"Siti Cable Network Limited Conference Call"

August 01, 2013

MANAGEMENT: MR. V D WADHWA
MR. SANJAY GOYAL

Moderator: Ladies and gentlemen good day and welcome to the Siti Cable Network Limited Q1 FY14 Investor Relation conference call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sanjay Goyal. Thank you and over to you Sir.

Sanjay Goyal: Good morning ladies and gentlemen. This quarter happens to be very exciting quarter for Siti Cable because of digitization. Siti Cable records a revenue growth of 27% at 1442.9 million and EBITDA growth of 12%. The EBITDA margin has increased from 18% to 22% this quarter. Total revenue in this quarter was 1442.9 million as compared to 1135 million during the corresponding quarter last fiscal with a recorded growth of 27%. EBITDA during this quarter was 312 million as compared to 277 million during the corresponding quarter last fiscal. Now, we request and open this call for question and answer session. I have with me Mr. V. D. Wadhwa, Executive Director and CEO, our CTO, Mr. Sanjay Jindal and our Marketing Head, Mr. Anand Runwal, with us. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nitin Mohpa from Macquaire. Please go ahead.

Nitin Mohpa: Thanks for the opportunity. My question was twofold. Firstly on the subscriber number, if you can share where exactly we were at the end of the quarter and secondly if I just look at the revenues, if you can split it in terms of where our subscription revenues was and what level of ARPU does that imply now?

Sanjay Goyal: The cumulative net billable active subscriber to us is close to 3.4 million this quarter and digital subscription revenue has grown drastically compared to the same quarter last fiscal. The digital subscription revenue has grown by over 1300% this quarter. So major impact on revenue growth has come somewhere close to 300 million out of the digital subscription revenue in the revenue stream this quarter.

Nitin Mohpa: What is the level of ARPU is it implying now as compared to the Rs.75 that we were collecting last quarter, where are we on that journey?

Sanjay Goyal: Presently, we are continuing with Rs.75 and it has been discussed amongst MSO's that from August 1, 2013 that is with respect to July 2013 billing, in Delhi we will implement 170 or package based billing on every subscriber, so the ARPU is expected to go up in Q2.

Nitin Mohpa: Last one, there has been some concern on the overall industry receivable status so if you can just share what is your policy of recognizing revenues and do you see any risk of collection?

Sanjay Goyal: In fact that perhaps is one of the reason why we were not invoicing on Rs.170 and we were invoicing at Rs.75 which is actually is the collectable amount and which has been collected truly from the ground, implies that we are billing on what basis and value which we are collecting from the LCO/ground and the same has been recognized into the books of accounts also.

Moderator: Thank you. The next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra: I just had a question on the number of set-top boxes, which you already answered 3.4 million, follow up to that if I can ask you what is your target for the next two quarters in terms of set-top of boxes. Secondly, I wanted to understand a bit about the billing, for phase 1 and for phase 2, then there is also one overhang issue right which TRAI saying that the consumer application forms need to be given by 23rd and compulsory billing has to start for phase 2 as well on September 4, so I wanted to understand a bit on that. Now pretty much phase 1, phase 2 getting done so if you can just throw some light on phase 3 and what is the amount of boxes we have planned to see there. Lastly I just wanted to understand Mr. Wadhwa in the press release said “that we are far ahead than other operators and subscriber by billing and collection, so if you can just explain what you mean by that?

