



DISH TV INDIA LIMITED

1Q FY14 EARNINGS TELECONFERENCE
JULY 26, 2013, 4.00 P.M. INDIA TIME

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY14 Results conference call of Dish TV India Ltd. As a reminder 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 telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Tarun Nanda of Dish TV India Ltd, thank you and over to you sir.

Tarun Nanda: Thank you. Very good afternoon, ladies and gentlemen, and thank you for joining us today to discuss the results of Dish TV India Limited for the first quarter ended 30th June 2013. To discuss the results and performance joining me today is Mr. Jawahar Goel – Managing Director, Dish TV India Limited, along with the senior management team of the company, including Mr. R.C. Venkateish – CEO; Mr. Rajeev Dalmia – CFO, Mr. Salil Kapoor – COO, and Mr. Gaurav Goel -- Executive Vice President, Strategy and Business Development. We will start with a brief statement from Mr. Jawahar Goel, and will then open the discussion for questions and answers.

I would like to remind everybody, that anything that we say during this call that refers to outlook for the future is a forward-looking statement that must be taken in the context of the risks that we face.

Also before we proceed, may I request all media representatives who may have joined in to please disconnect immediately since this call has been organized purely for our investors and analysts. I would now request Mr. Goel to address the participants.

Jawahar Goel:

Good afternoon ladies and gentlemen and thank you for joining us today.

Dish TV added 0.2 million net subscribers in the quarter ended June 30, 2013.

In line with our expectations, pack price hikes and improved subscriber quality in the recent months resulted in a strengthened ARPU.

ARPU for the quarter increased 5.1% to Rs. 165 resulting in a 15.9% YoY increase in subscription revenues. The resultant free cash flow of Rs. 484 million compares favorably with Rs. 220 million in the fourth quarter and Rs. 650 million for the whole of fiscal 2013.

On the expenses front, higher investment in marketing, brand building and seasonal sports driven content along with the impact of a weak rupee on dollar denominated costs, resulted in a sequentially flat EBITDA margin.

Our Net Loss was down to Rs. 304 million compared to Rs. 436 million in the previous quarter.

We remain committed to add quality subscribers who would be value accretive to the business. Our successful initiation of a series of entry level price hikes, even in a not so perfect macro environment, demonstrate our pricing power and resolve to eliminate subsidies in the medium term.

Talking about the industry, we welcome cable MSO's decision to implement package wise billing from 1st August and look forward to a successful transition to the new regime.

We are making strong progress towards lining up additional transponder capacity to beef up our existing, industry leading bandwidth. We intend to leverage the additional capacity for distributing localized content as well as strengthen carriage revenues.

A flagging rupee has been an industry wide concern since some time now. To contain further widening of gap between the cost of the consumer premises equipment (CPE) and amount realized from the customer due to rupee depreciation, Dish TV initiated an acquisition price hike of Rs. 250 on 4th July. Sensing the need, other players in the DTH industry followed suit within the next few days.

We are also evaluating possibilities for improvement in hardware economics of CPE sourced from India, given a depreciating rupee. We have also been considering options with our overseas suppliers to commence production at a base in India.

With a sustained focus on strengthening the balance sheet, we look forward to retiring a significant portion of our outstanding debt. Dish TV is well positioned, through its internal accruals, to repay approximately Rs. 7,500 million of outstanding debt through the current fiscal.

Our overseas venture, Dish TV Lanka (Pvt.) Limited, is progressing as per plan and we remain excited and optimistic considering that it is going to be a zero subsidy model.

With this, I would like to open the floor for the question and answer session.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line Shobhit Khare from Motilal Oswal Securities. Please go ahead.

Shobhit Khare: First question is on the reported ARPU number, if I look at the subscriber growth it is around 2%, and ARPU is up 5% but the subscription revenue growth quarter-on-quarter is only 5.4%. Just wanted to reconcile the ARPU which we have reported?

