"Videocon D2H Q1 FY-16 Earnings Conference Call"

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MODERATORS: **MR. ALANKAR GARUDE – MACQUARIE SECURITIES**

Moderator: Ladies and gentlemen good day andwelcome to the Videocon D2H 1Q FY-16 Results Conference Call hosted by Macquarie Securities. As a reminder all participants' line 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 touch tone phone. Please note that this conference is being recorded. This conference call includes forward looking statements within the meaning of safe harbor provisions of the United States Private Securities litigation reform at 1995. Such forward-looking statements are based on current expectations that are subject to risks and uncertainties. I now hand over the conference to Mr. Alankar Garude. Thank you and over to you Sir.

Alankar Garude: Thank you for joining us for Videocon D2H Q1 FY-16 results call. Macquarie is pleased to host the call today. We have with us on the call Mr. Saurabh Dhoot – Executive Chairman of Videocon D2H, Mr. Anil Khera – CEO, Mr. Rohit Jain – Deputy CEO, Mr. AvantiKanthaliya – CFO, Ms. Nupur Agarwal – Head of IR. Additionally we have Mr. Harry Sloan and Mr. Jeff Sagansky who are in the process of joining the board. I now hand over the call to Mr. Saurabh Dhoot for his opening remarks.

Saurabh Dhoot: Good Morning everybody. Thank you all for joining the call. Sorry for the delay due to technical difficulties in the line organized byMacquarie for the U.S. investors. Thank you Macquarie for hosting a call today. Board members, management team, and I would like to welcome you all on our Q1 FY-16 results call.

I am pleased to declare that with the hard work, dedication, and diligent execution of our team led by our CEO. we concluded our Q1 FY-16 results with our strong performance. Q1 FY-16 results subscription revenues reported strong growth of 32.2% year-on-year to Rs. 5.99 billion. Q1 total revenues grew 23.3% year-on-year to Rs. 6.63 billion.Adjusted EBITDA grew 28.3% year-on-year to Rs.1.90 billion that is roughly around 30 million dollars, above $30 million. Adjusted EBITDA margin expanded 110 basis points year-on-year to 28.7% despite the substantially lower content cost in the base quarter last year. That is before the renewal of the long term content agreements. We added 0.61 million gross subscribers in the quarter gone by.

ARPUcame in at Rs.205 versus Rs. 187 in Q1 FY-15. That is almost 10% growth year-on-year. Adjusted EBITDA minus CAPEX came in at around positive of Rs.374 million. Giving us comfort around ability to fund growth and achieve full cash flow break even in the near future. Net loss for the quarter came in at INR 244 million that is a 56.3% improvement over the base quarter last fiscal. Let us discuss the key parameters of the business, which points to how the business works and gets evaluated.

On the subscriber growth front we added 0.61 million gross subscribers in Q1. I am happy to share that we have been the fastest growing pay TV operator in India for the past four years with a market share of 25 to 27%. We have been adding 2.5 to 2.7 million gross subscribers each year. We believe we will continue to lead the market in terms of incremental market share. Going forward we expect subscriber growth to gain momentum as digitization progresses. We believe around 100 million homes will be up for grab by digital cable and DTH operators in the next four to five years. DTH we believe should gain a higher market share in Phase-3 and Phase-4 in comparison to what it is in the earlier two phases. Naturally Videocon D2H will gain even further from this. On the ARPU front has grown from Rs.150 levelsin FY 13 to Rs. 205 in Q1 FY-16. This has been a function of increase inpack prices, higher HD up take and value added services.

As you all know base packs have gone up, base pack prices have gone up from Rs.180 in April 2012 to Rs.240 level now. We believe this should continue to grow at least in line with inflation. We have been seeing strong demand on the higher premium content packages, HD packs are two and a half time the base pack and HD subscribers represent almost 10% of our total net subs. We expect this trend to continue and result in ARPU growth. Incrementally a third of the subscribers are taking HD packs. We operate several of our own proprietary channels. Some of which such as D2H music and D2H cinema adjourned by subscription. We have recently launched innovative value added services recently;we are very encouraged by the traction we are getting on that. The effect on our recent price increase done in February was reflected partly in Q4 of FY-15 and partly in this quarter. There will be a marginal effect to flow in the coming quarters and also the potential price increase in FY-16. Hence, we feel very comfortable about the ARPU trend line.

