

## DISH TV INDIA LIMITED

---

3Q FY15 EARNINGS TELECONFERENCE  
JANUARY 22, 2015, 4.30 P.M. INDIA TIME

**Moderator:** Ladies and gentlemen, good day and welcome to the Dish TV India Limited Q3 FY15 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 joining us today to discuss the results of Dish TV India Limited for the quarter ended 31<sup>st</sup> December, 2014.

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. Venkatesh – CEO, Mr. Rajeev Dalmia – CFO, and Mr. Salil Kapoor – COO. 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 our 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. This call has been organized only for our



investors and analysts. I would now request Mr. Jawahar Goel to address the participants.

**Jawahar Goel:**

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

Dish TV continued to strengthen its market leadership adding 416,000 net subscribers during the third quarter of fiscal 2015. With a 28% incremental share, our net subscriber base at the end of the quarter reached a total of 12.5 million subscribers.

Overall, the DTH industry led by Dish TV recorded a healthy 29% Y-o-Y growth in gross additions compared to the corresponding quarter last fiscal.

Dish TV continued to strengthen its reach in Phase 3 & 4 towns much ahead of the government mandated revised deadline for digitization in those markets. Our bouquet of offerings including fully loaded sports packs and High Definition (HD) packages helped us fill in the expectation gap in Phase 1 & 2 households as well. The recently launched 'Zing' has been a successful product and now caters to 8 regional markets with the latest being Tamil Nadu.

The DTH industry finally seems to be getting a level playing field with broadcaster's efforts towards improving declaration from the cable industry. The implementation of Reference Interconnect Offer (RIO) deals may mark the beginning of a significant upward trend in industry ARPU's. As MSO's shell out more for content and increase tax compliance, cable packaging may become a reality thus creating headroom for ARPU expansion in DTH.

Tax uncertainty however continues to haunt the industry. Though the union budget 2014 was a dampener, we are keeping our fingers crossed with



respect to the budget 2015. All industry stakeholders including Indian Broadcasting Foundation (IBF), News Broadcasters Association (NBA), Multi System Operators (MSO) and DTH operators made a joint representation to the Finance Ministry regarding anomalies in the industry's tax structure. The representation was received well and we look forward to hearing the outcome during the budget this year.

Dish TV recorded a quantum jump in its performance during the third quarter compared to the corresponding period last fiscal. Our subscription revenues grew 17.4% on a Y-o-Y basis with ARPU increasing to Rs. 177 from Rs. 172 in the previous quarter. EBITDA for the quarter increased 41% Y-o-Y to close at Rs. 1,912 million. The EBITDA margin expanded 270 basis points to reach 26.8%. Net loss for the quarter reduced to Rs. 29 million while Free Cash Flow of Rs. 298 million was generated. Churn continued to be at a healthy 0.7% per month.

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 S Mahadevan of UBS. Please go ahead.

**S Mahadevan:** I had two quick questions, one is, if you look at Dish TV's evolution, one of the key milestones is the net profit which I think I have spoken enough to the management about.

Just wanted to get a sense of how you are thinking about determining clearly the company's free cash flow, which is positive now and with this Zing making good inroads, the outlook is bright, but investors are still looking at the net profit as key milestone in the evolution of a company. So just wanted to hear your thoughts. The second question is on Zing, clearly you have

launched it in several states. Tamil Nadu being the latest, what is preventing you from going all India? Your regular offering and Zing being slightly like a 'budget carrier'. Just wanted to understand the rationale in terms of what is preventing us from going all India? Thank you so much.

**Venkatesh:**

Okay. On your first question as far as the net profit is concerned, if you look at our numbers, you can clearly see that we are possibly at the inflexion point in this quarter. The top line continues to grow much faster than the cost line, we have done a lot of work on containing the cost line in last 12 to 14 months. The biggest chunk of our cost is the content cost and we have through our own efforts been able to secure very favorable deals for the medium to long-term with all the major broadcasters. The next major renewal for us comes up in September 2016 with Star and Zee and following that in March 2017 with India Cast and in March 2018 with Sony. So we have very good visibility on the inflation and content cost for the next two years and we do not expect this to grow by more than mid-single-digit. The top line, we expect to continue this momentum of healthy growth in the high teens if not bit more than that depending on the pace of digitization and other things. So therefore having brought the largest item of cost under control, as far as the inflation is concerned over the next two years we are confident of good margin expansion along with top line growth will straight away show up in the black, I mean 2.9 crores on 713 crores is less than 0.5%. So I think we can very confidently state that we are at the inflexion point at this stage.