V. D. Wadhwa: I will answer your last question first, Siti Cable is ahead of other MSOs, the fact is since the time digitization has started, we are using and providing OYC Software which provides an interface to the business partners to activate/deactivate/upgrade/downgrade etc to their subscribers let us say Delhi it is November and Calcutta it is April. From the first month itself our invoicing has been happening directly to the subscriber, not to the LCO. Our only challenge was that we did not have the 100% of the name and addresses of the subscribers so by the time the name and address was being captured, we have started using the set-top box number and VC card number.. Meaning thereby without having their name at least through the VC card and the set-top numbers we had the control of each and every set-top box. with the platform filling up now which TRAI had put in the deadline for Delhi, let us say July 15, 2013, so Delhi 100% of the consumer details are there, now in the same invoices for the current month will be going with the name and address as well. Whereas while we are ready with our entire software and all other requirements for effective implementation of Digitization, other MSOs are struggling right now to do the consumer invoicing and they are finding some kind of manual invoicing mechanism to follow and implement the TRAI guideline in this regard. So that answers your last question. Coming back to the other queriy for your next two quarters of expansion plan, for the current quarter which is July to September we are targeting about 700,000 additional set-top boxes. In fact to be honest between now and December quarter our internal plan is about 1.2 million, but that is dependent on the legal status of the Hyderabad case. If the Hyderabad case hearing comes positive wherein there is stay order and most likely it is going to be vacated within the next two to three weeks, hopefully in August itself, then straight away we are planning to seed additional half a million boxes in the AP market alone, so the total about 1.2 million is what we are seeing and in case if the AP does not happen for which we see less than 5% possibility then we are ready with the plan B also to meet this number in the next two quarters. The third question was that what is happening on the CAF forms, TRAI has mandated that in all the phase 1 and phase 2 cities they wanted forms to be filled up. In Delhi the CAF form has been completed, July 15 was the last date. On July 16, roughly 7 lakhs subscribers have been switched off by all the MSOs put together, wherever the forms were not there and the experience has been that once we have switched off roughly 50% of that have been reactivated within next four to five days. Now the same process is now going to be implemented in Mumbai, August 2nd has been the last date in Mumbai market to complete the CAF form filling. Immediately after in Delhi once the CAF form has been filled up, we have discussed with all the MSOs and as per the TRAI guidelines, July billing will be happening on the package, so whatever the package rates are there based on this the subscriber has signed application form, first of August onwards the billing will be happening at the gross levels. So this is phase 1 right now. Then Mumbai once the CAF form deadline is over on August 2, for the month of August also when the billing will be happening in Mumbai effective September 1, that also will be happening based on the gross value bid. So that is for Mumbai. For Calcutta we have given the deadline of August 23, so right now TRAI has not prescribed deadline for the gross billing, by my sense is if not in September at least effective October 1 Calcutta billing also will be happening on the gross value. Moving to phase 2, 38 cities, so far the TRAI have given the deadline of September 20. By September 20 all the other remaining 38 cities have to complete the CAF forms and this is where there has been some push back because from the technology and overall I would say from the regulators point of view, Siti Cable as I have already indicated we are ready in fact if all the forms are filled up, we can do the gross billing effective for September also, but I think there had been requests which couple of other MSO colleagues have been giving to TRAI for extending the deadline, so right now we do not know all the other 38 cities will be getting over on September 20 or not, and whether TRAI will be accommodating the request of couple of other MSOs for extending the date, but as of now it is September 20 and we are every fortnightly we are meeting TRAI to review the situation and taking a fresh call on these issues, but one thing is sure effective August 3, Mumbai subscribers also will be getting switched off whosoever has not filled up a CAF form by the stipulated timelines

Sumeet Rohra: Understand Sir, because I feel that the amount of potential which you have is tremendous. One of the DTH companies came out with results yesterday and their ARPU is 197, so we have got a long long way to go. So if we just get our act together then we can actually be like a four-figure kind of topline company in the next financial year is what my sense, anyway I will leave it to that and I wish you all the best for the future Sir.

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

Vikas Mantri: Sir I just wanted to understand out of the new packaging when it starts and we start billing them in Delhi and Mumbai at Rs.170, can you share again how will the LCO share of revenue and your share of revenue and broadcaster share will change?

V. D. Wadhwa: As Sanjay was explaining we are collecting Rs.75 plus taxes, once the gross billing starts for example if we take the base pack which is Rs.170 plus taxes in Delhi, the gross value comes to about Rs.211, so out of Rs.211 roughly Rs.41 is taxes and Rs.170 is the total net of tax subscription. As per the TRAI formula, one-third of Rs.170 will be shared with the LCOs and over and above that Siti Cable has taken a lead that whereby we have committed to all our LCOs that 25% of our carriage revenue also will be shared by us with LCO. So once they are paying us at a rate of Rs.211 we will deposit Rs.41 tax with government authorities and we will issue the cheque towards their share as well as the 25% share in the carriage to the LCO and the balance will be the net retention with us. So if I give you simple math, our current net billing which is roughly atRs.75, this will go to approx Rs.105 in Delhi market and the same thing is going to happen in the respective markets eventually.

Vikas Mantri: So out of Rs.170, 33% will go to the LCO which is Rs.56 odd and Rs.10 as carriage fee?

V. D. Wadhwa: Whether it is Rs.10 or Rs.12 whatever the carriage revenue is generated will be shared to the extent of 25%.

Vikas Mantri: Can you share that sir, how much would that be?

V. D. Wadhwa: At present in the range of Rs.10 to Rs.12.

Vikas Mantri: But as you start adding more subscribers like your plan is to add 700,000 that portion will keep reducing?

Sanjay Goyal: In fact, most of the carriage deals which are not a CPS based deal and are fixed deal, has already been closed. While the deal will be on CPS basis for carriage revenue, the incremental revenue share will also be shared with them and wherever those are fixed deal or going to be terminated in mid term they will be getting the additional incremental revenue share on account of incremental subscriber contribution. Normally carriage deal are for one year period

Vikas Mantri: So more carriage phase going forward based on a CPS model is what we expect after digitization. Can you just share the kind of CAF forms that we might already have by now out of the 3.4 million active that we have?