On revenue growth while the significant portion of revenue is driven by subscription revenue which is of course result of the net subscriber based in the ARPU largely. We just discussed as we remained focus on growing other sources of revenue as well. There are clear two strong drivers of other sources revenue growth; advertising revenue and carriage revenue and we are very excited about these. These gained tractionin Q1 as expected for example. We havereported advertising revenue of Rs. 81 million in this quarter. This compares to Rs. 100 million for the full year fiscal 2015. We have now ten of our own channels across genres such as music, kids,Bollywood. We have launched three of our own channels in this quarter namely D2H nursery rhymes, D2H cinema HD and one more music channel, will be the first proprietary HD channel done by any other DTH operator.

We launched three active services, active kids, active games, active learning in this quarter. These are really beginning to get attraction from our customers. I am happy to share continuing this focus we are planning to launch our own branded Hollywood channel as well in this coming quarter. This will obviously be exclusively for our subscriber's base. We recently set up an advertising team to sell Ad inventory on our platform mainly on our own branded proprietary channels. We are seeing very encouraging response as well from multiple advertisers. We have got some really good qualitative brands advertising on our platform. Hence carriage or bandwidth revenue is another focus area for us. Given our bandwidth advantage, carriage revenue will continue to grow as we are a platform of choice for the new broadcasters and new channels coming up in India. Advertising and carriage our both very margin accretive.

On the EBITDA front – we achieved the EBITDA break even FY-13 within four years of operations. We have now reported a 28.7% margin in Q1 FY-16. We are only in the beginning of exciting long term growth. We expect theEBITDA margin expansion to continue on the back of stronger subscriber growth led by the government's Digital India mandate, ARPU growth, and operational leverage on the content and fixed cost. We have clear visibility on content costsfor the next two to three years. More than 90% of our contracts were renewed in the latter half of last year.

Content cost should contribute to margin expansion as nearly half of our contracts are fixed fee deals with an annual step up cost increase. Fixed costs constitute nearly 16-17% of total revenues and we see further benefit on account of operating leverage over here.

Over all on competitive advantages we continue to maintain a competitive advantage for various reasons whether it is the new technology. We have compared to competition in AMPEG-IV, DDBS2the great advantage due to that we have on bandwidth allowing us to offer more utility and more content to our customers, un rivaled distribution network of over 200 000 retailed outlets across the length and breadth of India, an unrivalled strong focus on customer service that captures service network, enables us to provide the best installation and repairs turn-around times in the industry. Naturally the great product innovations we have and we are investing on mainly due to our unique control over the box supply chain. Also, it is very encouraging, given the macro back drop in which we are operating.

India GDP growth surpassed China recently, crude prices continue to remain low and Honorable Prime Minister, Narendra Modi's Government push towards the multiple structural reforms and billons the dollars of investments into power and infrastructure, especially in the rural market where a substantial chunk of our subscribers there. We believe the outlook for the Indian economy is extremely promising and with this we expect the propensity to consume, will improve the household expense on entertainment will increase. Also, the likely implementation, a GST, government's focus on Digital India mandate, make in India mandate; we believe all of this, the DTH Industry is headed for strong growth in times to come. We enjoy, by the nature of our business, very good visibility, so hence we are pleased to confirm our guidance.

We continue to expect H1 FY16 EBITDA to grow 25% to 30% year-on-year despite the lower content cost we enjoyed in the first half of the last fiscal. We feel quite comfortable about this guidance demonstrate by the 28.7% report on margins for this quarter.We expect higher EBITDA growth in H2 FY16, given the impending digitizationas well. On the subscriber front, we maintain a guidance of approximately 1.3 to 1.4 million gross as sub app. In the first half, we clearly believe the latter half will be stronger, especially depending on the intensity of the digitizationmandate. We are confident; we will maintain market leadership in new acquisition in FY16 as we have done for many years in the past.

