



## DISH TV INDIA LIMITED

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4Q FY14 EARNINGS TELECONFERENCE  
MAY 27, 2014, 4.00 P.M. INDIA TIME

**Moderator**

Ladies and gentlemen, good day and welcome to the Dish TV India Limited Q4 FY14 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tarun Nanda. Thank you and over to you sir.

**Tarun Nanda**

Good afternoon ladies and gentlemen and thank you for joining us today to discuss the results of Dish TV India Limited for the Quarter and Year-Ended March 31<sup>st</sup>, 2014. To discuss the results and performance joining me today is Mr. Jawahar Goel along with the senior management team of the company including Mr. RC Venkatesh – CEO, Mr. Rajeev Dalmia – CFO, Mr. Salil Kapoor – COO and Mr. Gaurav Goel – Executive Vice President, Strategy and Business Development.

We will start with the brief statement from Mr. Jawahar Goel and we 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 into 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 for investors and analysts only. 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 810 thousand Net subscribers during the year ended March 31st, 2014. Annual ARPU for the period increased by 7.6% to reach Rs. 170 compared to Rs.158 for the previous fiscal.

Unlike fiscal 2013, fiscal 2014 was a disruptive period where we had to choose between immediate benefits and long term play in the hyper competitive DTH industry. Choosing the later, we continued to deleverage while maintaining our subscriber acquisition price point. With a much manageable and scalable debt profile now, we have started 2014 with a significant positive overhaul to our macro parameters.



Dish TV's fourth quarter subscriber adds are a result of some serious strategic initiatives taken earlier. The 'Zing' sub-brand launched as part of a differentiated strategy to cater to the Phase 3 & 4 markets got a tremendous response and even boosted the flagship brand's sales. We exited the fourth quarter bagging the highest incremental market share while keeping a check on our churn, which remained at 0.6% per month.

With a new government at the Centre, the DTH industry is optimistic about rationalization in the tax regime. As notification of

the Goods and Services Tax (GST) is taking time, we look forward to allowance of abatement in Service Tax along with moderation in Entertainment Tax in line with the prevailing structure in Gujarat and other forward looking states. We are also hopeful of an early resolution of the DTH license renewal and payment of license fees matter in the industry's favour. We also expect a firm push to digitization and are confident that encryption, packaging, billing and other critical requirements will be implemented at the last mile.

Outside India, making further headway on our Sri Lanka Project, we launched test signals as per plan.

Coming over to the financials, Dish TV reported fourth quarter fiscal 2014 audited, standalone operating revenues of Rs. 6,369 million, recording 14.7% growth over the corresponding period last fiscal. EBITDA for the quarter was Rs. 1,289 million, up 7.4% YoY. Net Loss for the quarter, impacted by a prior period adjustment of Rs. 1,164 million, increased to Rs. 1,490 million compared to Rs. 436 million in the corresponding quarter last fiscal.

Fiscal 2014 standalone revenues stood at Rs. 25,090 million recording 15.8% growth over the previous fiscal. EBITDA of Rs. 6,261 million was up by 8%. Net loss for the year, impacted by a prior period adjustment of Rs. 1,164 million, was Rs. 1,542 million. Total Free Cash Flow generated during the year was Rs. 3,127 million.

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

**Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Mayur Gathani of OHM Group. Please go ahead.

**Mayur Gathani** Sir, can you throw some light on how much debt did you repay in this quarter and what is the net debt figure?

**Rajeev Dalmia** Today foreign exchange debt is around \$150 million and rupee debt is Rs. 325 crores as on 31<sup>st</sup> of May. As on 31<sup>st</sup> of March it was ~ \$172 million.

**Mayur Gathani** Sir can you throw some light on the Zing Box that you have launched?

**RC Venkateish** We launched Zing in early March and the product is designed specifically for linguistic audiences, especially for the kind of people who have a high consumption of language content and also for the DAS-III and DAS-IV market. We initially launched it in Orissa and West Bengal and recently have expanded it into the Bengali speaking markets in Northeast, which is Tripura, Silchar, Cachar, etc. The response has been extremely good. It has exceeded our own expectations. In Orissa for example Zing is the no.1 brand in terms of incremental gross additions on a month-by-month basis and in West Bengal it is no.2 brand and the Dish and Zing, combined market share in Orissa is over 40% and in West Bengal it is around 32% to 33%. So the strategy has worked very well and what is really important for us, to note that the kind of customers, that we have acquired with Zing are largely customers who are coming for the first time into the digital TV fold. Our research shows that almost about 65% of the customers are coming from either terrestrial television or from DD Direct or from analog cable. So to that extent

the cannibalization has been minimal and it has really given us a foothold in Phase-III & IV markets. We did not want to wait for the digitization to happen, so we have taken the proactive step to address these customers beforehand and we have got a significant bump-up in subscriber addition, despite the fact that product is available only in three states. The contribution of the Zing brand to our total kitty from just three states alone is close to about 14% to 15%.