On your second question as far as Zing is concerned, it is not just a product meant for the lower income strata or cheaper product or something like that, it has got a very clear positioning for language consumption. So it was designed with the idea that people who consume the local language content would be the primary target audience for Zing and this gave us a benefit in

terms of significantly lower content cost for Zing as well as an appeal in the Tier-2 and Tier-3 and Tier-4 type of towns. So with that in mind the kind of markets that we have chosen for Zing are those markets which have strong regional consumption and which allows us to run a very profitable model in Zing because the gross margins in Zing in terms of percentage are much higher than Dish TV because the corresponding content cost is lower even though the ARPU is lower on a headline basis. So effectively the span for Zing is the linguistic markets which include the four southern states, Orissa, West Bengal and potentially other smaller markets apart from Maharashtra also and maybe Gujarat, Punjab. The Hindi belt certainly is not a market where we are going to target Zing because Dish TV is doing a pretty good job in covering the needs of that particular population. I hope that answers both your questions.

**Moderator:**

Thank you. Next question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:**

My first question is on the media ecosystem, sir in your opening remarks you said RIO will change the ARPU significantly, now if you see apart from Star, Zee also said that in next two months they also want to try out RIO. In that context seeing by on ground behavior of LCOs to this, now two major broadcasters likely supporting RIO, so what can be the upside to the ARPU say from a 1 to 2 year timeframe?

**Venkatesh:**

Abneesh, the movement is already happening. We are seeing that the MSOs are under pressure from both the content providers as well as their own P&L dynamics and prices have started to go up. I am not only talking about this high profile Hathway thing which resulted not only in the metros but even in the smaller markets. And there is an interesting dynamic which is also happening, that along with the price increase which cable is being forced to

take, we are also seeing a fair amount of migration, once the prices move up from cable into DTH. For example in Western UP and markets like Agra where cable rates used to be about Rs.60 to Rs.70 now they have gone up about Rs.150 to Rs.170 and the conversion for DTH which used to be on an average per operator maybe about 200-300 per month has gone up to almost 800-900. So once the cable rates move up the customer thinks that, 'Hey, I am paying so much, why don't I take a DTH connection?' So both these dynamics actually work in our favor because it also gives us headroom for increasing prices. Today we are also discussing the possibility of having differentiated pricing which could potentially mean that we charge different rate in the Phase-1 and Phase-2 markets and different rate in the Phase-3 and Phase-4 market, so this will enable us to increase prices. We have had a differentiated pricing strategy in Zing in different states and we have been able to effectively implement that so we are thinking why not I can take my prices up, a customer in Delhi does not have to pay the same as customer in Begusarai for this base pack of Rs.230. So for in Delhi the same pack could be worth charging maybe Rs.250 or Rs.270 whereas in a small town I would charge Rs.230 and this is something we are very seriously considering and you will probably see some movement on that.

**Abneesh Roy:**

Sir one follow-up on this, you said MSOs are under pressure, but ultimately LCOs had been the big problem; they have been very resistant to any change. So do you see because of RIO the LCOs transferring the pricing to the end consumer in this instance?

**Venkatesh:**

If you see what some of the MSOs have done, for example like Siti Cable, there is a larger shift on the ground in movement towards giving control of pricing to the LCOs in terms of the on/off switch, it is basically providing them application to actually charge that extra money to the customer, this has happened specially vis-à-vis the sports packages. The MSOs are

developing software which allows the LCOs to add À la carte packs and take that money from the customer and give the proportion which is due back to the MSOs. It is a slow shift, there was a resistance in the last two years, but slowly I think everyone is coming around to understanding that the game has changed. These things don't happen overnight but you are seeing the movement and classic case is the MSOs actually charging the sports packages as À la carte that never happened about a year ago. But if you look at it most of the MSOs are actually able to transfer that cost to the consumer at the VC level. The MSO still does not have visibility on what the end point is but he has told the LCO to charge it to those guys who want it and pay us the money, so even if he holds something and there are some leakages in the system, slowly-slowly you are starting to see that shift and that is going to be very good for DTH because once prices move up in the ground in any market we have seen the customer fundamentally prefers DTH over cable.

**Jawahar Goel:** Abneesh, also you must have noticed that the MSO is also coming into a prepaid model, they are starting from Mumbai and will move into other parts of the country on a prepaid model. Currently they are having some sort of bad debt element in their business model.

**Abneesh Roy:** Sir that is quite useful. One follow-up again on MSOs, Reliance Jio has applied for pan-India MSO license, so from a longer-term perspective, are you worried because of this or this will further put pressure on existing MSOs? This might be a blessing in disguise over the longer-term, how do you see Reliance Jio entry?

