-I, Phase-II, and Phase-III, we now have 320 direct service centers and this is a unique strength we have as relative to any other DTH operator in India.

We keep further expanding the number and reach our sales and service dealers, service engineers as we are going to be ready for high subscriber growth, which we are expecting to come from Phase-IV as the deadline nears towards the end of this year.

Shareholders, these great results and the optimism gets fuelled when I think and see how proprietary services are getting a good traction across genres such as cinema, music, kids, educational content, religious content. We in fact now, have close to 1.5 million customers subscribing to one or more of these services in addition to their monthly subscription packs.

Clearly the platform we have today caters to over millions of households in India and is generating good amount of advertising revenue across these services. In fact, many of our brands and channels desire to be available on a platform and have come such as BMW, Hyundai, Jet Airways, Suzuki, etc to name a few have started advertising on our platform. These are now beginning to contribute meaningfully to revenue and EBITDA.

Commenting on the results for the quarter, I am happy to share that we have very strong quarter on all key parameters during this quarter.

Net subscriber increased by around 430,000 as against our guidance given of 400,000 and we have total net subscriber towards the end of the quarter of 12.29 million. The company has added 600,000 gross subscribers, monthly churned came in at 0.49 % for the quarter.

Revenue from operations has grown 23.5% year-on-year to Rs. 8.19 billion. Subscription and activation revenue grew 23.9% year-on-year to Rs. 7.52 billion.

Adjusted EBITDA grew 32.4% year-on-year to Rs. 2.52 billion, against a guidance of Rs. 2.40 billion. The adjusted EBITDA margin has expanded to 210 basis points year-on-year, that is coming in at 30.8% and we achieve free cash flows of Rs. 138 million.

With regards to the guidance for the quarter ending September 2017 that is Q2, we expect net subscriber addition of 225,000 in second quarter. I would like reiterate here that the second quarter is seasonally the weakest quarter in our business and the numbers are normally flattish quarter-on-quarter. Naturally, the second-half of the year as we have explained in the past is relatively and seasonally stronger.

We expect EBITDA in Q2 to come in around Rs. 2.60 billion in the Q2 FY2017 that is going to be a 36% growth over Q2 of last fiscal. We are on track to achieve guidance for fiscal 2017 overall and that is we will turn PAT positive in the entire fiscal. We will achieve free cash flows breakeven that is naturally assuming subscriber growth in line with the current growth trend we will achieve a gross subscriber addition of at least 2.5 million for the entire fiscal.

On an overall macro-economic front, we are very bullish and optimistic about the domestic environment be it the good monsoons the likely passage or passage of the long awaited GST reform, the 100% rural electrification plan clearly excites our CEO and our entire team and hand over the call to Mr. Khera for a business update.

Anil Khera:

Thank you, Mr. Saurabh Dhoot. Let me start giving you an update on macro-economic front, mainly on three accounts which is good monsoon, rural electrification and GST.

First and the foremost, I am happy to share that India is witnessing a good monsoon almost after two years of drought. The rainfall deficit has narrowed and should improve the GDP growth prospect for the Indian economy. Rains have so far been above the long term average implying a good crop for the farmers. This is great news for our business as we see a decent proportion of our growth comes from areas that come under Phase-III digitization and Phase-IV digitization. We hope for a good festive quarter this year given an upbeat rural sentiment due to the good monsoon season.

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Secondly, Indian government led by Honorable Mr. Narendra Modi is emphasizing to all power distribution companies to go a long way in ensuring affordable and accessible power to all villages whether big or small scattered all over India. There have been successful efforts put into ensure 100% electrification of rural household and 24*7 power supply to urban areas by 2019. Out of nearly 18,500 villages, over 9,000 villages have been already electrified since 2015, which speaks of commendable efforts that have been put in by Indian government towards achieving this. This has positive correlation to our business, as consumption of Pay TV services increase for the Prepaid DTH platform such as Videocon d2h.

Thirdly, the recent press reports indicate that goods and services tax or GST is likely to be introduced in the current monsoon session of parliament. This is a reform that not just Videocon d2h but the entire nation has been eagerly waiting for. This will not just make our life easy but also improve profitability as GST will most likely subsume all types or forms of indirect taxes including entertainment tax.