**Mayur Gathani** Is there a price difference there?

**RC Venkateish** Yeah, there is a product difference as well as a price difference. The product difference is that it has been positioned as a language offering. The normal DTH brands have largely Hindi content and few other contents of other genres. The content here in Zing is basically local content. For example in Orissa base pack is largely consisting of Oriya channels as well as free to air content and a few Hindi channels, but the total gamut of Hindi channels is not there in the base pack. Similarly in West Bengal the base pack for Zing contains basically Bangla channels plus free to air channels. This has allowed us to reduce the content cost for this particular product and that saving is what we are providing to the customer in terms of a lower entry price for the packaging. The base pack in Dish is at Rs.220 and for Zing it is Rs.175, however, the gross margin, which is the realization minus the content cost is higher in Zing than in Dish TV, because we do not supply content from two aggregators in the base pack of Zing.

**Mayur Gathani** And what is the subscriber acquisition cost and the ARPU for the quarter?

- Rajeev Dalmia** ARPU for the quarter was around Rs. 163 and SAC was Rs.1800.
- Mayur Gathani** Can you give us any specific SAC for this Zing brand?
- RC Venkateish** It is too early. We are waiting for it to settle down in 2 or 3 months.
- Mayur Gathani** Anything on the TV18 IndiaCast thing that is happening, what is the current status?
- Jawahar Goel** We can discuss that offline.
- Moderator** Our next question is from Lalit Kumar of Nomura Securities. Please go ahead.
- Lalit Kumar** Sir my first question is related to Zing brand itself. So I just want to understand that we have launched this brand in a couple of states, but from technology perspective how easy or difficult it is for our competitors, other DTH companies, to launch a similar product?
- Jawahar Goel** Let us not talk about competition. The market is a free market. So the only thing one has to do is to prepare, do their homework. It has a lead time of 8 to 9 months to come to the market.
- Lalit Kumar** So we will have this advantage of Zing brand for the next 8 to 9 months?
- Rajeev Dalmia** Provided others have not started thinking.
- Lalit Kumar** And sir my second question is related to content cost, our content cost in Q4 is almost flat quarter-on-quarter, so I want to understand that in spite of the fact that we had content negotiation with IndiaCast and we moved their channels from fixed fee to per subscriber. We expected our content cost in Q4 to come down may

be by Rs. 4-5 crores and also sports content in Q4 was lower than Q3. So what was the reason that in spite of these two things our content cost was flat?

**RC Venkateish**

Actually IndiaCast costs have come down but since we have actually shifted a lot of this content into a per sub model which is basically on a CPS basis, because of the fact that we are taking it on reference interconnect offer rates, the increase in base subscriber numbers led to a slightly higher content cost. So content cost specifically for IndiaCast has come down during the quarter but because of the overall CPS deals which are now accounting for about 50% and a substantial volume increases in the last quarter especially towards the end of the quarter had impacted content cost. But overall our guidance has been to reduce the content cost as a percentage of sales by about 150 to 200 basis points and that is something we are sticking to.

**Lalit Kumar**

My last question is related to license fee, there has been demand from government on license fee and that dispute is going on. So just wanted to get your perspective, how do you see it? Tata Sky has paid Rs. 380 crores, so how do you see this thing and why our competitors have paid it? How confident are you that it will go in our favor?

**RC Venkateish**

The matter is in court. Obviously it is being debated there. We cannot pre-judge what will happen in court.

**Jawahar Goel**

Also, the government has to decide the renewal of the license and TRAI is just holding back the recommendation for the license renewals. Thereby they are going to recommend some license fees as well. And then the industry will go back to the ministry to

retrospect the charge. So it is possible to amicably settle the rate of license fees with the government.

**Moderator** Our next question is from Srinivas Seshadri of CIMB. Please go ahead.

**Srinivas Seshadri** The first one is related to the recent hike which has been announced by TRAI on the reference interconnect offer. So just wanted your feedback on terms of negotiation between you and some of the content providers, as the DTH rates are also kind of interlinked to the analog interconnect offer rates?

