“Videocon d2h Limited Q4 FY-16 Earnings Conference Call”

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Moderator: Good morning, ladies and gentlemen. Welcome to the Videocon d2h Limited Fiscal 2016 Earnings Conference Call. As the 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 would now like to hand the conference over to Ms. Nupur Agarwal, Head of Investor Relations, Videocon D2H. Thank you and over to you, ma'am.

Nupur Agarwal: Good morning everyone and welcome the Videocon d2h Fiscal 2016 Results Conference Call. We have with us senior management of the company represented by Mr. Saurabh Dhoot, the Executive Chairman; Mr. Anil Khera, the CEO; Mr. Rohit Jain, the Deputy CEO and Mr. Avanti Kanthaliya, the CFO. I will now handover the call to Mr. Dhoot for his initial comments.

Saurabh Dhoot: Thank you all for joining our Fiscal 2016 Results Call. On behalf of our Board members and management team I welcome you all on our results call for the Fiscal year 2016 that is the year ended 31 March 2016. I also take this opportunity to officially welcome Harry Sloan and Jeff Sagansky as officially on the Board post recent regulatory clearances approvals though they have been actively engaged with the company in the past one year. Fiscal 2016 has been a landmark year for Videocon d2h in our first as a NASDAQ listed company. It was a year of very promising developments for the Indian DTH industry and I will highlight some of the ways these changes resonate with d2h strategy and operational strength.

During the year our company continued to seize the Indian digital Pay TV opportunity delivering superior content and best-in-class customer service to millions of our subscribers. Dear shareholders, as Executive Chairman, I am proud of our achievements during the year in gaining subscriber and revenue traction. However, what excites me even more is the emergence of us as a major platform that today attracts tens of millions of eye balls daily and how this is enabling meaningful value addition to the business through revenue streams of advertising carriage and our own content plans and value added services sales. I am excited about our steps being taken towards rolling our production services designed for digital media consumption. These I believe will be our growth drivers and I will come back to them in a minute.

I think overall dear shareholders, with a strong subscriber growth outlook, the DTH industry gaining market share over cable and an improving ARPU scenario we believe we are truly at the beginning of building a multiyear track record of strong growth and value creation. I am proud to share we have reported the highest net subscriber addition among DTH operators at 1.68 million for the year. We have now led the DTH industry in adding the most net subscribers for six years in a row. This is testament to both our superior product and customer service and a fantastic management. Videocon d2h strategy continues to focus on driving revenue and EBITDA growth while leading the industry in technological innovation and customer service. This will build a durable foundation for long term profitable growth and cash flow generation. Our simple strategy of focusing on pure and simple execution works, not just net subscriber growth, but also strong ARPU growth related to competition is also important. We have led the industry in ARPU growth this past year. Between customer additions and ARPU growth, I am happy to share that d2h reported strong EBITDA growth of 31.5% in Fiscal 2016.

During the year, total revenue grew 22.4% to Rs. 28.56 billion with subscription and activation revenues growing 26.4% to Rs. 26.07 billion. Adjusted EBITDA grew 31.5% year-on-year to Rs. 8.01 billion. This number would have been around Rs. 8.44 billion in the absence of service tax increase and implementation of Swachh Bharat or Clean India Cess. ARPU grew from Rs 196 on the average of the whole fiscal 2015 to an average of Rs. 207 in fiscal 2016. The exit quarter ARPU came in at Rs. 214 had it not been for tax increases during the year, this average of Rs. 207 would have been higher at Rs. 210. Gross and net subscribers increased by tremendous 2.65 million and 1.68 million subscribers respectively.

Churn for the year came in lower at 0.73% overall or 8.76% for the year. This is compared to the monthly churn of 0.8% in fiscal 2015. This has been a landmark quarter I am pleased to share it is the best quarter in terms of subscriber additions, it has also been a landmark quarter for the DTH industry. We delivered one of the best quarters in the history of Indian PTV industry. We added close to 800,000 gross subscribers and close to 600,000 net subscribers during the quarter. Strong Q4 really sets up nicely for the coming for the existing fiscal now.

Like I said at the beginning I feel proud to report that d2h in the last year has developed into a strong programming platform over the last year. We offer a whole host of subscription value added services such as d2h Cinema, d2h Nursery Rhymes, d2h Hollywood. We are the only DTH operator to operate at 24 hours 4k service. Looking at this power of this platform, alternate revenue streams such as carriage, advertising and value added services are beginning to contribute meaningfully to revenue and EBITDA, especially EBITDA. Naturally as the platform becomes stronger, I am getting more and more excited about these revenue streams and this will continue to support margin expansion in the future.