On the ARPU front, we maintain FY16 ARPU guidance at Rs. 215. On the content cost, we believe content cost will decline from 38.4% levels in H2 of last fiscal by 100 to 150 basis points in FY16, we have seen the Q1 FY16 already demonstrate the same. We hope to also share a full year guidance in our next quarter call with a closer feel of the market, especially with the effect of digitization. I would like now to request Mr. Khera to give the business and operations update.

Anil Khera: Thank you Mr. Saurabh Dhoot. I would like to briefly touch upon few industry trends and our key initiative for next few minutes.

First and the foremost, an update on digitization; There are 38 million homes in more than 7700 towns, covered in 650 districts. That will be covered in Phase-3 digitization. The deadline for which is 31st December 2015, set by Ministry of Information and Broadcasting Government of India. We believe, the Government has a strong intent to switch off Analog cable on the D-Day. A task force has been set up for monitoring the progress of digitization by the Ministry. I am also member of this task force Committee as I am also President of DTH Association in India. We believe DTH Industry should gain substantial market share in Phase-3 covered areas, we are very excited and fully prepared to take all this subscriber growth opportunity.

The second thing is regarding consumer behavior; we constantly monitor and evaluate our package offering to meet ever changing consumer demands and preferences. We are getting significant traction on high definition front where high definition packs are prices at least two and half times higher than standard definition base pack price. High definitions subscribers represent almost 10% of our total net subs with a further growth expected in future. Earlier, we had introduced Rs. 99 pack in some regional language driven market, with an intent to target the price sensitive Analog cable subscriber or first time DTH users who can update over time. These subscribers are incremental to our market forecast. While we saw limited traction to this pack, we have made some modification and extended low pack pricing to a few more States in a modified form; mainly in Western India, Maharashtra State and Eastern India, Orissa and West Bengal States. In addition to Rs. 99 pack, for free to air channels in Southern India, we are providing regional packages for Rs. 190 to Rs. 195 for that offers more than 130 freeto air channels and 13 to 16 regional channels that are relevant for that State. Given these low content loading, our gross margins are actually higher for these packs. The third trend evolving relationship between broadcasters and the cable companies; we continue to see a lot of friction between broadcasters and the cable operators; as the broadcasters have been finding it difficult to get their fresh share of revenue even though many parts of the country have got digitized.

With increasing pressure from broadcasters, we believe cable companies should take price increase to provide for the increase in the content cost. We believe this is a positive development for DTH operators. Last but not the least; I would like to talk about our views on broadband and OTT space. At this point, actually active engagement on various platforms that has invested in this space continues to be very low; however, this is likely to improve our next few years with the roll out of 4G and other broadband services. We believe broadband infrastructures should improve considerably in future and it will help create a complimentary set up offering for the end consumer. This will help improve overall realization.

Since India is expected to be a mobile delivered broadband market, we feel short form content space could be more suitable to market place. We are also continuing to study this space more closely and are preparing for a broader strategy plan for leveraging this future opportunity. In the meantime, we are investing incrementally into wide range of 'TV everywhere' services, effective technology platform, securing content rights wherever possible for OTT. We are pleased to inform you that we have already rolled out 'TV everywhere' OTT services for our subscribers and it is operational currently on Android and IOS platforms. As regards high definition focus, we now talking about some of our focus areas, we try to provide us from high definition offering to drive high definition subscription. We have the most efficient bandwidth and the best compression technology which has allowed us to roll out more and more high definition channels and now 4K channel services for the first time in India. I would like to highlight that we are the only Pay TV operator in India to offer 4K channel and this is giving us a unique marketing position to attract up-market and high end consumer. We have been aggregating 4Kcontent for our channels and are in the process of getting into long term agreements with one of the global Hollywood Studios for accessing a large library of 4K films. Our 4K channels will be a multi genre pipe which will not just premiere leading Hollywood films but also showcase special live events such as FIFA, Cricket World cup and more and more sports properties which will be available from time to time.