**Jawahar Goel** DTH is already paying almost 60% of their pay revenue as a DTH category. The time period for this is effective from June or July end, and none of them has filed the reference interconnect (RIO) in the TRAI. So this has not come into effect barring the MediaPro separation that has happened between Star and Zee. So the effect of this is as usual. We have to negotiate the content deal as and when it comes for renewal or go on à la carte, the way we had done in the past.

**Srinivas Seshadri** Sir what I am asking is, is there any risk to the cost saving guidance which we have given because of this particular development?

**Jawahar Goel** Rather we should say that the arm-twisting strength which broadcaster had developed because of the consolidation is now somewhat reduced.

**RC Venkatesh** On one side you have the tariff increase and on the other side you have the disaggregation. Net-net we are more or less in the same position.

**Srinivas Seshadri** My second question to Mr. Dalmia, there has been some accounting changes which have been highlighted in the notes to accounts. So just wanted some clarity, if we were to compare what we are reporting till the last quarter, in terms of the revenues, one has to do two adjustments, one is the Rs. 37 crore pertaining to the lease-rental and the second is the Rs. 11 crores, which is note 5. So these two have to be adjusted in revenues, if we were to compare with the previous quarter reported. Is that correct?

**Rajeev Dalmia** Actually in effect there will be 7-8 adjustments. We can take it offline because there are two major adjustments, then you have license fee which is a long calculation, so we can do it offline.

**Srinivas Seshadri** Just one or two other balance sheet items if I may ask. What is the lease rental outstanding on the balance sheet?

**Rajeev Dalmia** That has reduced drastically because of this adjustment. It is around Rs. 85 crores.

**Srinivas Seshadri** And one final question if you could explain the other footnote about the advances given to Cyquator of Rs. 118 crores. Is this pertaining to some services which they are giving to Dish TV or is this some kind of a new business in terms of managed services which we are entering?

**Rajeev Dalmia** Now we will be doing only subscription business as Dish TV. All the box related activities that is purchase of box, installation of box, service of box, swap box and management of trade partners, dealers, distributors all will be done by Zing Media.

**Srinivas Seshadri** Okay, so that is what it is funding for.

**Rajeev Dalmia** Yeah, so the total volume for them for this year will be around say Rs.575 crores based on our estimation of number of boxes to be activated. So it is a step in that direction because we would like to concentrate only on the consumer subscription once the box is installed.

**Srinivas Seshadri** Okay, so Rs.575 crores is the total box plus the OPEX which the Zing Media has to incur?

**Rajeev Dalmia** They are likely to incur in this financial year.

**Srinivas Seshadri** And for that we have given an advance to start up the business.

**Rajeev Dalmia** Yes.

**Moderator** We will take our next question from Nitin Mohta of Macquarie. Please go ahead.

**Nitin Mohta** I have two questions from my side. Firstly on the ARPU front – just wanted to understand the math behind the 170 number? Are we just defining it in a separate fashion as compared to the 158 last time?

**RC Venkateish** There is an annual ARPU and a quarterly ARPU. For all of this the denominator is opening subs for the quarter plus the closing subs for the quarter divided by 2. For the annual ARPU it is the opening subs for a year plus the closing subs for the year divided by 2. Actually this happens every year when the annual ARPU does tend to be a slightly higher than the fourth quarter ARPU, that is because of the way the denominator strikes out, because when you calculate the annual ARPU, the opening plus closing of the year divided by 2 is a lower number than the fourth quarter based denominator. That is how the math works up.

**Nitin Mohta** So this is just plain subscription ARPU which we have always talked about. It is not getting impacted because of the changes that we have made on the lease rental and the CPE side?

**RC Venkateish** It is, kind of. Whatever impact is there has also been compared similarly with the previous year.

**Nitin Mohta** If I remember this correctly the subscription ARPU number that we have always talked about is just the plain subscription number.

**Rajeev Dalmia** ARPU calculation henceforth will change now onwards and it will be in line with other DTH companies reporting their ARPU. There was a gap between our ARPU and their ARPU because we were considering only subscription revenue whereas others were including the entire revenue. That is point 1 and point 2 is, there is some kind of adjustment already embedded in the calculation of ARPU of 170, which you can see in the note 3 and 5 in financials. And if you find it difficult then we can explain it offline.

**Nitin Mohta** Sure sir. Second question, what is the total amount of debt that we have repaid in FY14?

**Rajeev Dalmia** It was close to Rs. 868 crores in terms of rupee and in terms of dollar it was \$112 million plus around Rs. 150 crores. But in rupee it is high because we ended up paying Rs. 280 crores because of rupee depreciation, which cannot be termed as debt paid but it was paid because of the fluctuating rupee-dollar parity.