The ARPU for the quarter is Rs. 165 and is based on a subscription revenue of Rs. 528 crores and an average net subscriber base of 10.7 million. We added 0.17 million subscribers in this quarter which has been rounded off and reported as 0.2 mn. Your calculation is perhaps affected by the rounding off difference.

Shobhit Khare: Second question is on the seasonal sports driven content which you have highlighted, could you quantify this and would that have contributed to subscription revenue as well?

R.C. Venkateish: We had a deal to show the IPL matches in high definition, it was a one-off deal, and added some costs. So that is is not linked to subscription revenue. There was some sports content in June, which was on a pure a-la-carte basis that was of ESPN. Since we don't do fixed-fee deals in sports with all channels, we are exposed to spikes in content cost with some of those channels when they have events where we do not have a fixed-fee deal.

Rajeev Dalmia: We cannot quantify this thing, because it is a competitive information. So please do not ask to quantify.

Moderator: The next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta: My first question was on the programming cost, given that sports is little lumpy, do you still maintain your 10% content cost escalation guidance for this year?

R.C. Venkateish: Actually the content cost has declined by about 4% from last quarter despite the sports content cost coming into the quarter. We stand by our overall guidance which we had given earlier of around 10%. The other costs bundled in programming cost line are impacted by rupee depreciation on operational cost. There are a few dollar-denominated operational costs in our P&L like satellite costs, the costs for our middleware as well as the cost for the encryption. Now put together, that is a fairly sizable chunk which accounts for almost \$40 million per year. So that has resulted in a 9% QoQ increase in the balance part of the programming cost line item.

Nitin Mohta: Secondly, if I can just understand on the free cash flow, quite a healthy cash generation over there. The press release obviously talks about reduction in debt. So would it be fair to assume that we are pretty much committed to that kind of a debt reduction?

R.C. Venkateish: Absolutely, we are very committed to bring the net debt down to level of around 500 to 600 crores by the end of fiscal 2016. Cash flow as well as the cash in hand makes us very comfortable to be able to achieve that objective.

Moderator: Thank you, the next question is from the line Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: It is good to see the ARPU increase and the free cash flow. My question is with good increase in ARPU this quarter, how are you seeing the exit for the year-end? Should we partially tie up to the sharp ARPU hike to the increase in marketing spend?

R.C. Venkateish: Marketing is also a lumpy cost because when we have specific programs or specific targeted activities in that particular quarter, it tends to spike. So overall our marketing expenditure for the year will be within guidance, which we had given earlier. ARPU, our original guidance that we gave last quarter about 168 odd for the full year on average, we still stand by it.

Abneesh Roy: How are you looking at the Sri Lanka opportunity? You have spoken on the zero subsidy model. So some more insights into the opportunity there, and on the domestic production of set top boxes, some clarity can be given?

Jawahar Goel: I think we will come back when we start the operation, it is 2-3 months away, by that time we will have separate capacity.

Abneesh Roy: On the set top box domestic production, some clarity, how feasible, any time lines?

Jawahar Goel: We have a hunch that in near future there can be a higher duty on import, because of the balance of payment issues, so that's why had alerted our vendors to set up shop to convert and produce the set top box locally for the next 3-4 months we are not buying, we have enough stock, so by that time they will likely set up shop.

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

Mayur Gathani: What is the churn rate for this quarter, and how do we see it for this year?

R.C. Venkateish: Actually, churn for this quarter came down to 0.6% per month but I would not guide that as a standard, the reason for that is in April because of the IPL, we had a very strong recovery, and in that particular month we actually had a negative churn rate. Going forward I would say that around 0.8% or so is what one can expect in a stable environment.

Mayur Gathani: One more point on previous query, the sports contents leads to higher content costs, but simultaneously there should be an increase in the subscription revenue and that should take care of that increased costs or that does not actually?

R.C. Venkateish: To an extent that it is obviously reflected, but when you talk about that HD deal that we had for example, that did not lead to any increase in revenue for us because that was something that we needed to do to position our brand with our HD subscriber base, so that was not adding to the revenue line. ESPN and the other a la carte deals, certainly they also add into the top line.