V. D. Wadhwa: Delhi it is 100% which is close to about 6.5 lakhs and it is different in different cities. Let us say Mumbai for Siti Cable right now our percentage of the CAF forms are roughly about 70% as we speak today and within next two days we have to take it up to 100%. Calcutta completion of form is roughly about 30% as we speak today and rest of the country is ranging between 15% and 40% in different cities.

Vikas Mantri: The gross billing will only start for the CAF form subscribers?

V. D. Wadhwa: There is sequence of this. First of all the subscribers form has to be filled up whereby subscriber has opted whether he is choosing package plan A, plan B or plan C. Once he has chosen the plan B and once all the details are filled in and the signed form is available with you, then only you can start doing the invoicing to the subscriber based on the package chosen by him, so that exercise will happen one by one in all cities. As I just explained, it is happening in Delhi effective August 1, Mumbai will happen effectively September 1, and Calcutta hopefully will happen effectively October 1, and the remaining 38 cities right now the form completion date is September 20, so I think not in this quarter, but definitely in October to December quarter the rest of the cities also will migrate to gross billing.

Vikas Mantri: But in next quarter at least 6.5 lakhs will be on gross billing the Delhi subscribers?

V. D. Wadhwa: Definitely 100%.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Can you give me a breakup of subscription income activation and carriage fee for this quarter?

Sanjay Goyal: In fact the quarter digital revenue has grown up that is that the reason why digital revenue contribution is close to 40% of the total revenue and the Carriage has contributed close to 30% and the rest 30% has been contributed by activation revenue and other segment of revenue which includes a sale of STB and other revenue, in digital infrastructure or lease line etc. and broadband revenue.

Mayur Gathani: It is 40, 30, 30 subscription 40, activation and carriage 30 each?

Sanjay Goyal: Activation is not 30, activation is a part of composite in 30 which include the infrastructure and leasing etc. activation is somewhere close to 21%.

Mayur Gathani: How many subscribers do we add this quarter, is it 400,000?

Sanjay Goyal: Gross addition is close to 500,000.

Mayur Gathani: I just want to repeat the same question that first person had asked, how the subscription income flowing through in the books, are we actually getting the cash from the market or a lot of receivables still there?

Sanjay Goyal: Whatever we are billing is being collected from the market that is the reason why we alone has not migrated on to the gross invoicing and we are invoicing on Rs.75 plus tax which is being collected from the respective markets?

Mayur Gathani: The 75 figure remains for Bombay, Delhi and other cities, or it is only for Delhi?

Sanjay Goyal: That is for Delhi and Bombay. In Calcutta it is bit lower and in phase 2 cities varies from geography to geography.

Mayur Gathani: Your debt and you cash position?

Sanjay Goyal: Debt has not grown, debt continues to be at the same level, and gross debt continues to be at 700 Cr plus level and net debt which is net of cash surplus level continues to be at 580 odd Crores.

Mayur Gathani: When do we expect the next Share warrant tranchefrom the promoters to come in, is it our choice or what is it like?

Sanjay Goyal: A 18-month period has been prescribed for the share warrant. Our endeavor is to bring it as soon as possible, but hopefully the entire money would be coming into this fiscal.

Mayur Gathani: This 22% margin that we have obtained this quarter is a pretty good number, so what is the sustainability of that, do we see this improving over this year or we will see a jump coming in numbers?

Sanjay Goyal: We see growth; in fact we have targeted ourselves for 24% to 25% EBITDA margin at the end of fiscal.

Mayur Gathani: Any updates or any capex that you would be having for broadband in this year?

V. D. Wadhwa: For the time being no, because we have already started the broadband services in the eastern region and we have incurred the Capex in the last year itself. For the current year we are right now developing blueprint for the broadband services, so right now we are going through working out and testing feasibility study. Hopefully we are targeting that to start this somewhere from January 1, 2014, because the broadband does not require too much of Capex because of our cabling and overall fiber availability, I think almost 80% of the infrastructure requirement is already there, so there may be some requirement of small Capex towards the last quarter which is roughly about less than Rs.20 Crores or so, we should be able to manage that within our overall Capex budget, but the major Capex requirement for the broadband will be coming into the next fiscal year.

Mayur Gathani: Just to get an idea, how is the carriage fee shaping up, are we seeing significant drop there or a small percentage drop, can you just throw some light?

V. D. Wadhwa: Carriage fee on the same broadcaster label is dropping in the double digit, but on the overall basis not declining to the similar extent, because in the analog regime we were getting carriage fee from 80 to 90 broadcasters channel, now because that has gone many fold, overall carriage fee is showing a decline of about 5%, it is not showing a major decline, but if you go by the same broadcaster probably the decline is about between 10% and 15%.