As far as content and VAS strategy is concerned, we continue to identify gaps in current offering and launch these proprietary value added services. We have added five proprietary services last year namely the d2h Cinema HD, d2h Hollywood, d2h Darshan, d2h Nursery Rhymes and d2h Spice.

We also reported a number of technological advancements which would greatly benefit our subscribers this year, such as the test launch of a new hardware the HD smart connect set top box or the connective box which converts and gives powers to individuals in India to convert their existing TV into a smart TV.

The connected box will allow the subscribers to view normal DTH service and also connect to the internet to browse content from Twitter Facebook, Daily Motion, Video on demand sites, OTP Apps. With the improving broadband scenario in India in the near future later part of this year and next year and the potential convergence of technologies in the times to come, connective set top box and its variants will play an important part of our future.

We will be launching new mobile app soon which will convert your smart phone into a smart remote with a whole host of new features really making the convergence clear with new technologies.

Now with regards to guidance for fiscal 2017 we have set for ourselves the following simple year powerful goals for the fiscal year 2017 along with focus on key operational metrics on a quarterly basis. I am happy to announce to all shareholders that d2h will turn PAT positive in this year. D2h will be the fastest DTH operator to achieve the significant positive milestone. Fiscal 2017 will be a landmark year as we also achieve positive free cash flow breakeven during the year. This is assuming subscriber growth in line with the current growth trend. We will achieve gross subscriber additions of at least 2.5 million during the year. This would be sensitive around Phase III digitalization and Phase IV digitalization implementation on this for the upside.

With the key focus on growth and profitability we will now be providing quarterly guidance for net subscriber editions in EBITDA on an ongoing basis. Coming to guidance for Q1 FY17 as of quarter ending 30 June 2016 we expect net subscriber additions of 400,000 in Q1 FY17.

We expect EBITDA to come in at around Rs. 2.4 billion in Q1 which is around 26% growth over Q1 FY16.

With this I will now hand over the call to Mr. Khera our CEO for the DTH business update.

Anil Khera: Thank you Mr. Saurabh. Let me start giving you an update on Phase-3 digitization, which covers around 50 million television homes in over 6,100 cities. As per our analysis, the top 1,400 cities that come under Phase III constitute close to 70% of television homes in Phase III market opportunity. This 1,400 cities are of extreme importance to us and our marketing efforts are largely focused on these areas. I am also very happy to share that the authorities have already begun discussions and preparations for the Phase IV which has got another 80 million television homes. As per the recent data provided by the Ministry of Information and Broadcasting the press release, we are happy to share that close to 70% of the new digital customers have opted for DTH over digital cable which has only achieved 30% of market share in Phase III areas. Phase III digitization has made good progress barring a few states like Tamil Nadu.

During the quarter we raised monthly subscription packages price by at least Rs. 20 across various subscription packages translating to an average price increase of 7% to 8%. This is a significant positive development compared to an average 4% to 5% increase in the previous price hikes. Given the price increase came in early March, we will realize the benefit for the entire fiscal 2017. If you see the history of price increase in the past as we saw price increase in February 2015 and September 2015 and now in March 2016, it reinforces the scope of the ARPU increase in India in terms of the overall long term trajectory. We believe revenue will continue to grow robustly led by package price increases and improvement of high definition mix and value added service.

I am pleased to say that in line with our focus on high ARPU customers during the fiscal 2016 we installed high definition enabled set top boxes for over 50% of our new subscriber addition. We believe strong demand for high definition packages and high definition enabled set top boxes will continue in fiscal 2017. This is helped by pick up in sales of large screen size LED TV and launch of high definition versions of various regional channels. In the recent past many leading broadcasters have launched high definition versions of the regional channels which will further enhance high definition market size.

With this, I handover the call to Mr. Rohit Jain for financial updates.

Rohit Jain: We are pleased to share the details of our results for quarter ending March 2016. The total revenue grew 23.4% year-on-year to Rs. 7.72 billion. Key components of that were subscription and activation growing by 21% to Rs. 7.06 billion, carriage growing by more than 82% to Rs. 269 million, ad revenue came in at Rs. 105 million as against Rs. 63 million last year, ARPU in Q4 went up to 214 as against 202 in Q4FY15.

Q4 adjusted EBITDA grew 25% to Rs. 2.19 billion. This is after making adjustments for ESOP expenses. Margin expanded 40 basis points year-on-year to 28.4%. The net loss for the quarter came in at Rs. 212 million. This is a 72% improvement over the same quarter last year.