Mayur Gathani: And sustainable EBITDA margins for the year would be around 24-25%?

R.C. Venkateish: With every subsequent quarter the content cost will stay somewhere around there or come down if you take out the lumpy cost, and the revenue will continue to grow, so that leverage will drop to the

EBIDTA margin. So sustainable levels could be around what you just mentioned.

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

Vikash Mantri: Just wanted to understand the programming cost a bit further. We have had 27% increase in programming YoY. Now I appreciate it is lumpy because of the HD deal, but can you segregate the benefit or the loss because of the a la carte sports packages? And what would be a similar impact on the subscription revenue to that extent as well?

R.C. Venkateish: Can we can take that offline? It is a fairly competitive information.

Vikash Mantri: While I have seen the package prices of initial offer be raised to 2,250 and stuff, but if one were to call a call centre they are ready to give Rs. 500 cash back and all that, so that area still continues to be very competitive?

R.C. Venkateish: If somebody directly buys through the online service, Rs. 500 worth of trade commission goes as a discount. That is a standard practice. But typically the sales volume from these sort of sales is extremely low; it is barely 2% or 3% of the total volume.

Vikash Mantri: How much percentage of our cost will be fixed in nature as compared to a per subscriber norm?

R.C. Venkateish: Around 70% will be fixed.

Moderator: Thank you, the next question is from the line of Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal: On ARPU I just wanted to understand that apart from the price increase you would have benefitted from lower churn in this quarter, plus the a la carte sports pack, because people would have subscribed to that pack that would have added to the mix?

R.C. Venkateish: Yes, both these factors are added.

Ankur Agarwal: Plus the removal of free viewing period?

R.C. Venkateish: Free view we have sort of done away for quite some time now. That has been there for almost 3 quarters I would say.

Ankur Agarwal: Secondly, we mentioned that in the medium term we are looking to move towards a zero subsidy model. So are we looking at further increases in the set top box price?

R.C. Venkateish: As far as the subsidy model is concerned, again as I said, we turned this business model on a different track about 7-8 months back, and we are moving towards elimination of subsidies in the medium term in the next one to two years, so certainly a combination of efforts to reduce costs as well as increase prices, both will be used, and towards that end one of the things that we have mentioned in our release was about local manufacturing. Though it is not a very big chunk but even a couple of Rs. 100 in cost reduction that we can engineer through that activity, will go further towards reduction of subsidies.

Ankur Agarwal: But sir have you gone overboard in terms of increasing these, in the sense that our net subscriber add of 0.2 million. Even for the DTH industry the adds were fairly low. So given that every subscriber we add, the incremental EBIDTA margin is quite high. And if the

subscriber stays for 2 years, he will be NPV positive. Do you think we are a kind of losing out on the subscriber side?

R.C. Venkateish: No, not all. What we are focused on is increasing our value delivery to the customer and we are coming up with innovations and new products which you will see in the second half, which will further sort of position us separate from cable.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: A couple of questions from my side. First one is on the free-to-view offer which you had come out last year, can you give some views on how that has taken up, and is it in any way impacting the depressed churn level? That is the first question. The second one is on the TRAI recommended pricing for set top box. Is the company already implementing that? And if not, what are the steps involved now? And lastly, can you give out the number of average realization for set top box and a breakup on how exactly it gets recognized into the income statement as well as balance sheet?

R.C. Venkateish: The FTA was a limited period offer which we had run in Phase-1 cities of digitization. We discontinued thereafter. There are total of about 170,000-180,000 subs under that scheme. They continue to recharge. While their churn was marginally lower, I would not say that has brought the churn down, I think the churn has come down because of the overall entry filter being raised because of the pricing of the set top box and that has completely sort of reduced the rotational churn and the non-serious subscribers who were coming in and out of the system. As far as the TRAI order is concerned, we have challenged it in TDSAT, we have already filed a petition. A couple

of other DTH operators have also joined, we are quite hopeful that we would get some relief in that, they have not implemented anything in that regard.