Mayur Gathani: But if you take FY'12 carriage fee, the FY'13 carriage fee we only seeing a decline of 5% on the absolute number and do we see this continuing on 5% over next year also?

V. D. Wadhwa: We are expecting about between 5% and 8% declining trend on year-on-year on the absolute number.

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

Jay Doshi: My first question is when we mean gross billing, we would not be billing for entertainment tax and the entire service tax amount, is my understanding correct?

Sanjay Goyal: presently we are invoicing on basic price of Rs 75 , entertainment tax wherever it is on per subscriber basis is being billed on per subscriber basis and wherever it is on the basis of ad valorem kind of nature it is being billed as a %age on basic value additionally. Service tax is also being charged on the basic value so while we will be billing at Rs.170, service tax will be charged on Rs.170 and like in Delhi per subscriber basis we add Rs.20 to that. Similar is the situation in Rs.75 billing, where in service tax is being charge on Rs.75 and Rs.20, is added towards the entertainment tax.

Jay Doshi: My question refers to Delhi, I think you mentioned that out of Rs.211, Rs.41 will be roughly tax amount which will be paid by LCOs, we will collect from LCO or they will be paying it directly?

Sanjay Goyal: That is being charged because the entertainment liability effective April 1, 2013, across the country has been transferred and shifted on MSO so that same shall be billed by us, charged and recovered from the consumers and will be deposited with the respective department.

Jay Doshi: So for a base pack we expect to recover Rs.41?

Sanjay Goyal: Rs.105 is net of LCO revenue share. Just to give you broad dynamic, Rs.170 plus Rs.21 will be billed towards the service tax and Rs.20 will be billed as an entertainment tax, so Rs.211 will be recovered from the consumer by the LCO, will be deposited back to us by LCO and then Rs.65 to Rs.70 whatever the contribution has to be paid to them and then net contribution of Rs.105 remains or will be retained by us.

Jay Doshi: My next question, see if I look at this quarter numbers, if I just look at operating revenue it is mostly on a Q-o-Q basis it is flat and our EBITDA excluding other income has increased by about 89 Crores, so can you help us to understand that a little bit, why that the cost lower in this quarter as compared to FY'13?

Sanjay Goyal: If we talk in terms of Q1 2014 versus Q1 2013, the revenue has grown by 27%. If we compare Q1 versus Q4 of 2013, because the ARPU continues to be at the same level hence relatively a flat quarter for us and EBITDA has grown because we have controlled the cost, we have rationalized the cost and that is perhaps could be one of the reason why we could gain the EBITDA level by 20%.

Jay Doshi: Can you give us activation revenue number of Q4 FY'13?

Sanjay Goyal: As I shared 20% to 21% comes out the activation revenue. For Q4 FY'13, close to 28% to 29%.

Moderator: Thank you. The next question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.

Akshay Saxena: The question is on broadband, what kind of Capex do you see next year, if you could also mention on a per subscriber how does your broadband math work out in terms of what is the kind of Capex that you need to do and what is the kind of subsidy that you are offering on the broadband side?

Sanjay Goyal: For broadband, we are working on detailed roadmap. We are already providing the broadband services in eastern part of the country, wherein the ARPU is over Rs.400 per month per subscriber with EBITDA margin of close to 45% to 48% to us. In terms of Capex broadband does not require the Capex because normally whenever you provide a CPE, which generally people term as modem, normally consumer does not ask for the subsidy and this is the market trend and the practice. If I talk very specifically then normally the service provider gains or generates certain profit out of the CPE sale to the consumer for that matter. So as such in terms of subscriber Capex, we do not require to incur any Capex and whatever we would be required is only towards providing the fastest broadband services is to increase the bandwidth capacity or the cost related to bandwidth, which generally comes as an opex to us, meaning thereby no big Capex is required into that.

Akshay Saxena: Okay but you are not offering any subsidy upfront, I think some of your competitors are?

V. D. Wadhwa: Let me tell you one thing, the policy that we will be adopting is that the very new technology which has come up in the last two to three years into the commercial sense is Ethernet over cable and this Ethernet over cable can save bandwidth from my node up to the subscriber on the coaxial cable which the LCO has placed, now since I will be using the existing network first to place the broadband signal up to the house through the coaxial network through Ethernet over cable, we have a master and slave with which without giving any subsidy we can charge the thing and our monthly take from the subscriber will be 10% to 15% less than whatever the other players are charging and once we move from this and we have got into the market then we will go to mass marketing, so there would not be any subsidy.

Akshay Saxena: In terms of carriage you mentioned you are looking at 5% to 8% decline this year, but if you could talk about how do you see this trend panning out over the next couple of years rather than just this year, do you see this 5% to 6% decline is something that will happen every year for the next two to three years?