Monthly churn for the quarter came in at 0.58%. This is as against 0.85% last year. For the full year we are happy to see that the churn came in at 0.73% per month. Hardware subsidies for acquisition came in at Rs. 1,776 per subscriber and CAPEX was at Rs 1.74 billion primarily around set top boxes.

In line with our top line growth estimates and business plan, we generated positive operating cash flow with this EBITDA less CAPEX to the tune of Rs. 455 million for the quarter for the full year this figure stood at Rs. 744 million.

As of March 31 we had total term loans of Rs. 23.15 billion and cash in short term investments of Rs. 7.21 billion. With this, from the date of our IPO till now we have paid down debt of approximately Rs. 9 billion.

In the end to summarize you know we have ended the year with adjusted EBITDA growth of 31.5%. We have achieved net addition of Rs. 1.68 million during the year we believe this is a highest in the industry for the sixth year in a row. The exit quarter we added 800,000 gross, 600,000 net subscriber which gives us a strong platform for fiscal 2017. We will be turning PAT flow PAT positive and cash flow positive in fiscal 2017 a very important milestone and we are providing a guidance of 400,000 net subscribers and EBITDA of Rs. 2.4 billion for Q1 Fiscal 2017.

With this we finish our opening remarks and we would like to open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Nitin Mohta from Macquarie Group. Please go ahead.

Nitin Mohta: Two questions from my side. Firstly, looking at your first quarter guidance, I just wanted to understand is there a loss in momentum going from 600,000 to about 400,000 and what are the various puts and takes in that guidance. And secondly on the content cost side if you can just remind us where exactly are the deals at this point of time given the entire uncertainty on the regulatory front?

Rohit Jain: So on Q1there is no loss of movement remember Q4 was a strong quarter with World Cup and cricketing events. Q1 and Q2 in India as you are aware are seasonally slow quarters. As you would have seen in the results of the Pay TV industry over the years. Having said that we think 400,000 would be a good strong number for Q1 with the sort of platform we are starting the year with.

In terms of content cost we had a deals locked up for multi years and staggered over a period of time. As we get into fiscal 2017 we would have from now till over the next three, four years we will have some or the other deal coming up for renewal each year but they are going to be staggered over a period of time.

Nitin Mohta: And any comment on the regulatory side because one of your peers talked about not much actually moving on the content front till the time there is clarity from TRAI on how exactly should you be proceeding so any comments or thoughts over there would be very helpful.

Anil Khera: Yes in fact as you must have read that regulator has issued at least five to six consultation paper that includes the quality of services of all the digital platforms and also on the tariff order and also on the inter connect agreements. What we find is that regulator is currently assessing the actual content agreement between the broadcasters and all the distribution platforms with a view to revise the tariff orders and develop a realistic a la carte pricing mechanism. This is in order to create a level playing field across various distribution platforms.

In the recent consultation paper on inter connect agreement, there are various pricing mechanism which has been suggested by the TRAI and the focus is on being not discriminatory and bring transparency in all the platforms. In short the broadcasters ask price for the content is likely to get standardized across all the digital platforms such as DTH or digital cable or IP TV. We strongly believe this is a significant positive development for DTH industry.

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

Vivekanand S: I have two questions. One is in terms of the step up in sales and marketing spends. Is it largely driven by discretionary advertising in the current cricket heavy quarter or is it so that as your distribution infrastructure increases these expenses largely become overheads? That is one. And secondly you mentioned about 70% of the Phase III subscribers going to DTH how much more is left in Phase III and what about Phase IV, do you see that free dish is a credible alternate and can DTH continue to drive growth there? Thanks.

Anil Khera: You see the 70% digital customer acquired in Phase III is as per the press release issued by the MIB. We believe the total household in these areas are 50 million and as per the press release by the government 40 million set top boxes have been seeded. So still there is opportunity of 10 million analog homes where the set top boxes are yet to be seeded. And as regards the advertisement spend during the quarter it is in line with our annual plan and there is no spurt as such in the advertisement in this quarter. If you look at the total spend it is in line with the last year's spend.

Vivekanand S.: Alright and sir just a small follow up on the deployment data that the MIB has released. So does this also include inactive set top boxes or is it active set top boxes deployed in Phase III areas?

Anil Khera: No, these are all net set top boxes and the 40 million is the figure which has come out.

Moderator: Thank you. The next question is from the line of Rajeev Shah from HSBC. Please go ahead.

Rajeev Shah: So I do not know if I have heard this right that 50% of your new subscriber addition this quarter was HD and if that is the case, just wanted to understand the ARPUs could have seen even sharper jump or if you can help us understand the incremental mix overall and why only Rs. 3 increase and if it was largely HD driven?