Over the last few years, we have been proactively been taking up our high definition channel count from 12 channels in financial year 2012 to 37 high definition channels now. I am very happy to share that we have already added 8 high definition channels in the current fiscal till date. We will continue to focus on this area and we are also planning to increase the total count of high definition channels further to 50 channels in a very short span of time.

I now handover the call to Mr. Rohit Jain for an update on Q1 numbers, thank you.

Rohit Jain: Thank you so much. We are now pleased to share some more color and details on the Q1 results.

Total revenue grew 23.3%year-on-yearto Rs. 6.63 billion. The breakup of the same is as follows:

Subscription revenue came in at Rs. 5.99 billion, this is a 32.2% year-on-year increase, carriage revenue came in at Rs. 184 million, this is a 25% year-on-year growth, lease rental came in at Rs. 248 million, advertisement revenue came in at Rs. 81 million; given this is a new activity that was started last year, we did not had any advertising revenue in the Q1 of last year.

The total advertising revenue reported last year was Rs. 100 million. The balance Rs. 121 million is other revenue. Adjusted EBITDA grew 28.3% year-on-year to Rs. 1.9 billion; this is after adjusting for ESOP expenses to the tune of Rs. 29.44 million. We believe we are on the track to achieve 25% to 30% EBITDA guidance we had provided for first half of fiscal 16 during our last call.

Adjusted EBITDA margin expanded 110 basis pointsyear-on-year to 28.7%, this is despite low content cost and the base quarter in comparison to higher cost in the Q1 of this fiscal year due to the renegotiations that we had done few quarters back. Fixed cost as a percentage of revenue has declined from 17.3% Q1 last year to 16.1% in the last quarter. The net loss for the quarter came in at Rs. 244 million; this is a significant; 56.3% improvement over the same quarter last year. We added 0.61 million gross subs and 0.46 million net subs in this quarter. This is slightly lower than the subscriber growth we have seen in Q1 last year, primary on account of National Elections last year. The gross subs total 13.74 million and net subs 10.64 million at the end of Q1 Fiscal ‘16.

Churn came in at 0.46%, largely in line with 0.42% for the base quarter last year. The cost of acquiring the subscriber in form of hardware subsidy declined to 1793 per subscriber during Q1; this is in line with the guidance we had given in our last call around subscriber subsidy reducing by almost Rs. 100 in this current fiscal.

The CAPEX for the quarter was Rs. 1.53 billion.We generated positive free cash flow broadly looking at EBITDA less CAPEX of Rs. 374 million. As of 30thJune, we had gross debt of Rs. 25.42 billion and total cash and short term investments of Rs. 9.8 billion.

Also the conditions for the first earn out have been met recently and as a result of which Rs. 7.19 million fresh ADS equivalent will be issued to principal shareholder; Silver Eagle Sponsors and the Executive Chairman.The total number of ADS equivalent will stand at Rs.105.44 million as against the current 98.25 million; post the first earn out issuance. The regulatory process to issue it, including the requisite approvals is under process as we speak.

This concludes our opening remarks.Thank you so much for your support. We now like to open the floor for questions.

Moderator: Thank you very much, we will now begin the question and answer session. First question from line of Arvind Bhatia from Sterne Agee.. Please go ahead.

Arvind Bhatia: I appreciate your comments on OTT, my question is as you think about the next few years, we know Netflix and now Amazon, they are both intending to have a presence here in India, what do you think that does to content cost if anything, clearly those guys have big balance sheets and they can throw around some money to get content quickly, just wondering how you view that as a threat to the trend line in content cost, thank you.

Saurabh Dhoot: Yes, well In India as you know by law content cannot be exclusively bought from the linear broadcasters. So hence it is not a situation where you have started bidding for content whether it is with a cable operator or a DTH operator or for that matter, any new OTT operator that is one aspect of this. The other aspect is that of course as you know in India content prices are in effect regulated with the cap. That said, naturally when you look at our scale of operation today with regards to where we have reached the leverage we have with any new player in the industry whether it is DTH, Cable or OTT the relationship in leverage is quite significant already established as we speak on the existing basis. Second part of our strategy as Mr. Khera already pointed out is that we are anyways securing content rights wherever possible on our OTT.