**Nitin Mohta** And finally any comments on the free cash flow generation going forward. This year we had very good 15-16% kind of a revenue

growth but margins were a little muted. So what is your outlook on this and what is going to be the impact on free cash flow generation?

**RC Venkateish** The overall subscriber addition for FY15 will be significantly higher than FY14 because of our strategy to focus on Phase-III and Phase-IV. Obviously CAPEX will be higher than FY14 because in FY14 the total gross additions were around 1.55 million. So we can expect higher CAPEX and therefore that will have some impact on the total free cash flow generation. However, we will still be generating a healthy level of free cash flow.

**Moderator** Our next question is from Himanshu Shah of HDFC Securities. Please go ahead.

**Himanshu Shah** This is with respect to Note 5. Is it fair to say that if we would not have changed our accounting policy, the EBITDA for current financial year would have been lower by Rs. 90 crores approximately with respect to Note 5?

**Rajeev Dalmia** In between there are other adjustments relating to service tax and license fee. So it would not be fair to say that the impact is directly of that much amount.

**Himanshu Shah** So what would have been the net impact if you could just quantify?

**Rajeev Dalmia** It will be around Rs. 50 crores.

**Himanshu Shah** And is it fair to say that because of this accounting policy change our ARPU is also inflated to that extent?

**Rajeev Dalmia** That is what I explained in the last conversation, to some extent annual ARPU is impacted.

**RC Venkateish** But on a comparable basis the numbers have been recast for the prior year also. Growth of 7.6% continues to stay.

**Himanshu Shah** If I do some back calculation our content cost per sub per month is around Rs. 60 which is still lower than other DTH players. So what is giving us the confidence that there is further headroom for reduction in content cost for us and if this headroom stays for us that could be even for our competitors also?

**RC Venkateish** We have been taking numerous actions as you would be aware of, which our competitors have not been doing. For example, to control content cost. With one particular aggregator we have worked on a different model, which has been there quite evident, I do not want to go into specific because some of these matters are into litigation. With another aggregator we have been working on a RIO basis for the last 2.5 years. So we have actually worked on managing our content cost while our competitors were not fully there and therefore we will have the benefit of lower content cost.

**Moderator** Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy** Congrats on incremental share improving to 24% from 20% last quarter. Sir my question is on that only, how sustainable is this 24% share or the leading share? Is it largely because of Zing, because the ad spend surprisingly has come down this quarter? If you could give us more color on, how much incremental share we are aiming for in FY15?

**Jawahar Goel** When we are doing activity in a select market for Zing then our normal business also improves and we spend less money on marketing.

**RC Venkateish** Yeah, it is sustainable. Even through in April and May we have maintained our leading position in terms of incremental adds.

**Abneesh Roy** Sir one follow up on that, the Zing model obviously is working quite well, so do we plan to take this to most of the states, where regional content is possible and do we have the bandwidth in terms of the satellite space for that?

**RC Venkateish** Yeah, that is the plan and we are getting some additional capacity and that will be used for rolling it out in other linguistic markets.

**Abneesh Roy** Sir my second question is we did good ARPU growth, 7.6% like-to-like and now with TRAI related increase also coming in terms of the content cost, we might have to pass through, so in that context what would be the ARPU growth in a stronger economy with a new government? Are you planning to take a hike this year?

**RC Venkateish** From 1<sup>st</sup> of June we are taking a 10% hike on all the packs other than the entry level pack. And we have not yet taken the entry level pack hike as competitors are sitting there. Because of our differentiated strategy especially with Zing as well as Dish in those markets, it is possible for us to follow a differential pricing strategy on Dish. And we will probably move to multi-layered pricing especially in markets, where we have both brands operating, which will give us more flexibility to take up the premium on Dish.

**Abneesh Roy** Sir one follow up on the ARPU part, how has HD done this quarter? And with Mr. Jawahar Goel's initial comments on new government and also the sports activity is picking up, do you see subscriber growth being strong this year, irrespective of whether Phase-III, Phase-IV happens in terms of the timeline?