Rohit Jain: I think what we shared was that in line with our focus on HD in the long term we are selling more and more high definition boxes that the customers' house irrespective of whatever services they are opting for. And that gives us a larger opportunity over a period of time to be able to upgrade the customer to high definition. So while I think the industry continues to focus a lot on upgrading the customers, we are also sort of taking a longer term view and seeding more and more high definition equipment at home.

Rajeev Shah: Okay in that case if you can help us what is your mix with HD and the 99 plan and the other plans and also what is the current percentage of your base on HD?

Rohit Jain: So HD for us till about maybe two years back was roughly about 5% of our base and that number has grown fairly impressive over the last two years. We are now a little over 12%. The rest of the subscriber is split across multiple packages.

Rajeev Shah: Okay and if you could remind me about how you treat the license fee in your numbers, what is the number you go with in the license fee calculations?

Rohit Jain: We take in our license fees number as per AGR calculation and the balance has provided as contingency.

Rajeev Shah: Which means you are taking 8% effectively?

Rohit Jain: It is in line with the formula provided by the regulator.

Rajeev Shah: And with the new regulations coming in, you talked about this in the last question but you were already at the higher end versus some other players and other DTH players. Do you think it is going to have a positive impact on your cost or it may still increase your cost?

Rohit Jain: You know we believe whichever way you look at it, it is too early to be able to comment where the regulation might go. But it can only be a positive traction for us and this is not just with respect to satellite the regulator is taking a view with respect to the entire Pay TV industry which includes cable as well. Whether that means satellite cost goes down or cable cost goes up or you know what happens these are things which are difficult to predict at this point of time. But I think anything that brings about parity can only help us both in terms of growth and profitability.

Rajeev Shah: And what are your current HD ARPU's in I understand you do HD boxes seeding but what will be your mix HD subscribers actual subscribers in your subscriber addition roughly as an average over the last four, five quarters?

Rohit Jain: The overall number is what we shared just a while back at about a little over 12%. Our pace of growth depending upon quarter-to-quarter varies from a high double digit to going up to almost 25% to 30% in seasonal quarters.

Rajeev Shah: And your HD ARPUs?

Rohit Jain: Well we do not break down the ARPUs by standard definition and high definition but needless to say they contribute handsomely to that.

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

Vikas Mantri: I just wanted to understand the order mix of the low-end pack subscribers that are getting added so I guess the growth is largely in Phase III. Can you help us with that?

Rohit Jain: So while we are not breaking down the standard definition in terms of various tiers, there are multiple tiers that we offer in different parts of India. At this point you know there is not much traction in the lower tier. These are experiments that we have done over the last year in order to target various strata of customers whether those are in the free dish markets or low priced cable markets and these are experiments we continue to look at over the next couple of years to come. The traction obviously is coming more and more on the high definition side over the last couple of years. Having said that at the end of the day we are seeing overall traction in ARPU to be quite positive. And we expect that momentum to continue.

Vikas Mantri: In place of your HD boxes which have been added for the quarter which you are saying it is 50% incremental how many have actually opted for those services?

Rohit Jain: So like I said over the last couple of years that number has moved from 5% of the base to almost little over 12% of the base now.

Vikas Mantri: Okay so 12% would also be right to services point in an incremental basis what could that number be?

Rohit Jain: Incremental number varies from a high double digit to going up to 25% to 30% in seasonally strong quarter.

Moderator: Thank you. The next question is from the line of Rishender Goswamy from Locus Investment. Please go ahead.

Rishender Goswamy: I just wanted to clarify how much license fee are you charging to the P&L currently?

Rohit Jain: As we said we are charging license fees in line with the AGR calculation in the P&L which is done as per the formula provided by the tribunal years back and the difference between that and the gross revenue and the AGR formula is provided in the contingency while the operational details does not have the breakdown in terms of numbers but we are basically following the AGR norm which should be pretty easy to calculate.

Rishender Goswamy: Right I mean on the reported revenue basis this would work out to be what about 5% to 6%?

Rohit Jain: Somewhat in that range. It is difficult for me to quantify given the breakdown is not available but it should not be difficult maths to work it out.

Rishender Goswamy: And would you have a sense of what the activation revenues were for FY 16?

Rohit Jain: That forms part of subscription revenue for us and the overall subscription and activation revenue put together came in at about Rs. 26.07 billion.

Rishender Goswamy: Right and just in terms of on a personal basis what is the activation that you are booking now?

Rohit Jain: Sorry can you repeat that?

Rishender Goswamy: On a per sub basis the growth that you are adding for every new sub what kind of activation would you be booking any number?