Arvind Bhatia: And one thing is, when do you think we will be able to get the details on these Hollywood channels that seems interesting, when do you think we will get more details on that and then last question is on your balance sheet and I think last time you had talked about paying down more debt. Can you give us an update on how do you see that in the next couple of quarters? Thank you.

Rohit Jain: So on the Hollywood channel, I thinkwe expect to launch that channel in the second quarter; we should be in a position to share more about it soon. We are in the process of getting into a long term arrangement with a Studio that will give us access to a great depth of library; both on high definition as well as 4K, so we will be happy to share that in due course of time. From the balance sheet point of view, we have only paid down approximately $(+100) million and we did that towards the end of last fiscal year, the moment IPL happened. There is plan to pay down additional $80 million to $100 million in this year. As we speak, we have already started the process of approaching the lenders with the intention to prepay further debt. We are awaiting the lenders' internal approval process to get over for this to get executed. It is a time consuming process unfortunately, but I think during the course of the year, we would pay down another $80 million to $100 million.

Moderator: Thank you. Next question is from the line of Anand Khagarte. Please go ahead.

Anand Khagarte: Couple of questions from my side; firstly my first question is to Mr. Khera. Sir, since you are apart of the Task Force Committee, how serious do you feel the current government is in implementing the Phase-3 and Phase-4 deadline?

Anil Khera: Well, I am glad you asked me this question.You see we have been having the review with Ministry every month, where all these stakeholders attend the meeting that includes the broadcasters and all the cable operators and also some representative of last mile cable operators and all the DTH operators and also the representative from TRAI, which is a Regulating Authority for Digitization. So basically the monitoring happens on whether the cables operators for Phase-3 are signed up with the broadcasters or not and so far very positive signals have come from the operators, broadcasters and the Government and they are determined not to postpone the dates of the digitization. As of now, all the signals which are coming are very positive because government is feeling very confident about this successful roll out of Phase-1 and Phase-2. They are very confident about Phase-3 and in fact, they have also made stills to educate people about digitization and the Phase-wise switch off schedules they are discussing with the broadcasters. For example, they will switch up probably news channel first, then music channel, then movie channel over a period of time, then GEC channels in phased-manner. Thank you very much.

Anand Khagarte: Sir, follow up on that would be, so historically we have seen in Phase-1 and Phase-2, there had been a delay of 3 to 6 months, so do you envisage the delay to be slightly higher because of the higher scale this time around?

Anil Khera: Well, 3 to 6 months delay is not a delay, in fact, to roll out the complete digitization process will anyway take 6 to 8 months but what is the good outcome in all the meetings that all the operators are now confident, they are sure that digitization is going to happen whereas in the Phase-1 and Phase-2 they were thinking that this will get postponed or they will bring some court order or stay order or something or the other but now at least the market is sure that government is going to digitize this country and the setup box, the signal has to go through setup box. 3 to 6 months delay is still acceptable because the process must start then there is an opportunity for DTH operator as well as all the cable operators.

Anand Khagarte: Sure Sir got your point. My second question is on subsidy element, so subsidy has been there for the DTH industry almost since inception. We have gradually seen the cost of setup box reducing for the DTH industry but do you feel that there will be a point; say maybe a few years down the line when the subsidy element for the DTH operators will be completely eliminated?

Anil Khera: By bringing in subsidy in fact, the market DTH operators have expanded to very good numbers and when the setup box was priced at Rs. 3000, the market used to be 2 million or 3 million in a year, new acquisition. And after the subsidy was introduced, the market has expanded and the market has gone to almost 9 million new acquisitions in a year. So this is in fact helping expand the market and getting the customer on the faster track. And in coming years, I think the subsidy will continue but at the same time we are doing lot of value engineering to bring down the cost of the setup box which in the Rohit's statement has come out that the cost has gone down by more than Rs. 100 each setup box and since we have a captive manufacturing unit, and we are continuously working on value engineering to bring down the prices every 6 months by at least $1 or $2 on regular basis, thank you.

Moderator: Thank you. Next questionis from the line of Mark Lynch from Green Owl Capital.. Please go ahead.