Back to our business, a positive development that is worth sharing is the introduction of subscription packages tiers by leading MSOs as compared to one standard pack earlier. This makes their product pricing slightly higher than earlier which is definitely good news for DTH industry.

We believe cable pricing is gradually moving up to come at par with DTH operator creating further room for ARPU growth for DTH. There has been one key benefit of digitization apart from the subscriber growth.

With the advent of many online payment gateways the mobile wallet companies in the past few years we are seeing a trend shifting towards online recharges. Given our Pan India footprint and increasing subscriber demand from Phase-III and Phase-IV areas, we have also been expanding our presence in terms of number of recharge retail outlets.

We are happy to announce our strategic tie-up with Vodafone to enable recharge using their well-established m-pesa, digital wallet and at the Vodafone outlets. It will give our customers an easier powerful way to recharge their DTH account at their convenience.

With the ease of recharge availability deep into country, the customer ability to recharge on-time will improve which could help overall per subscriber revenue realization and also reduce suspension.

Lastly, in financial year 2015, when we had reached a sizeable 10 million subscriber base mark, we had started working towards developing an alternate head end, as part of our business continuity plan, so as to be able to serve our large subscriber base without any interruption of Pay TV signals.

We received all the necessary government approvals for this disaster recovery site in western India one year ago. We are confident that we will be able to roll out this state-of-art alternate head end in the current fiscal year.

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

Rohit Jain:

Thank you so much. We are pleased to share more details about the results ending quarter 2016 June.

Total revenue grew 23.5% year-on-year to 8.19 billion. The key components of the same were

- ✓ Subscription and activation revenue grew 23.9% year-on-year to Rs. 7.52 billion.
- ✓ Carriage revenue grew 47 plus percent year-on-year to Rs. 271 million.
- ✓ Ad revenue grew 12.1% year-on-year to Rs.91 million.

Q1FY17 Adjusted EBITDA grew 32.4% to Rs. 2.52 billion. Adjusted EBITDA margin expanded 210 basis points year-on-year to 30.8% for the quarter.

Content cost came in at 36.1% as against 37% of last year.

Fixed cost as a percentage of revenue came in at 15% as against 16.1% in the same quarter last year.

As shared earlier, we are happy to report a positive net profit of Rs. 27 million for the quarter as against a net loss of Rs. 244 million during the same quarter last year.

ARPU grew from Rs. 205 in base quarter to Rs. 219 now.

Monthly churn came in at 0.49% for the quarter as compared to 0.46% in Q1FY16. Needless to say, this is something we believe should be looked at over a period of time to get a better perspective on the churn rate given the impact of seasonality in India. Hardware subsidies came in at Rs. 1,872 per subscriber. CAPEX during the quarter was Rs. 1.63 billion primarily relating to Set Top Box. Adjusted EBITDA less CAPEX came in at Rs. 887 million for the quarter.

As of June 30th, we have term loans of Rs. 21.87 billion and cash and short-term investments of Rs. 6.12 billion. We have also paid out some more debt in the last few weeks with which we have now brought down the term loan to Rs. 19.28 billion as of today.

To summarize Q1FY17 has been land mark quarter for the company, this is the first time we have achieved a net profit and free cash flows breakeven. We believe we are fastest to do that. During this quarter we achieved net subscriber addition of 430K as against the guidance of 400K and EBITDA was Rs. 2.52 billion as against guidance of Rs. 2.4 billion. Continuing our

growth trajectory, we are guiding for 225K net subscriber addition for Q2 and EBITDA of Rs. 2.6 billion.

With this, we conclude our remarks and open the floor for questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have first question from the line of Hemant Jani from Value Investor Fund. Please go ahead.

Hemant Jani: First of all, congratulations on very good set of number and above all achieving PAT positive in this quarter. Basically, I have two questions, first is we saw that your competition reports ARPU growth of around 2% to 3% while you are reporting much better growth trajectory. This is despite similar pricing among all operators. Can you please brief the underlying factors on this? Secondly, I heard somewhere in the speech that you have a plan of setting up an alternative head end, is it something unique to you or every DTH company has this? Thanks.