Sanjay Goyal: Generally, there will be declining trend continue, may be for couple of years, let us say two to three years by 8% to 10% and then the carriage fees will be stabilized.

Akshay Saxena: In terms of service tax, is the service tax registration number similar across the country, only entertainment tax is different across states?

Sanjay Goyal: That is the centralized registration which we have taken for service tax. Yes Entertainement tax is state matter and hence we have separate registrations

Moderator: Thank you. The next question is from the line of Avnish Roy from Edelweiss. Please go ahead.

Avnish Roy: The KYC Calcutta has been lagging Delhi, when the feeding of boxes happening we saw Calcutta also ramp up post initial delay, so on the KYC what are the issues you are facing in Calcutta and when do you expect the figures to reach the Delhi levels?

V. D. Wadhwa: Calcutta is not too much behind; in fact I think the level of readiness of all the players was far more better in Delhi that is why Delhi has become the number 1 city. When we were about to complete Delhi we saw that in Mumbai the completion of forms percentage was about 56% and Calcutta was 20%, so we chose to move ahead with Mumbai and finish the Mumbai completion of 100% before moving to Calcutta so that it gives additional two weeks' time to Calcutta to finish the entire exercise. Calcutta historically has been slow starter on some of these issues. There is a lot of political pressure also comes in Calcutta. Delhi and Mumbai have quite congenial environment where the government is supportive, the MSOs are supportive, and all the business partners are also aligned. Whereas in Calcutta the despite the fact that the MSOs are supportive or the TRAI or the MIB supportive, but the local state government is governed by a lot of local compulsion and that is why the entire filling up of the forms and other issues take a little longer than the rest of the country, but Calcutta also is not far away as I was telling you that for Mumbai the redline of completion of form is August 2 and Calcutta is August 23.

Avnish Roy: Initially you said when you are switching off nonKYC subscribers, 50% come back within a few days, what happens to the balance 50%?

Sanjay Goyal: We shared the experience we had in Delhi, close to 100,000 subscribers were deactivated on account of nonsubmission or delayed submission of the CAF form. Out of which till yesterday close to 80,000 subscribers have been reactivated, so it is close to 20,000 subscribers for which the process is on. In fact we got an exciting response because historically in India consumers normally mend when you put pressure on them, and then only they start ensuring the compliance. Even in the first three days, we have got close to 50% of the subscribers who were deactivated got reactivated, and we think out of 20,000, 10,000 will be reactivated in couple of days, maybe another 3, 4, 5 days, 10% could be something which can broadly be considered as a STB to be recovered back or may be some other sort of scheme would be required to reactivate them.

Avnish Roy: In the previous concall you have mentioned broad targets for FY'14, in terms of digital subscriber around 3 million you have said, we have done 0.5 million in Q1, are you still maintaining that 3 million for the full year?

Sanjay Goyal: What we have shared in the last concall 3 million was the end of last quarter. We have done close to 500,000 in this quarter so we have already close to 3.45-3.48 million as on June 30, and we intend to and planned to do close to 5 million plus by end of fiscal, we maintain that.

Avnish Roy: So in FY'14 then you are adding 2 million?

Sanjay Goyal: Minimum of 2 million

Avnish Roy: On content cost how you are seeing movement, what is the content cost in this quarter and by the year end where do you see that moving?

Sanjay Goyal: Content cost in this particular quarter happens to be close to, somewhere 34% to 35% of total revenue because presently content cost is a mix of analog as well as digital, but while the entire content deal will be for Digital regime it will be restricted to 32% to 33% by the end of fiscal.

Avnish Roy: What was it in Q4 sir?

Sanjay Goyal: Q4 was 34% to 35%.

Avnish Roy: Sir could you talk to us a bit more about the phase 2, so how many towns we have managed to reach in phase 2?

Sanjay Goyal: Three were covered in phase 1 and 17 were covered in phase 2, so total makes them 20.

Avnish Roy: In this 17, how many cities are we in top 2 market share in those cities?

Sanjay Goyal: I believe out of three cities, in two we are falling amongst top two/three. In Delhi after this CAF form exercise, we are #2 in Delhi market and Calcutta undoubtedly we are the predominant leader there in the market, so that is about phase 1. In phase 2, out of 17 cities we believe out of 17, 7 to 8 cities we stand at #2.

Avnish Roy: Sir my last question is on set-top box, have we increased the price of the set-top box activation which we charge, are we also looking at domestic sourcing with the way Rupee movement is?