Mark Lynch: I just wanted to talk about the digitization time and again, if you do get some type of an event where you are having the government basically cut off analog signals, do you think will acceleratea lot faster than expected can you just talk about the shape of the balance sheet,if you think you are capitalized, take advantage of that or you are going toneed a capital raised take advantage of the surge in subscribers?

Rohit Jain: Well, so at this point of time, we are in a fairly strong position with regard to the balance sheet, whether you look at the debt-equity or you look at EBITDA-to-debt, we are in a fairly strong position. And if you look at some of our previous years, in terms of those ratios, it will give you a sense that we have significant ability to raise more capital if this opportunity kicks in faster than anticipated. So, we are not worried about that part. The opportunity itself is of course; Phase-3 is about 38 million to 40 million homes as per the Government census and some part of that is already under digital cable and there is a large part already under satellite. We believe that there are 20 million homes that are potentially under Analog cable that are going to be digitized, so depending upon pace and timing, we are well-positioned; both with regards to our inventory lineup that we are building up as well as our balance sheet to support us.

Mark Lynch: And what is the kind of your current max ability to sign up new subscribers and install on your quarterly or annual basis?What would be the maximum number of subscribers thatyour infrastructure can handle?

Rohit Jain: At this point, we have done about what 0.61 million in the last quarter so during the peak seasons we do go up to almost 25,000 to 30,000 a day. So we have infrastructure gear up for the peak. That is the nature of the business we need to have business ready for the peaks as well. And that gives you a sense of what is the kind of ramp up we can do which is significantly more than what we have been typically doing.

Moderator: Thank you. Next questionis from the line of Arvind Bhatia from Sterne Agee. Please go ahead.

Arvind Bhatia: Thank you just a follow up question, you guys talked about the ad revenue source that you are saying, I know that it is still small on the grand scheme of things but as you mentioned it is high margin Rs. 81 million in the quarter. Is that a good trend line? Is that a good run rate to use for the rest of the year? Was there any seasonality that brought the number up more than it would have? Just wondering where we would may be end up this year and then longer term with the new ad team that you have. Can you share some thoughts on what that teams goals might be say a few years out kind of what their aspirational targets might be?

Saurabh Dhoot: So with regards the numbers obviously as you have seen the last full fiscal we did Rs 100 million this in one quarter alone we did 81. This clearly is a very encouraging trend line. That said we have not separately guided for the revenue figures from advertising but so one can imagine that this is only an upwards trending linequarter-on-quarter you can have a good decent estimate on that front. You see there are a couple of unique avenues which we use for advertising. One is of course we have our proprietary channels, the most popular and biggest among them is the landing page. But more importantly theses proprietary channels of ours which have a content-oriented, which have a content proposition to the customers like D2H Kids,Nursery Rhymes, and Cinemas. There are two cinema channels which are open for all and enjoy good viewership as very good placement in the lineup or the music channels or the most importantly the zapper which is the EPG guide. So all of these avenues in fact are yet to contribute in a very significant manner to this figure of the Rs. 81 million this quarter for example. So clearly the road map for the advertising team is to explore these opportunities to the fullest. Also get in the right set of advertisers, you know which of course increase the value per slot available. So these are the key areas where the advertising department is right now working on creating propensities', creating avenues and areas which are going to be exciting for the advertisers.

Moderator: Ladies and Gentlemen as there are no more questions I would now like to hand the floor over to the management for closing comments. Thank you and over to you Sir.

Rohit Jain: Well thank you so much again to everybody to join in. Just to summarize in the closing you know we ended this Q1 with a little over 30 million of adjusted EBITDA, 13.7 million gross subs,and 10.64 million net subs. We continue to maintain our growth guidance of 25 to 30% for H1.We do hope H2 is going to be much more stronger and faster than H1. An audio recording of this call will be available on our investor website soon so will be the copy of this transcript. On this note on behalf of the management, board I would like to thank all of you to join this call today. We hope to see you on the next quarter call. Thank you so much.

Moderator: Thank you. Ladies and Gentlemen on behalf of Macquarie that concludes this conference call. Thank you all for joining us and you may now disconnect your conference lines.