Rohit Jain: Again that is part of the subscription revenue and at a per se basis what we had in the Q4 for example was Rs. 214.

Rishender Goswamy: Right, which includes the activation?

Rohit Jain: That is right.

Rishender Goswamy: It is not breaking it out. I see and the hardware subsidy that you have that seems to be slightly on the higher side so any comment on that?

Rohit Jain: It is higher side in context of what?

Rishender Goswamy: In context of at least what the peers are reporting?

Rohit Jain: So basically the comment because we do not have access to what product mix peers have and what product strategies but for us this is largely in line with how we have been doing over the last couple of years. In Q4 there is a marginal increase in the subscriber activation cost largely on account of higher High definition box mix.

Rishender Goswamy: Right okay it is the higher HD which is and what is the box cost currently for SD and HD box now?

Rohit Jain: So we have not provided the cost of the box itself but the difference between the two is not very high.

Rishender Goswamy: And any marketing campaign or anything on the advertising side that kind of spike the overall sales and distribution cost in Q4?

Anil Khera: We have recently rolled out our marketing campaign which is titled as Khushiyon Ki Chatri which we have rolled out all over the media and we are finding it a very good positioning and it is getting a good traction.

Rishender Goswamy: Right sir and this will continue?

Anil Khera: Yes this will continue and the various value added services and various active services which we have been providing will become part of this campaign.

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

Amit Kumar: Sir, I missed the breakup of the non-subscription and activation revenue I think it will give that the advertising rental and you know other bits?

Rohit Jain: Carriage was Rs. 269 million for the quarter and ad revenue was Rs. 105 million.

Amit Kumar: What would be the rental income as well?

Rohit Jain: That forms part of the other revenue.

Amit Kumar: Alright. Very quickly on this content cost bid once the new TDSAT and TRAI regulations sort of come into place then uncertainty or the piece that we do not really understand is the fact that the existing contracts that you have which will probably run for another one, two, three years whether those will also have to shift compulsorily shift to the new regime immediately or will they be sort of allowed to run through for the remaining time period and then get renegotiated in as per the new regulations. Would you have some clarity on this?

Anil Khera: Yes in fact one is there is no clarity that when the regulation will come. There are discussions happening and open houses are happening one after the other. We strongly believe that TRAI is going to come out with a comprehensive policy not only for the tariff order the price between broadcasters and the platforms. They are also going to come out on like quality of services like an interconnect agreement the disparity between the contract between analog and digital and cable and DTH all this together we strongly believe will take another five months to six months or to eight months to one year to roll out and there is still no clarity on what is going to happen on the existing contract which are already in force.

Amit Kumar: Okay, my final point is the subscriber acquisition cost could you just help us with a little bit of detailing on this let us say the cost to consumer when you sort of initially sell the set top box it is around Rs. 1,500, Rs. 1,600. So from that all the way down to the subscriber acquisition cost of Rs. 1,776 or around Rs. 1,750 that you have reported as an average over the last two quarters. How does that calculation sort of flow through would it be possible to sort of get some detailing on that?

Rohit Jain: So while there are no figures available but it includes all the components that go into acquiring a subscriber whether that is the hardware cost of the consumer premise equipment which includes the set top box, the dish antenna, smart card, and everything that goes into the cost of actually going and doing the installation, the distribution margins, the taxes paid to the government, the money paid by the customer. So entire cash flow cycle that goes into place while acquiring a subscriber goes into this and that is how we have come to the figure that we have shared.

Amit Kumar: Would it be possible to please put some numbers on each of these components?

Rohit Jain: At this point while break down are not available in the public domain but those are reasonably standard figures give or take those are reasonably standard figures for the industry so you could make your guesses on that.

Moderator: Thank you. The next question is from the line of Utkarsh Khandelwal from Morgan Stanley. Please go ahead.

Utkarsh Khandelwal: Your content cost as percentage of revenues has fallen from 38.5% in the last quarter to 37.5% this quarter. So despite being a sports heavy quarter can you shed some light why has this fallen, is there any new renegotiation that has taken place or something else?

Rohit Jain: Well, on the contrary it is actually gone down because all our deals were done already in fiscal 2015 there were not any deals in fiscal 2016. We have obviously delivered what we believe a great numbers for 2016 whether you look at it in absolute terms or relative to the industry and as really the leverage of that scale inside that is been achieved those numbers have been the operating leverage has been achieved. Having said that it is important to also note that during the year there were two tax increases done by the government one was done in the month of June when service tax went up by 1.64%. The other was done in the month of November when Swachh Bharat tax was introduced by 0.5%. And the entire industry obviously saw of shaving off of revenues by more than 2% on account of these taxes. If it was not for these increases in taxes we would have probably seen the content cost going down even further in line with our initial estimates at the beginning of the year.