Sanjay Goyal: In fact we have tried domestic sourcing in past also, we have done certain domestic sourcing from India itself, rather from the state of Uttar Pradesh itself, but in terms of technology, our experience is not as par with what we were getting and in terms of cost we were not getting the same cost at what we were getting at the time of import., moreso whatever STB we require for this fiscal are already available, so procurement itself is not required as an immediate need to us in this fiscal. we are working on those comparative analysis and whenever next procurement will be done, definitely at that time Rupee reevaluation or dollar pricing etc will be factored into consideration.

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

Utsav Mehta: Can you elaborate billing in phase 2 cities has been done on a per Subscriber basis or is it still fixed fee contracts which have been priced upwards? Is billing in phase 1 and phase 2 cities being done on a per Subscriber basis or they still legacy fixed fee contracts which have been priced upwards?

Sanjay Goyal: As we have committed that we have far ahead of other MSO we have started billing on subscriber directly as against invoicing it on LCO. Wherever digitization has been done by us, the invoicing is on the subscriber and it has been done on per subscriber, per set-top box basis even while our subscriber is having a multiple set-top boxes he has to pay for multiple set-top boxes.

Utsav Mehta: Could you also please clarify what the sequential growth in subscription revenue was?

Sanjay Goyal: In terms of subscription revenue, the Digital subscription revenue has grown over 1300% versus last Q1 2013 and in terms of total revenue, the total revenue has grown by 27%.

Utsav Mehta: Could you compare it to the previous Q4?

Sanjay Goyal: With respect to the previous Q4, the subscription revenue has grown close to 12-15%. The net of revenue share billing at rate of Rs.75 general condition to be factored in, you will see the gross invoicing impact in Q2 from that pespective.

Utsav Mehta: Could you share if the company is planning any expansion into phase 3 cities, joining large metro, so based on our conservation with competitors they have already started expanding into phase 3 areas?

V. D. Wadhwa: In fact we have also started, we will give you that example let us say we are already in Noida and Haryana as you rightly said that adjoining the metro areas, so we are following a state-specific strategy. We are present in Haryana in four cities, so we are doing the full mapping that how many cities in the state is going to be falling into phase 3 and phase 4, and we are laying out the entire structure and seeing the overall feasibility, so that the Capex requirement and overall requirement of the infrastructure would be bear minimum. On the basis of that, we are currently developing the plan and simultaneously started feeding the boxes also. In the current fiscal year, target when Sanjay was sharing that we are targeting about 5 million plus set-top boxes, out of which roughly about 700,000 to 800,000 boxes are going to be in the phase 3 cities only.

Moderator: Thank you. The next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri: The first question is on the package selection, based on the whatever CAF forms you have collected can you throw some light in terms of what could be the final kind of ARPU which might come in Delhi or Bombay versus about Rs.170 to Rs.175 which you are planning to do initially what is the upside to that?

Sanjay Goyal: We have introduced four packages, one is the mandatory package that is Janata pack 100 plus taxes and three are pay channel packs. entry level packs with, pay channel starts from 170 plus tax for us, so the blended ARPU if you talk of is expected to come out somewhere 170 plus tax for all the packages clubbed together

Srinivas Seshadri: How many of the subscribers are taking the base pack of Rs.100 here?

Sanjay Goyal: None of the subscriber has taken.

Srinivas Seshadri: What is the price of the base package for us?

Sanjay Goyal: That is all FTA channels basically. If you talk of 100 base packs that is the Janata pack, all FTA channels because that is the pack which has been created on the basis of mandatory requirement given by the TRAI.

Srinivas Seshadri: What about the basic pay package, how much is that for?

Sanjay Goyal: Rs.170 with 188 channels.

Srinivas Seshadri: So you are saying mostly all the subscribers are probably going for a base pack only?

Sanjay Goyal: Close to 50% to 60% will fall in Rs.170 pack. whenever the grand and the premium which are upside packs will be taken by the people there will be some discount or subsidy would be offered on multiple set top boxes for second and third TV, so net that if we talk of blended ARPU that will come somewhere close to Rs.170.

Srinivas Seshadri: You are expecting this to be same across even like Mumbai or Delhi, where the incomes level are fairly high?

Sanjay Goyal: That is generic which will be same across the country as per our expectations.

Srinivas Seshadri: Second is on a year-on-year basis how much content cost inflation are you building in right now in FY’13?

Sanjay Goyal: If we compare the content cost versus the last year, the content cost gone up **Srinivas Seshadri:** Do you expect this to be trend for the full year as well?

Sanjay Goyal: Some of the deals happen to be in the fixed fee basis earlier which will also be entered into CPS basis while the renewal for phase 1 city comes in, so we see that finally the content cost would be restricted somewhere close to 30% to 33% of the ARPU when the package base invoicing will start.

Srinivas Seshadri: Sir I was actually referring to the absolute cost increase which you are expecting in FY'14, how much that would come to?

Sanjay Goyal: FY'14 we can safely consider there will be a cost increase by 30% to 32% for that matter.