Kunal Vora: I wanted the average realization, say you have a headline price of 2,250 while you get 1,750 from some customers.

R.C. Venkateish: Can you take that offline? Tarun will walk you through that.

Kunal Vora: One follow up, on the FTA offer why was it discontinued afterwards? You did not see it as a success.

R.C. Venkateish: No, we had run it for a specific purpose of this whole digitization campaign which we ran in those cities. So it did very well for us there, we got those subscribers, but subsequent to that we did not want that to become a basic norm, especially since we are talking about premium customers and higher value and all those sort of things.

Moderator: The next question is from the line of Siddharth Goenka from J.M. Financial. Please go ahead.

Siddharth Goenka: Firstly, I wanted the revenue breakup for the quarter.

Rajeev Dalmia: The breakup is subscription revenue 528, lease rentals 34.5, bandwidth 8, advertisement revenue 6 crores.

Siddharth Goenka: How much has been the gross ads for this quarter?

R.C. Venkateish: Just add back the churn figure.

Siddharth Goenka: My question is a follow up for the previous question, you said that ARPU has also seen an increase because of some sports content. Can

we get some sense how much has been the incremental ARPU increase because of the sports pack?

R.C. Venkateish: That will be very small, I think about less than a rupee.

Siddharth Goenka: So even if we didn't have any kind of sports, ARPU would have still been at around 164 types.

R.C. Venkateish: Yes.

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

Srinivas Seshadri: In the initial comments you mentioned that you are expecting to add certain incremental transponder capacity. You already have fairly good capacity in terms of transponder. So what would be the kind of cost and revenue impact especially since you are planning to get some carriage revenue sort of?

R.C. Venkateish: In terms of net impact on cost it will be marginal as it will be offset by generation of carriage revenue.

Srinivas Seshadri: But sir, the carriage I believe will come later down the line, right, when the cost impact would be?

R.C. Venkateish: No, we would auction of that bandwidth.

Srinivas Seshadri: The second question is on Sri Lanka you mentioned that there will be more details after 2 to 3 months, but just from a full year perspective should we build in any size or anything?

R.C. Venkateish: No, I do not think for this fiscal you should build in it.

- Srinivas Seshadri:** So, this is from the next fiscal only?
- R.C. Venkateish:** Even if it is late in the fiscal, I would not suggest anything to be model on that.
- Moderator:** The next question is from the line of Himanshu Shah from HDFC Securities. Please go ahead.
- Himanshu Shah:** Can you give some additional guidance for FY14 which still maintains 2 – 2.5 million guidance?
- R.C. Venkateish:** We do not give any guidance for gross subscriber ads. We gave guidance for net adds in the region of around 1.2 million and we continue to maintain that.
- Himanshu Shah:** Secondly can you just throw some color on the set top box inventory with the company and distribution channel?
- R.C. Venkateish:** We have 1.4 million set top boxes.
- Himanshu Shah:** Company plus channel put together?
- Rajeev Dalmia:** Channel is around 0.6 more.
- Himanshu Shah:** Sir, just last question on the content cost front is it fair to assume this quarter's numbers as a run rate excluding the Sony HD, IPL deal and the ESPN deal which would have some impact of it but is it a fair number to assume excluding the impact of that two?
- Rajeev Dalmia:** More or less yes. But for the element of rupee depreciation which is also the part of the programming cost.
- Himanshu Shah:** Any significant deal up for renewal in FY14?