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

Rohit Dokania: Sorry I joined in a bit late, so have you provided any guidance on EBITDA and ARPU for FY17?

Rohit Jain: Yes we have provided guidance for Q1, we have provided a guidance of net addition of 400,000 and EBITDA of 2.4 billion. We have also provided a full year guidance to be achieving PAT positive and free cash flow positive milestone in fiscal 17. Also we expect to do minimum of 2.5 million additions during the year.

Rohit Dokania: So this is gross additions, right?

Rohit Jain: That is right.

Rohit Dokania: Okay sure thanks for this. And just one more question so if I look at your full fiscal 16 numbers, subscription and activation revenue was grown at 26% whereas the overall revenue has grown at 22%. So could you please talk about the other operating revenue which could have fallen on a YoY basis?

Rohit Jain: Well the other operating revenues include the many elements around hardwares and all of that plus our service revenues are all outsourced those are not part of the P&L. The entire service activity has been outsourced in fiscal 15 and hence those do not come into the other revenue. So these are really on account of various accounting practices and the way business has structured. And that is why you should probably look at subscription as a true surrogate for business growth.

Rohit Dokania: No sure Rohit, I understand that just want to so, if I am not wrong advertising and carriage could have grown which is also part of this other operating revenue. I just want to understand that particular line item which might have declined YoY?

Rohit Jain: Like I said, it is not that any line item has declined. A large component of other revenue which would have come in would have been the installation in revenue. A part of the customer revenue goes towards installation which otherwise would have come in to the other revenue. That does not come into the P&L given that exercise was outsourced in fiscal 2015.

Moderator: Thank you. The next question is from the line of Jay Gandhi from Motilal Oswal Securities. Please go ahead.

Jay Gandhi: Well, if my memory serves me right we were expected to de-lever our balance sheet by a notch, however nothing really seems to have moved on that front. So do you have a repayment schedule maybe for the next couple of years or for FY17?

Rohit Jain: So we do have from our date of IPO we have paid down Rs. 9 billion on the debt so far. Also over the last few quarters gone by we have also paid down another Rs. 2.76 billion out of that Rs. 9 billion during this year.

Jay Gandhi: So do you have anything in mind or are you targeting a certain level of debt by FY17 or something?

Rohit Jain: So we believe that currently we are at fairly optimum levels of net debt. At this point given that there is a massive opportunity of Phase III, Phase IV coming up our more immediate focus areas and plans are around profitability and cash flow positive. At a debt level we certainly do not expect the net debt levels to change much in terms of going any further up, we certainly think these are at fairly optimum levels of net debt now. But yes, our focus in the next year is certainly towards customer acquisition and cash flow positive and profitability.

Jay Gandhi: Also one more thing on the HD growth so of these 50% of gross ads, how many are actually converts and how many are new subscribers?

Rohit Jain: The 50% was the boxes seeded for new customers acquired during the quarter.

Jay Gandhi: And I am not sure if you have given this but do you have a CAPEX guidance for FY17?

Rohit Jain: No, there is no CAPEX guidance. The subscriber acquisition cost are fairly stable over the last two years. We have given a guidance on subscriber acquisition number the CAPEX should be a direct outcome of that.

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

Vivekanand S: A couple of questions. One is could you discuss a bit on the industry level gross subscriber addition for FY16 and how you expect it to pan out over FY17? And secondly, what about the impact DD Free dish on the Phase IV subscriber opportunity? I want you to also discuss a bit about the DD competition in the context of the increased channel carrying capacity that they are going to roll out. The second question is on the ARPU drivers. So your peer commented that they look at the market into two ways the DAS 42 cities where the focus is on upgrading the consumer to HD and offering higher packs. And the Phase III and IV consumers where they are recruiting them at the lower end packs the 99 and regional products. So any thoughts on the ARPU drivers for you would be appreciated.

Anil Khera: Okay first I will answer your question on the industry size of DTH. There are major four national DTH operators in the country and one in the south. Actually there are six operator but major four and one in the south. Altogether we have done 11 million gross seeding of boxes last year and we expect the same trend to continue for this year also because of major part of Phase III digitization process is still there and Phase IV digitization discussions and preparations have already started by the authorities. So we see this as a huge, huge opportunity.