Srinivas Seshadri: I just wanted some basic numbers in terms of you might have repeated so I apologize, how much of phase 2 box feeding is already done and how much is remaining?

V. D. Wadhwa: As I was indicating that we will be close in the current fiscal year with about 5 million plus boxes and out of which about 700,000 will be in the phase 3, so we are currently at about 3.4 million plus and we shall be adding another 1.2 or 1.3 million in the phase 1 and 2 cities, so we will be closing at about 4.3, 4.4 million in the first two phases. And balance would be in phase 3 or so.

Moderator: Thank you. The next question is a followup question from the line of Mayur Gathani form OHM Group. Please go ahead.

Mayur Gathani: What is the selling price of our STB currently sir?

Sanjay Goyal: It is 999 including the service tax; the net comes close to 890.

Mayur Gathani: We have not increased any prices currently with this Rupee movement?

V. D. Wadhwa: No we have not done that because we are charging higher, as other MSOs in the country are charging between Rs.500 to Rs.700 so our price is already high right now. Besides this, roughly about 1.5 million boxes we have already procured at the old price is, so till the time we consumed the entire 1.5 million we are not planning to pass on the increase. As and when we will be ordering fresh boxes at the higher price, at that time we will be passing on and taking the price increase further.

Mayur Gathani: Is that correct if I say that your inventory is 1.5 million set top boxes for this year?

V. D. Wadhwa: Yes, at various stages.

Mayur Gathani: Sir there is a new line introduced in the number that is carriage sharing pay channel cost of 61 million so is that what we are sharing with the cable guys the pay channel cost as well?

Sanjay Goyal: It is something what we are sharing with cable guy as well as the distributor because beside what we have agreed to share with local cable operator, we have agreed to share 5% of the subscription revenue with the distributor and 25% of the carriage revenue with the distributor, so it includes that too.

Mayur Gathani: And includes the broadcaster, content cost as well. So is it possible to give us a breakup or what?

Sanjay Goyal: yes, I will share with you off-line on breakup.

Moderator: Thank you. Next question is from the line of Amit Kumar from Kotak Securities. Please go ahead.

Amit Kumar: Hi Sir I just wanted to clarify one point on the position of entertainment tax as far as Bombay is concerned is that liability also on you in fact in first quarter was it are being paid to the local tax authority.

Sanjay Goyal: In fact in terms of the regulation which is prevailing today the entertainment tax liability is on MSO though we are contesting. we have already taken with the respective ministry and TRAI , but as still the liability continues to be an MSO, though in some of the MSO cases it is being discharged by the LCO and whatever the liability is being deposited by the LCO had been claimed by the MSO as credit. .

Amit Kumar: I am not sure I understand exactly what is it that you are contesting the liability of entertainment tax on you.

Sanjay Goyal: If you look at law is little weak there in Mumbai entertainment tax so in terms of regulation what they have described or provided the liability should be on LCO because ultimately the constructive management is in the hands of LCO and LCO is depositing the entertainment tax also, but still it is case of taking a legal view on that we are contesting at.

Amit Kumar: What was the case in first quarter if you could explain with the help of that example did you pay the tax under duress?

Sanjay Goyal: No until of 31st of March it was very clear that LCO will pay this, because there was some notification on the line of Delhi, which says that LCO will continue to pay as of 31st of March, so for us this is the first quarter, but for sure we have already billed the entertainment tax considering our responsibility and we are contesting it.

Amit Kumar: Okay Sir my second point was I just wanted a little bit of clarity there were two numbers floating around in terms of how many set top boxes you have ceded and how many digital subscribers you have, is it 3 million or is it 3.5 million and if you could also clarify that out of that how many are in Phase III at this point of time.

Sanjay Goyal: As on 31st of March we were having as of 30th June close to 3.45 million, so this is the clarity with respect to the numbers because change in numbers comes on account of the deactivation which are taking places and then the reactivation which are taking places on account of CAF form and other regulatory compliances. So that could perhaps be one of the reasons for that.

Amit Kumar: And Sir how many subscribers I mean how many of these set top boxes would be in Phase III markets.

Sanjay Goyal: This is basically what we are anticipating are we have planned our self is close to 5 million boxes which we intend to seed in Phase III.

Amit Kumar: No Sir that I understood that is the transits for this year ending what is the current situation.

Sanjay Goyal: No total space available is of 110 million out of which 70 million is what we understand is safely spacer level for cable MSO and we are targeting close to 8% to 10% of it.

Amit Kumar: No, Sir I will just a sort of clarify out of current 3.4 million digital subscribers that you have how many of those would be in Phase III.

Sanjay Goyal: Close to 150000 or 200000.