- R.C. Venkateish:** We have a deal currently under negotiations with India Cast but we do not foresee any major impact because of that.
- Himanshu Shah:** Lastly gross and debt net number?
- Rajeev Dalmia:** Gross debt is Rs. 1650 crores and net will be 1200 crores.
- Moderator:** The next question is from the line of Amit Kumar from Kotak Securities. Please go ahead.
- Amit Kumar:** Sir actually just a question on the gross debt and cash also. Would you have some liquid investments also on top of this?
- Rajeev Dalmia:** Liquid investment is around Rs. 85 crores. But that is mostly used for day to day expenses. Since we are collecting revenues in advance so it is not used, it is lying in the liquid fund.
- Amit Kumar:** Sir, what is the anatomized lease rental at the end of this quarter left with you?
- Rajeev Dalmia:** It will be around 210 crores..
- Moderator:** The next question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.
- Jatin:** On the content cost you said the numbers stay the similar level. I think it works out to over 15% increase. So straightly add them 8% to 10% guiding. So do you expect them to come down going forward?
- R.C. Venkateish:** Yes. Overall you should model at around 10% because I have said there are some lumpy costs which will come off. And out of that which was not visible to you is the rupee depreciation element also built into that combined number.

- Jatin:** Possible to give breakup of the SAC?
- Rajeev Dalmia:** Yes it is 1828. It is 1150+555+123.
- Moderator:** The next question is from the line of Varun Ahuja from UBS Securities. Please go ahead.
- Varun Ahuja:** Just quickly can you reconfirm the gross debt and net debt numbers for me?
- Rajeev Dalmia:** 1650 is the gross debt and 1200 is the net debt.
- Moderator:** The next question is from the line of Nawal Seth from Emkay Global. Please go ahead.
- Nawal Seth:** My question is again on content cost so as you said that it is because of the rupee depreciation the increase is there in Q1 number. So if I look at the average conversion rate it was Rs. 54.3 in Q4 and Rs. 55.67 in Q1 so again now it is at Rs. 60 odd rupees. So the similar impact would be visible in Q2 numbers as well so 10% increase in content cost seems low.
- R.C. Venkateish:** 10% increase in content cost does not include the impact of the FOREX denominated operating cost. You have to combine both line items. The 10% is only for the content cost portion.
- Nawal Seth:** So this 192 crores of content cost does not include any impact of FOREX in this quarter.
- R.C. Venkateish:** 192 crores is not just full content cost. It is the content cost plus the other operating cost.
- Nawal Seth:** So that includes the impact of that?

- R.C. Venkateish:** Yes.
- Moderator:** The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.
- Utsav Mehta:** Just a couple of data points. Could you tell me what the recharge ARPU of the quarter was?
- R.C. Venkateish:** We are not tracking recharge ARPU these days because there is no free period it is only a bare box that we are selling.
- Utsav Mehta:** Could you tell me what percentage are the incremental ads for HD and HD ARPU?
- R.C. Venkateish:** HD is around 14% of net ads and HD ARPU is Rs. 414.
- Utsav Mehta:** So, this is the same as the previous quarter?
- R.C. Venkateish:** Yes.
- Utsav Mehta:** I have just one last question. There is a significant jump in staff cost quarter-on-quarter.
- R.C. Venkateish:** There is onetime annual increment, bonus, incentives and other stuff. That is a onetime cost.
- Moderator:** The next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.
- Nihar Shah:** Just one sort of quick question is on the gross debt. How much would be dollar denominated and how much would be rupee debt?
- Rajeev Dalmia:** Rupee is only Rs. 150 – 160 crores and balance is all dollar debt.

- Nihar Shah:** Whatever FOREX sort of adjustment that you might have to make on your debt has that been made through the P&L or is that the adjusted to the balance sheet directly?
- Rajeev Dalmia:** It is through balance sheet only.
- Moderator:** The next question is from the line of Pratish Krishnan from Antique Finance. Please go ahead.
- Pratish Krishnan:** Just two questions sir. One in terms of the CAPEX per box, what is the capital expenditure per box today?
- R.C. Venkateish:** Total cost of the consumer premise is close to Rs. 2,700 for standard definition box.
- Pratish Krishnan:** This is based on the current exchange rate of Rs. 60 that you are assuming.
- R.C. Venkateish:** Yes.
- Pratish Krishnan:** And secondly in terms of the license renewal this is the normal kind of thing or should one be only looking at something here.
- Rajeev Dalmia:** It is a process thing and they do not have the policy in place. And they have asked us whether they could renew it provisionally by the time they have their policy document. So we have said that at least renew it for 3 years and by the time you take a policy decision. So let us see. We still have time.
- Pratish Krishnan:** Is there any criteria for the balance sheet or net worth anything that need to comply?