Your another question on competition from government free dish as they are launching lot of channels. You know for Phase III and Phase IV market as all the DTH players including us we have introduced an introductory pack to target all the free dish customers as well as the low ARPU cable customers. In fact their entry pack is 99 plus few add-ons but if you look at the ARPU from this customer that is not bad actually it is coming to Rs. 170, Rs. 180 because along with this free dish all the channels which are available in 99 pack we also take add-ons of the entertainment and the movie channels. Then we have seen lot of customer converting from free dish to the paid DTH services as they want to see fresh content and not the re run content of the same channel after six months.

So while this free dish is creating market and at the same time we all are trying to upgrade this customer from free to pay TV.

Saurabh Dhoot: Overall we in terms of the management strategy or application strategy overall the company is clearly demonstrated industry leading net subscriber growth as well as industry leading ARPU growth as well. So it speaks about the kind of customer profile our brand attracts and our team executes and whether it is the first phase I, phase II cities or Phase III, Phase IV subscribers the difference in the average ARPU from them is not stark.

Vivekanand S: Okay just a small follow up, sir. You mentioned that similar gross addition trend will continue in FY17, why not a higher subscriber addition trajectory in FY17 in the context of the Phase III pending opportunity and also Phase IV as you have outlined the preparedness of the authority is also reflecting right now itself. So why not a higher gross addition for the industry?

Saurabh Dhoot: Well, so naturally as we have mentioned that this guidance is of course does not include upsides which will ease out of the pace and force of implementation of Phase III and Phase IV. So naturally that upside is there and as we have demonstrated in the past we have continued to lead the market in terms of its size. So the market expands of course our ability to increase our subscriber addition would expand. Naturally the internal business plan targets are much higher than this.

Vivekanand S: And on ARPU you mentioned that the difference in average ARPU between DAS 42 cities and the Phase III and IV markets is not much, what about the HD adoption rates and consumer behavior there? So you mentioned that you provide HD boxes to consumers irrespective of whether they opt for packages or not but if let us say a consumer opts for HD packages is it so that there is frequent drop out to standard definition once supporting quarters are completed?

Saurabh Dhoot: Sorry could you repeat that last part again?

Vivekanand S: The last part was with respect to the consumer behavior on HD front where do consumers shift up and down between standard definition and HD or is it so that there is high level of stickiness in HD?

Saurabh Dhoot: So Yes now we are very encouraged with the uptick of HD packages in Phase III, Phase IV markets as well. I think I would not say that HD subscribers is only the domain of Phase I, Phase II market subscribers, definitely not. And yes in terms of stickiness there is a large section of HD subscribers which are very sticky with their HD packs there is also a certain set of subscribers which we actually encourage to sample skinny HD packs also and not just full on HD packs.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: I just wanted to understand the CAPEX part of the business. Now one element of CAPEX is pretty much straightforward linked to the gross subscriber acquisitions. But I understand there would be also a lot of repairs and replacements of the set top box of our existing subscriber. So how does that work out, do we charge to the customers on replacement and going forward should that be a material element of overall CAPEX?

Saurabh Dhoot: Sorry could you repeat that, you were talking about CAPEX of replacing?

Yogesh Kirve: Yes so the existing set top box may be replaced or any repair so do we charge to the customer for the replacement or how does that work out?

Rohit Jain: Well, there are nominal visit charges but given our manufacturing capabilities and reverse supply chain abilities these are very nominal in nature. The larger part of the CAPEX as you would see the trend of the last several years are very, very substantial part of our CAPEX is just acquiring new subscriber. Everything else put together is a very, very small part of the CAPEX plan.

Yogesh Kirve: And my second question regarding in terms of ARPU drivers so could you talk a bit about the platform services so how many subscribers are actually subscribing to any of your platform services and how is that number growing?

Saurabh Dhoot: Well, this is confidential information so we will not generally break everything down but I am very excited to see that today there would be almost a low double digit portion of our entire subscriber base which are either taking VAT services or has paid for VAT services or has sampled them in between and I think that is a very encouraging trend considering this has been a business which started, this has been a regular segment which started really only two years back.

Moderator: Thank you. The next question is from the line of Rishender Goswamy from Locus Investment. Please go ahead.

Akhil Dhawan: This is Akhil Dhawan. Just two questions. First one was you made a comment earlier on in the call about some new data from I&B Ministry that suggested that the DTH industry was running at a 70% incremental market share. Could you just clarify where that datas from?

Anil Khera: This is one of the press release which has appeared in all the news. The total ceiling of boxes are 40 million and out of which around 13 million to 14 million boxes have been seeded by cables and remaining have been treated by DTH from launch till date.