**RC Venkateish** We are not depending on Phase-III and Phase-IV for growth. Our gross adds monthly rate is now close to 200,000 versus 1.25-1.3 lakhs last year. This growth is without any tailwind from any digitization or anything. We have created our own strategies for the growth and we have been getting that growth. As far as HD is concerned, that is also part of our strategy. Currently our additions are in the region of about 11-12%, which hypothetically is lower than our competitors, because our competitors allows HD customers to view normal content on HD boxes, which is standard definition content.. Therefore the actual uptake of HD in those boxes is less than 50% and we believe that is not the most efficient use of the capital, which is subsidized in the box. In our instance 100% of our subscribers have to subscribe to our HD pack and that is why our ARPU is on the HD on a gross basis is substantially higher. Having said that we have some economies of scale coming from the volume and we are hopeful that we will be able to substantially reduce the price of the HD box in this fiscal and we will potentially grow far more aggressive, but we will not sacrifice the ROI by opening it up for standard customer.

**Abneesh Roy** Sir this will be in terms of set top box price or the ARPU price?

**RC Venkateish** Box price.

**Moderator** We will take our next question from Prateesh Krishnan of Antique Stock Broking. Please go ahead.

**Prateesh Krishnan** My question is on the Zing model, when you look into Phase-III, Phase-IV kind of locations for growth of Zing, what is the kind of churn that you are assuming from these markets?

**RC Venkateish** These are new customers who are coming into digital television for the first time, largely about 60% of them. It is just barely 3 months, does not indicate a very high level of churn or something which is very different from the others. The situation will have to be watched but if somebody is moving from analog or from terrestrial to digital television, he is doing so because of the experience, which is significantly higher. Now how this customer behaves, we will have to wait and watch but as far as churn is concerned we have not seen anything that gives us any cause of worries.

**Prateesh Krishnan** When these markets go digital may be in 6-8 months down the line, should we expect some kind of churn from DTH to cable, because I am sure then cable will also go for competitive pricing at that point of time.

**RC Venkateish** Phase-IV markets have always been the markets, where cable does not have the digital head-ends and reach. These are dispersed markets, where the cost of setting up the digital cable infrastructure is prohibitive. Today we are sitting in May-June and if digitization is to happen by December, then all the MSO should have been laying out their optic fiber and setting up head-end. We have not seen any of that happening, so this is the prime catchment area for DTH.

**Prateesh Krishnan** And lastly, what is the inventory of boxes that you have today?

**RC Venkateish** Currently we are sitting with about 800,000 boxes.

**Moderator** Our next question is from Surendra Goyal of Citigroup. Please go ahead.

**Surendra Goyal** My question is on profitability. Despite ARPU increase of 7-8% year over year, margins are down almost 400-500 basis points, you also mentioned earlier that a lot of content costs are now on a CPS basis. So putting everything together just wanted your thoughts on what is the margin outlook for FY15?

**RC Venkateish** As far as the overall structure of the P&L is concerned; we are sitting at 25% EBITDA margin., the leverage will come because we have guided for reduction in content cost and a much faster top-line growth. FY14 was a muted year in terms of top-line growth relative to prior years, because of the fact that we were deleveraging our balance sheet. And when we were deleveraging the balance sheet it is difficult to step on the accelerator. Now that is largely behind us. We have a much trimmer balance sheet and we have put our efforts to regain the momentum in the top-line which is already evident from improvements in market share and improvements in our monthly run rates. So that is going to translate into a significantly faster top-line. Simultaneously the initiative that we have taken on content cost is going to keep the lid on content cost. So content cost will not grow as fast as the top-line and therefore the margins should improve. We do not give guidance on specific numbers but certainly we can expect margin improvement this year and that following through to the bottom line.

**Rajeev Dalmia** Last year we were heavily impacted because of rupee-dollar appreciation and many other companies had a hard hit on the middle line of the profit and loss.

**Surendra Goyal** And could you share any thoughts on the content cost? What is the kind of expectation for next year?

**RC Venkateish** If you look at Q4 FY14 versus Q4 FY13, Q4 FY13 was the quarter in which the full impact of the new deal with media pro was factored in. Now that is almost flat year on year. Therefore we expect reduction of about 150 to 200 basis points in content cost for FY15.

**Moderator** Our next question is from Nirav Dalal of SBI Cap Securities. Please go ahead.

**Nirav Dalal** What is the split of revenues for the quarter?

**Rajeev Dalmia** This time revenue split is slightly skewed because of the adjustment done by us on account of 3 to 4 years and the accelerated revenue, however it is 550 crore of subscription revenue, 53 crore of rental, 14 crore of bandwidth charges and 11 crores of advertisement and balance is 7 crores.