Moderator: Thank you. We have a follow up question from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: As I understand this correctly that out of 70 million overall base of cable & Satelliet homes we are targeting around 10% so 7 million is our target.

Sanjay Goyal: Yes 8% to 10%, which is ranging from 6 to 7 million what we are targeting, we are working on a city wise plan so once city wise plan will be ready more visibility will come out.

Mayur Gathani: So 7 million can be achievable by FY'15.

Sanjay Goyal: That depends. Depends on the digitalization deadline **Mayur Gathani:** Sorry just get more clarification on this, we have 3.5 and we are looking for additional 7 million or it will be total 7 million.

V. D. Wadhwa: We are 3.5 by the time we will close the current fiscal we will be at 5 million plus and over and above 5 million we are talking of 7 million so we are talking total 12 million.

Moderator: Thank you. The next question is a follow up question from the line of Amit Kumar from Kotak Securities. Please go ahead.

Amit Kumar: Thank you so much again. Sir I just wanted to check your debt position has not moved on a QoQ basis, noticed 700 Crores of gross debt and 580 Crores of net debt so how we sort of manage this 0.5 million bucks investment that would be incrementally another 50, 60 odd Crores based on the subsidy number of just about Rs.1000 and the second point is that what is the gross unhedged US dollar debt position in the company and what was the impact of rupee depreciation during the quarter on that.

Sanjay Goyal: In terms of debt Amit as we have recently clarified that we had adequate inventory available for which line of credit was taken during the quarter three or quarter four for last year so no debt has been increased number one and similarly the debt would not increase during this fiscal also except for the order which will be giving for the next financial year. Number two in terms of debt we normally as a policy do not go for the hedge that is the reason why we have absorbed a FOREX loss close to 51 million into this quarter we do not have a FOREX debt rather all our RTL kind of nature.

Amit Kumar: So all of these set top boxes that you are importing you are essentially you are doing rupee debt to finance it.

Sanjay Goyal: Yes all are rupee debt.

Amit Kumar: So these all rupee denominated debt basically these all from Indian banks.

Sanjay Goyal: Yes, that is true so all are classified as RTLs.

Amit Kumar: Okay fine and Sir one sort of performance questions could you give us a sense of the economics of our broadband subscribers you have mentioned for Rs.400 of ARPU if you can very broadly classify what are three cost items that will be there and how do you going to get to a 30%, 35% margin in that.

Sanjay Goyal: We are working on a detailed road map and financial metrix for it but our experience in East wherein we do not have big presence so we are getting an EBITDA level of 48% normally there are two, three expenditure which comes in OPEX to us one is the increase in the bandwidth cost second is slightly a manpower cost and the revenue share which we done out from this ARPU.

Amit Kumar: And what would be this revenue share percentage?

Sanjay Goyal: In Kolkata we do it on case-to-case basis because it is not a global standard practice being followed generally because it is a cash-cash basis which we are doing various cities that varies from town-to-town but generally if you talk of average is 25% to 35%.

Moderator: Thank you. The next question is a follow up question from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri: Yes Sir thanks for taking my question again. I just had one question how are you placed in terms of providing high definition boxes are they available and you are doing that or that is being deferred till the market kind of evolves.

V. D. Wadhwa: No we have already deployed high definition boxes we have deployed in Mumbai, Kolkata, Delhi and now we are in the process of deploying them in central India also and due course of time we will be taking to other places also the only concern with the set top boxes is that there is two type of technology in high definition which is MPEG-4 simple definition and MPEG-4 high definition. Now, the only problem is that today the content is an upscale content minus three, four channels which are really digital high definition and secondly as of now the percentage of TV ready homes with high definition TV sets is around less than 6% to 7% so as the market will grow in terms of the TV sets in the households so our deployment of the boxes will also increase.

Sanjay Goyal: **Srinivas Seshadri:** Sir how much has been the off take just from a demand perspective in whatever population will be.

V. D. Wadhwa: Less than 2% right now.

Srinivas Seshadri: Okay and those will I suppose have a higher ARPU.

V. D. Wadhwa: Yes, that ARPU is also higher and we are charging the full value of the box for the HD customer this is about Rs.3000 must is the cost of the box and we are recovering the full money from the consumer.

Srinivas Seshadri: And how much is the ARPU in those cases Sir.

V. D. Wadhwa: It varies from plus Rs.350.

Srinivas Seshadri: This is excluding taxes.

Sanjay Goyal: it is excluding taxes

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the floor over to the management for final remarks. Thank you and over to you Sir.

Sanjay Goyal: Thank you gentlemen, I think we have tried to answer all the questions in case if anyone of you have got any further query or detail you can approach us through emails and we will be more than happy to clarify any further questions if you may have.

Moderator: Thank you Sir. On behalf of Siti Cable Networks Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.