Akhil Dhawan: And then just based on your on slide 7 of your presentation in terms of just the household in Phase-4 roughly 45 million households has been analog in Phase-4 today. Just to get a sense your chart shows that there is about a million digital cable households only in Phase-4 so far. In terms of reach and what is contiguous what is your sense of those 45 million households that remain to be converted how much can cable actually even touch?

Anil Khera: Yes, if you look at the total household in India we have 250 million households. If I breakdown Phase-4, Phase-3, Phase-2, phase 1 if you talk about only Phase-4 household there are 72 million to 80 million television households and it is very safe to assume that all the DTH companies in Phase-4 have already sees it close to 20 million to 25 million any figure around that have already seeded. So balance left outs if we deduct the DT direct and also the balance left out boxes to be seeded it should be anywhere figure around 35 million to 40 million opportunity is there for digital cable as well as for all the DTH companies.

Akhil Dhawan: Yes, that is what my question was. So given the spread of those houses the geographical spread of those households how much of them can actually physically be reached by viably by digital cable?

Anil Khera: Well, wherever the digital cable business is viable where is the cluster of houses are anywhere around 10,000 so there the cable business becomes viable. So that becomes the proposition for digital cable but DTH reach can be anywhere I mean our footprints are available across the entire country and even in the hilly regions where the cable cannot reach and we have a strong opportunity there in Phase-4.

Management: But I think the current penetration levels of digital cable in Phase-3, Phase-4 already speaks for themselves and they are represented to participate in the incremental growth as well. I think it is….

Akhil Dhawan: Sure, although given that Phase-3 is more immediate in nature they are clearly focused on seeding Phase-3 and 4 yet at least for cable?

Anil Khera: Also we are forgetting the fact that we have places like Gurgaon in Phase-3. That really is not typically how you would visualize Phase-4 and/or Phase-3. So it is not everything is not so clear.

Akhil Dhawan: And then just my last question is on the subscriber acquisition cost of Rs. 1,776 this quarter that excludes any marketing cost so that is just a hardware subsidiary portion and if I look at your sales and distribution expense for the full year on the number of ads there is almost another something like Rs. 750 to Rs. 850 per subscriber being spent on sales and distribution in addition to this hardware subsidiary. So in terms of just thinking about total subscriber acquisition cost is it fair to say that that number would actually be something like Rs. 2,500?

Rohit Jain: That is actually not the correct way to look at it for couple of things on this sales and distribution expenses includes multiple items. The total figure cannot be taken as it is. The second is the sales and distribution expense in this is not variable to subscriber growth to a large extent. And hence to correlate whether the sales and distribution expense has been incurred for the purpose of acquiring subscribers might not be the right derogative actually to make. The whole purpose of looking at subscriber acquisition cost for us is internally in the way we think is how much cash we had to spent to acquire a subscriber. Really a cash flow expression for us. Our belief was over the years is that many of the other expenses including sales and distribution are really becoming is the business is achieving a certain scale and levy are becoming more and more sort of fixed expenses in nature.

And those do not have much variability with regards to subscriber acquisition and the same is visible if you look at the trend of those budgets over the many years. I think any company or platform of this size would end up doing certain amount of marketing and such other expenses irrespective of subscriber acquisition levels. Which is the reason we have not included in that and even if you were to sort of allocate that that figure would have been less than Rs. 100 but our belief is it would not be the right accounting expression we have include that.

Akhil Dhawan: So then may be just to ask you differently. I mean just on a cash-on-cash basis today for the incremental subscriber what is your sense of cash on cash return or IRR, net of churn?

Rohit Jain: It is a difficult question to comment. Look, there are multiple ways to look at IRR, right. And you guys on the call know this better than we do that something we leave the analyst to be able to address but there are 100 different ways to look at IRR customers. We are quite excited by the way profitability has been delivered by the business. The business is obviously now delivering upwards of 28% EBITDA and there every reason to believe that the profitability per subscriber is only going up. If you also sort of take into account, the fixed expenses that are essentially fixed in nature. So incremental margins, incremental profitability is quite high but IRR is something we leave to the financial experts.

Akhil Dhawan: And just last bookkeeping question.

Anil Khera: I will just add to that that naturally internally for us the IRR is very good to continue expanding.

Akhil Dhawan: And then last bookkeeping question. What is the fully diluted shares outstanding including pending earn out?

Rohit Jain: Well, including the pending earn out the figure will be somewhere closer to 113 million ADR.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Ms. Nupur Agarwal for her closing comments.

Nupur Agarwal: Thank you. On behalf of the management I would like to thank everybody on the call. A copy of this transcript will be available on our website in the next few days. Thank you again.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Videocon d2h Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.