**Nirav Dalal** Also, details on the other expenses. Did we see a strong jump in that?

**Rajeev Dalmia** In other expenses, there is a special item of 21 crores, we had an additional write off of boxes, which were older than 3 years on the advice of the auditor. So that's a big item in this quarter but it will not be there in the next 3-4 quarters. Generally it is 3 to 4 crores for a quarter but this time it was Rs. 21 crores.

- Nirav Dalal** And finally if you could give a split of the fixed assets for the CWIP.
- Rajeev Dalmia** Net block is ~ Rs. 1340 crores and CWIP is around 800,000 boxes.
- Moderator** Our next question is from Vikash Mantri of ICICI Securities. Please go ahead.
- Vikash Mantri** For the change in accounting policy, now all boxes are on 5-year basis, whichever boxes were on 3-year basis have now been adjusted. Is that the right way to understand it?
- RC Venkateish** Yes.
- Vikash Mantri** And the reversal in excess revenue is around 129 crores, so our lease rentals and accumulated lease rentals have come down by that much amount?
- Rajeev Dalmia** Yeah, of the pool which was to be apportioned over the next 3 years is less by that much amount and it is around now 85 crores, which is to be apportioned over the remaining period.
- Vikash Mantri** So 85 crores is now the balance sheet number of accumulated rental?
- Rajeev Dalmia** Yes.
- Vikash Mantri** In terms of change in policy, so what is the exact amount that we are now considering as activation revenues as compared to earlier per box?
- Rajeev Dalmia** Earlier a portion of revenue was going to activation and a part of revenue was going to rental. Now it will be all activation revenue that means the amount collected from the subscriber minus dealer

distribution commission minus taxes will be treated as activation revenue.

**Vikash Mantri** There will be no lease rentals going forward other than the 85 crores which will get absorbed.

**Rajeev Dalmia** Absolutely.

**Vikash Mantri** We have written-off boxes based on the advisory of NSE but how does NSE come into the picture?

**Rajeev Dalmia** There was a note by the auditor, a qualification for the last two years, it was a very generic note in order to protect themselves and the company. The NSE advised to remove that note.

**Vikash Mantri** Another question was on Zing media distribution, rationale for this formation of discount rates?

**Rajeev Dalmia** We found that the mind space occupied by the organization in terms of installation of boxes is too large now. Due to the huge competition we feel that we can do a better subscription job and let the box be given away or done by somebody else. So that is why Zing Media will be doing all the cost related activity including bank finance, installation service, churn management and primary customer management.

**Vikash Mantri** Sir in terms of management it does not change because it is our company and management only.

**Rajeev Dalmia** Rights are shifted in our pool because we will also use our expertise gathered over the last 7-8 years, hand holding for the next 1 or 2 years then we can decide how to deal with that company, because it

can do box management for other DTH service providers and digital service providers also.

**Jawahar Goel**

And also there is an element of taxation on license fees.

**Rajeev Dalmia**

Because we are paying license fee on set-top boxes rental and activation. If this segregated then to that extent we will save the license fee and we will be paying the license fee only on the subscription revenue.

**Vikash Mantri**

One last question for Venkateish on the programming cost side. You said moving to CPS our cost increased for other players, while for IndiaCast it went lower.

**RC Venkateish**

It will be directly proportional to the subscriber volume. Earlier in fixed fee regime, we were used to seeing a fixed amount coming every quarter. Now since we have CPS deals, my RIO deals with India Cast, ESPN, and Sun, almost 50% of my content cost, is directly on a per subscriber basis. So if my subscriber volume grows on a quarter, it will be proportionately higher still much lower than the fixed fee deal that I would have negotiated, but nonetheless if we have strong volume growth there will be a linkage, at least to the amount of the number of the fixed fee deals that I have.

**Moderator**

Our next question is from Bijal Shah of IIFL. Please go ahead.

**Bijal Shah**

My first question is can you give us some YoY guidance for content cost rather than as percentage of revenue? Whether we expect a 10% growth in content cost or 15% or 20%.

**RC Venkateish**

At the most it will be a low single digit.