Rajeev Dalmia: There is no policy because we will be the first operator to go for renewal so there will be various new things which will be formatted but today there is no such guidance.

Moderator: The next question is from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah: My first question is on churn. So churn is it materially different between the Phase-1 and Phase-2 cities and Phase-3, Phase-4 if you track it that way?

R.C. Venkateish: We do track it but at this point of time it is very difficult for me to share because we track it literally at dealer classification level. So it is not on a geographic level but we have certain categories of dealers like wholesale dealers, we have consumer durable dealers, we have electrical shops and hardware outlets. So behavior pattern of those are similar across the country. They do not change according to the geographic location because it is the dealer type which actually contributes to higher churn. For example consumer durable outlet will give you a better quality of customer and therefore the lower churn.

Bijal Shah: So if you want to assess an impact of digitalization whether it results in lower churn.

R.C. Venkateish: We will be able to get it but at this point I do not have that data available to share with you.

Bijal Shah: Second question on the ARPUs. Now one of the things which everyone look forward to is when cable will raise ARPU will get much more headroom. So there are two things one is cable is still struggling from documentation for even Phase-1 and so when do you

think that cable will actually take a price hike and if it takes price hike for say Phase-1 and Phase-2 cities would we be able to take price hike on all India basis or how do you plan to go ahead with price hike because our services are in all India and cable operator can take price hike only in one locality. So some thoughts on that would be very useful.

Jawahar Goel: It is true but you need to ask this question to them. I think they are slow; they are trying to help themselves in whatever manner.

Bijal Shah: Follow up on that, is it possible to take price hike on all India basis or they take only in 4 cities?

R.C. Venkateish: We have already taken price hike in different regions. For example; in South we have a different price compared to the North. That is not very difficult to implement.

Moderator: The next question is from the line of Amar Maurya from India Nivesh Securities. Please go ahead.

Amar Maurya: If the churn rate is 0.6% is it that the gross subscriber ratio has come down this quarter?

R.C. Venkateish: It is more or less similar to last quarter.

Moderator: The next question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta: Just a follow up given so much in the call was focused on the content cost. Is it possible for it to break down, what component was dollar denominated and I understand that the sports component is lumpy. But what I was trying to arrive at was when we look at the margin

profile I think the biggest negative surprise was the kind of margin we saw in the first quarter? So in two parts over there first you can give us what the dollar denominated cost was in that number and secondly on a fully year basis where exactly you should be looking at for margin?

Jawahar Goel: Actually we do not have the data here for this breakup of the cost but as Mr. Venkateish told you the dollar denominated cost is the satellite cost plus encryption, middleware and a very little amount on the AMC on the hardware broadcast equipment.

R.C. Venkateish: Providing specific content cost is obviously little confidential. We can take that offline.

Moderator: Ladies and gentlemen due to time constraints only one last question can be taken. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Your churn does not seem to have gone up despite the price hike increase in the absorption have been much better. So are you saying that there is not as much of an impact of price hike as it was earlier?

Jawahar Goel: I think the narrowed down gap between DTH and cable is helping in lower churn and a smooth pass through of the price hike.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand over the floor to Mr. Tarun Nanda, over to you sir.

Tarun Nanda: Thank you once again for joining us ladies and gentlemen. We soon hope to have the transcript of this call uploaded on our website www.dishtv.in . We look forward to speak to you again at the end of

the second quarter of fiscal 2014 or even earlier on a one-on-one basis. Thank you and have a great day.

This transcript has been suitably edited for ease of reading.