Rohit Jain: So let me take the ARPU part first. There are many drivers of ARPU growth as you are aware this is something we have discussed with the investors many time, one is obviously the packages and what sort of uptake, what packages and essentially what kind of mix do we have while all the operators have packages at same price points but we all might have differential in terms of our mix within the subscriber. The second is obviously in terms of our operations around subscriber management and making sure there is high uptime and higher levels of realization every month, especially given the fact this is a prepaid model. Needless to say our focus in the last couple of years on growing High Definition and giving more and more value-added services to the customer are also driving to this. So, while I think it is difficult to comment for us on competition essentially our mix, our focus on High Definition, our focus on growing value-added services, and our day in and day out focus on making sure there is a high level of uptime and better realizations are the drivers for us.

Saurabh Dhoot: That is why a customer centric service model actually has a lot of advantages.

Anil Khara: As regards to your other question on disaster recovery site, this is a global practice that once you have over 10 million subscribers, you must have a disaster recovery site, so that you are able to give uninterrupted services to your large base of customer without any interruption. So we started working towards this disaster recovery site when we were very close to 10 million and we received all the approval one year back from the government for the down-linking and up-linking and site clearance and security clearance. And we have received all the approvals from the government and we started setting up our alternate head end project two years and we are almost done with barring few finishing touches and we should be able to roll out services from this alternate head end which is much advance then our existing head end by end of this year. Generally, your one more question was about competition having the similar disaster recovery site yes, some of the competition has similar disaster recovery site. Some of them got

only the up-link and down-link at the disaster recovery, they may not have full-fledged head end but we decided to have a full-fledged head end. So that it is a complete disaster recovery. Thank you.

Moderator: Thank you. We have the next question from the line of Prashant Prem Kumar from Consilium Management. Please go ahead.

Prashant Prem Kumar: I have three questions, the first relates to ARPU again. Given the improving sort of competitive dynamics, given that packaging is being implemented, given favorable regulation on content pricing, and given absolute ARPUs are sort of, and that we have a customer centric model why is ARPU increase still in single-digit, I mean do we see double-digit ARPU growth sometimes in the next 12 months to 24 months? That is the first question. The second is on ad spend. In the previous call you had mentioned that there was some expense on IPL, can you sort of break that out and also how should we be thinking about ad spend for the rest of fiscal 2017 as a percentage of revenue? The third question is with regards to our interest rates. Is there any progress in refinancing or finding ways to sort of reduce the rate of interest we are paying? Thank you.

Rohit Jain: Let me take the ARPU, I think it was something that we find very encouraging if we look at the last four years to five years of trends I think there is a very-very solid healthy CAGR growth of ARPU. Whether the ARPU growth can be high single-digit or double-digit those are really sort of academic discussions beyond a point it does require a whole ecosystem to move along. I think we in operations capacity would always continue to believe that the ARPU can grow much faster but again it requires various components to move together, but I do not think that takes away the fact that for decades in India we have seen ARPU levels not improving much, but I think in the last four years - five years what has got clearly demonstrated is that changing. That is good, obviously DTH companies including us are reporting fairly material level of ARPU changes. The fact that cable companies are also rolling out gearing, is very encouraging. So I think we see this more as a trend when the number could be higher or lower I think is slightly more academic but we are pretty excited with the overall trajectory of the same.

Saurabh Dhoot: Yes, I would agree with that Rohit. In fact, as you rightly said trend is more important. In fact, it is about that is more important over here. I think if you look back four years - five years I you will see a substantial jump in just base pack offered to customer at the price at which those are today. So from that perspective clearly ARPUs have gone up considerably in India and digitization and of course better services by all Pay TV operators have contributed to that including HD, etc. But the idea over here is that there is substantial scope to continue growing this platform which we have today and I think it is not about raising the ARPUs as much as possible just for this but to set a trend to ensure you have sustainable and very high good growth as well as very good ARPU growth as well over a period of time because if you fast forward this trend down couple of years, the effect of that is also very powerful then.