- Bijal Shah** Okay, so overall content cost increase is likely to be low single digit and that is even after considering that 15% increase can come on account of RIO rate going up because of TRAI.
- RC Venkateish** That is still to be finally crystallized because for existing contracts, till that contract expires the new rate cannot come into force.
- Bijal Shah** Okay, so overall you are confident about low single digit increase in the content cost this year?
- RC Venkateish** Yes.
- Bijal Shah** Second question is I am not talking about reconciliation of the numbers which are reported and what the numbers would have looked like if there was no change in accounting policy? If you can just give us three numbers for the quarter and for the full year without any change in accounting policy. What would have been the revenues, EBITDA and profit?
- Rajeev Dalmia** We can do that offline.
- Moderator** The next question is from Rohit Dokania of IDFC. Please go ahead.
- Rohit Dokania** Just two questions from my side. Rajeev sir could you please give us the breakup of per subscriber economics now after the change?
- Rajeev Dalmia** Commission is averaging around say Rs. 550-600 per subscriber based on the stream on which he is coming. And suppose it is 1690 around Rs. 900 will go for activation and balance will go for taxation and the commission.
- Rohit Dokania** And also if you could give us the net debt number for FY14.

- Rajeev Dalmia** Net debt will be around \$150 mn minus \$40 mn, so it will be around \$110 mn plus we have rupee loan of Rs. 350 crore as on date.
- Rohit Dokania** And lastly do you see any change on the status of billing and collections on the ground in the Phase-I and Phase-II market?
- RC Venkateish** Nothing has happened.
- Moderator** Our next question is from Mayur Parkeria of Wealth Managers. Please go ahead.
- Mayur Parkeria** First one was if you can just explain what would be the saving, which we expect through the investment in the Zing media.
- Rajeev Dalmia** See the first savings will be saving on the license fee, which itself is huge because of the 10% on the gross revenue and second savings will be definitely intangible plus tangible because it will be a focused activity by that company. We can concentrate thoroughly on the job and of course if they can mature themselves in one or two years they can do that activity for other service providers, also there can be economies of scale in purchase of set-top boxes and other equipment.
- Mayur Parkeria** But then we must have done some working on the P&L and on the cost side there must be some cost, which will get passed on to the company.
- Rajeev Dalmia** There is no such cost because we have only commission and that will be taken by them.
- Mayur Parkeria** The second question is a little broader one, if we look at a little broader picture for the company with net worth being negative we

have some accounting policy issues. Earlier it was the foreign exchange fluctuation which was borrowing cost and that adjustment which was there. Now we have these revenue items adjustments which are taking place. Along with that we have a gross debt of around 800 crores. And we have an overhang of this license renewal amount and the tax demand which is there. In the light of that how would you look at, what would be your outlook for an investor who would want to look for a longer term? When will the P&Ls will get converted into profits and how effectively this free cash flow will be used to make the balance sheet more efficient? I am asking from a little longer perspective, because it is too long we have been continuously involved for some of the other issues every year. So how do you look at the overall picture?

**RC Venkateish**

See it is a fairly complex question. I think we can take that offline. We will obviously require a fairly lengthy explanation.

**Rajeev Dalmia**

What we were discussing is industry issues. It is not only our company, which is in the midst of these things and so we can take it offline separately.

**Mayur Parkeria**

Sir in short can you just say that when will you believe that the net worth will become positive over how much time?

**Rajeev Dalmia**

Net worth may not be positive immediately but we will be definitely PAT positive this year. That is the plan of the management because we have huge brought forward losses. That will take time to become positive but there will be definitely PAT positive in one of the quarters in the next four quarters.

**Mayur Parkeria**

So are we looking at any money raising further?

- Rajeev Dalmia** Not equity raising as we are repaying debt on our own, so equity raising right now is not an option.
- Mayur Parkeria** What will be the gross debt? And how much it will reduce in next year?
- Rajeev Dalmia** This year we will be paying around 565 crores based on exchange rate of Rs. 50 and the net debt will be around say 600-700 crores including the fresh set top box purchase this year at the end of February 2015.
- Mayur Parkeria** So by 150 crores net debt can reduce?
- RC Venkateish** Yes.
- Moderator** Our next question is from Deep Master of Enam Holdings. Please go ahead.
- Deep Master** Just a question on the activation revenue, so is it safe to assume that from next year we would not be booking any activation revenues considering the service is not provided by a different company?
- Rajeev Dalmia** There will be different kind of adjustment but it will come in some form or the other, like if they book revenue we will also have to pay cost to them. So direct booking will not be there but it will be reflected somewhere.
- Deep Master** So would that have any impact on our ARPUs?
- RC Venkateish** Not really because ARPUs will be mainly driven by the subscription revenue.

**Deep Master** No because in the earlier question you said that this revenue item is including in the ARPUs.

**RC Venkateish** It's not fair to compare it to the subscription revenue. This is a fairly small number.

**Rajeev Dalmia** So if you think of activation revenue from now onwards and if Zing media is providing boxes then we will not book the revenue as activation revenue. So it will be in some other form. Now let us see, we will discuss with the auditors that it is going to be translated in, and in which product we can avoid tax.

**Moderator** Our next question is from Sumeet Rohra of Silver Stallion. Please go ahead.

**Sumeet Rohra** Very great to see our incremental market share has actually gone up from 20% to 24% and that we are adding nearly 200,000 gross subscribers a month and the matter of fact is that if I heard correctly you are also taking a price hike of 10% from June 1<sup>st</sup> and our churn rates being pretty constant at 0.6. So is it safe for me to assume and conclude that FY15 can be one of the best years that the Dish TV has ever had and keeping that can we also expect 15% to 20% top-line growth, content will remain constant and top-line growth will increase margins and also what is your sense on the ARPU front? Can we see a sharp increase in ARPU with the price hikes we are going to take now?

**RC Venkateish** We have laid out a strategy and accordingly the numbers will follow. We normally do not commit ourselves to commenting on all those numbers that you mentioned. As Mr. Modi said "Ache Din Aane Wale Hai" let us see.

**Jawahar Goel**                    Actually we had a discussion with our chairman and he has agreed to lead the delegation of the industry with the respective chief ministers, wherein the entertainment tax is very high, as high as 33%, and also to work with the finance ministry on the abatement of service tax. So if we are successful in these 2-3 points which are a sore point for us, apart from industry issues, entertainment tax, service tax and the licensee fees. All these three things, I think that the government will have a chat in coming weeks and we will get some respite.

**Moderator**                    Our next question is from Rishabh Chudgar of Enam Holdings. Please go ahead.

**Nihar**                            I just had a few questions. Can you tell me what is the entry price for the Zing boxes?

**RC Venkateish**                Rs.1299.

**Nihar**                            And the commission would be around the same level of about Rs. 550 to Rs. 600 on that one?

**RC Venkateish**                Commission is lower at Rs. 400.

**Nihar**                            My second question is on the lease rental that is standing on the books close to 85 crores, what is the sort of timeline for the recognition of the same? If you can throw some light on that.

**Rajeev Dalmia**                Two years.

**Nihar**                            And likely more front ended than back ended?

- Rajeev Dalmia** I think it will be evenly distributed. There is no fresh booking so whatever is there will be apportioned.
- Nihar** And my last question would be going forward, do you expect to report the financials on a quarterly basis including Zing or excluding Zing as in standalone or would you be reporting console financials?
- Rajeev Dalmia** It will be including Zing as per the new guideline in Companies Act.
- Moderator** We will take our last question from Abhishek Kumar. Please go ahead.
- Abhishek Kumar** You were talking about the MSO, which would face a difficulty in setting up their infrastructure in Phase-III and Phase-IV. But we have been recently hearing about some other companies who are planning to launch HITS operation and they are targeting mainly Phase-III, Phase-IV cities. So do we see any competition from them and if yes then how do you plan to do the competition?
- Jawahar Goel** I think what we can say welcome. It will bring a faster rollout of digitalization of cable.
- RC Venkateish** The other thing that you have to keep in mind is that the HITS operation structure is similar to a DTH operation. It has a cost of the boxes, cost of the satellite, attendant cost. But it has a middle man in between, the LCO. The fundamental economics of the HITS model is such that it has never worked and that was the reason why HITS has been talked about since 2003 but nobody has got a successful HITS model up in place.
- Abhishek Kumar** My last question would be on the ARPU front, as in for calculating ARPU do you consider the deactivation rate

**RC Venkateish** ARPU is calculated on the net subscriber base. Net subscriber base is defined as a customer who has been active for at least in the last 120 days with us. So that gives you the denominator for the net subscriber base and the total revenues divided by the net subscriber base to arrive at the ARPU.

**Abhishek Kumar** Just as a strategy when a customer deactivates, what is to be done with the CPU, what does the company do? The customer premise equipment still remains or you get it back?

**RC Venkateish** See currently in the standard model we do not recover it historically, but we have now recently started a new model where we are signing a specific contract and hiring our service franchisees to actually go and recover the box but that is still a very small number at this stage.

**Abhishek Kumar** Because though that is still on your books and we are taking the depreciation benefit when we are putting it through five years of amortization.

**Rajeev Dalmia** No but if it is not paid then that is written off.

**RC Venkateish** It is written-off in 500 days.

**Moderator** Ladies and gentlemen I now hand the floor back to Mr. Tarun Nanda for closing comments.

**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](http://www.dishtv.in). We look forward to speak to you again at the end of the first quarter of fiscal 2015 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.*



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