Rohit Jain: On your question around refinancing – we are obviously continuously looking at various options including talking to our lenders working out various options of reducing the interest level. There are two parts to it one obviously the refinancing options are limited for the DTH industry given the RBI guidelines around what sort of companies are permitted to do what sort of alternatives around financing. But I think what we have done in the meantime ever since we got listed is to just focus on making the balance sheet and have some responsible and deleverage significantly. From the date of IPO till now we have paid down about \$200 million of debt and if you sort of look at the trajectory of EBITDA you will see that in terms of our EBITDA to net debt leverage we are almost trending in the direction of heading towards probably 1.5 times. So, that is a very strong balance sheet, obviously, we would like to bring the interest rates down as and when possible.

Saurabh Dhoot: Thank you, Rohit and I like to further add you have to see the Pay TV industry and DTH sector in India is still a very young industry there is a huge subscriber growth period ahead and moving on ARPU over the next few years are much more important than how fast we can move ARPU.

Rohit Jain: Could you repeat your second question please?

Prashant Prem Kumar: The second question was on ad spend, the selling and distribution sort of increase that we saw I think on the first call that you did you had mentioned part of it was related to IPL. Can you sort of break that out, just so I know that is one-off or is recurring but also how should we be thinking about ad spend for the rest of fiscal 2017 and 2018, should we be reinvesting some of the margin improvement in advertising?

Rohit Jain: No, I think in terms of the marketing model that we built up we are very well-structured over the last few years. I don't see any reason to believe marketing spends will have any variations as against the trends. Obviously these are more seasonal in terms of investment cycle so you might see changes or variations from a quarterly point of view and Q1 and with IPL and obviously Q3 with festival season might have some variations but other than that I don't see on an annual basis we do not believe it is any different from the previous years.

Saurabh Dhoot: It is not material.

Moderator: Thank you. Next question is from the line of Mayank Khambata from Individual Investor. Please go ahead.

Mayank Khambata: I am also quite happy to see that content cost declined sharply in the quarter. So my first question is relating to that, what are the driving factors for that? And second question is about the progress of Phase-III and Phase-IV digitization? Thank you.

Rohit Jain: Well that is a good question you brought up, on content I think we have always guided that once we got in to the long-term contracts and we had our cost structure in place there is some

amount of operating leverage that we should see on an annualized basis. Fiscal 2016 was sort of a unique year where we saw government increase taxes twice, once in June, once in November - December, and we saw content cost as against roughly 38.5% came down by 50 basis points. Had not been for these tax increases we have probably seen a higher operating leverage and content cost in fiscal 2016 as well. I think what we are seeing in fiscal 2017 is exactly, how we thought it would eventually work out with the cost structure in place and so it is essentially just working out the way it was planned to be. In overall trajectory I think we should continue to see similar trends for some time. There is obviously one more tax increase that has happened in the month of June, we were aware of this as government did an announcement of this around February - March and it is something that we had baked into our guidance but in spite of that we are quite excited with the way the cost structure is working out.

Anil Khara:

Yes, regarding your question on digitization progress, I am very happy to share that the digitization Phase-III when started in this year January 2016, we saw very good spurt in Phase-III new acquisition and people moving from analog cable and frees dish to Pay TV regime. As per the data release by The Ministry of Information & Broadcasting, we are very happy to share that 70% of the market share that includes the opening sub-base of the DTH industry have been digitized by the DTH all branch together and 50% market share has been achieved by all the digital cable operator. As per the government releases, government confirms that of the Phase-III in spite of various stay orders by the court 90% of the seeding has happened and there is a scope of another 10% and we believe that 10% could be not exactly 5 million as per the formula but it could be close to 10 million households because of the multiple televisions homes and undeclared subscribers. So we still have very good potential in Phase-III which is left out period. And we are very happy to share that government has also announced and confirmed the deadline for Phase-IV which is December 2016 and Phase-IV is a very big market and has got almost 50 million television households which is yet to be digitized. So we are very happy with the progress on digitization. But again, I would like to say that the digitization does not happen overnight, it definitely takes some time. It is a mindset that digitization is here and is going to stay and is going to happen after seeing Phase-I and Phase-II execution and we see the Phase-III also almost completing. Phase-IV will also happen the government will make it mandatory for broadcaster to give signal to only the digital cable operator. Rest will be switched-off by some deadlines. Thank you.

Moderator:

Thank you. As there are no further questions from the participants, we would like to conclude the conference call for today. On behalf of Videocon d2h Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.