**Venkateish:** Abneesh, we have also highlighted this in the past as well and if you look at the model of Reliance Jio for video will largely be on pool based content, on linear streaming channels it does not make sense for them because even

if at the highly aggressive price which I was seeing quoted somewhere at 10GB for Rs.500. If you want to actually consume television on a daily basis you have to consume at least 100 gigabytes which is almost Rs.5,000 worth of top line and how do you give that at Rs.250. So it will be for video on demand service, on special reruns of shows and those sorts of packages, I don't see linear TV coming through Reliance Jio on any economical viable manner at all for the foreseeable future.

**Abneesh Roy:**

Sir my last question is, the margins are really good this time. Now, you commented on the content cost, could you also comment on ad spend because it was down both QoQ and YoY, I was a bit surprised because in Q3 normally ad spends do jump up. So in that context you have said competitive intensity is a bit benign, is that the main reason why ad spends is low?

**Venkateish:**

See, there were two reasons, one is that this festive season was slight muted. Secondly, the overall ad spends of the entire ecosystem itself is down so whatever we spend we were able to get better deals and at discounted rates and we have fair amount of barter also which we used. So overall that was the reason. Typically people did not spend very much in this quarter and we didn't also spend that much because nobody was spending. If you look at the overall industry, it was a very let's say flaccid festive season.

**Abneesh Roy:**

Sir one follow-up on this, the 26.8% EBITDA margin, that could go down a bit in Q4 right because whenever cricket is there the content cost does jump and this is World Cup so obviously this might be a bit even pricier. So any comments on that?

**Venkateish:**

No, we have now stitched up deals with all the broadcasters. Earlier, we had been taking ESPN & Star on RIO in the previous two to three years. We had signed a deal with them from August. So going forward we have fairly



robust understanding in terms of the deal so we are not going to see that fluctuation around cricket as far as sports content cost is concerned. Earlier for almost 2.5 years we did not have a deal with them and we were buying them straight on À la carte RIO and that used to cause some volatility, but that's not the case right now because we have fixed CPS rates within which we are operating. So the only impact in fourth quarter should be aware and sort of modeled for is the fact that there are two days less in the fourth quarter so that tends to lop of 2.2% of revenue on QoQ because February being 28 days the quarter has only 90 days versus 92 in the third quarter. So that tends to show up as a lower ARPU because the way we calculate the ARPU is on the revenue which is 2% lower. Having said that, that could have a small impact on margin because some of the fixed cost which are not related to number of days like for example transponder cost etc. that could be there. But overall we expect that we should be able to maintain this number at least or improve it little bit.

**Moderator:** Thank you. Our next question is from Jai Doshi of Kotak Securities. Please go ahead.

**Jay Doshi:** Sir, could you give us some idea of what would be the contribution of Zing to your net subscriber addition?

**Venkatesh:** Zing currently is accounting for approximately about 17% to 18% of our incremental additions.

**Jay Doshi:** Okay, thank you. And you have talked about differential pricing, now I was wondering that outskirts of some metros for instance Bombay are still Phase-3, Phase-4 markets. So do you foresee a trend whereby if you increase prices in Mumbai most of your incremental subscriber additions would happen through some dealer channel which is in located in Phase-3?



**Venkateish:** These little leakages, we are sure that some guy might register himself there and come there. But at the end of the day if I am today at Rs.230 and I charge at differential price even though the little bit of leakage I am still better off than where I am today.

**Jay Doshi:** I understand. But wouldn't it be reasonable to assume that the bigger kick for DTH ARPUs would sort of happen only when we have some price increases by cable in Phase-3 and Phase-4 markets, so there is still some time away on a blended basis?

**Venkateish:** No, there is plenty of headroom for growth even in the Phase-1 and Phase-2 markets because if you look at the cable prices they have moved up in both, Bombay, Delhi and all the metro markets. We have also taken some price increases but in fact in some markets today, where actually DTH is at lower cost than cable and that is not something desirable, so if we are not able to do that we have a common all India pricing. For example, you cannot get cable in Bombay for Rs.230 in most parts of Bombay, cable price is almost a minimum of Rs.300, so why should I leave money on the table there if I can implement higher price in Bombay city and take advantage of that.

**Jay Doshi:** Thank you. And couple of quick book keeping questions, if you could tell us what was the free cash flow for nine months, I have got the numbers of second and third quarter, I don't know the first quarter. This year nine months and if you can also have last year's nine months FY14 free cash flow numbers handy?

**Rajeev Dalmia:** Around Rs. 62 crores for last nine months.

**Jay Doshi:** Okay sir. And revenue breakup.



**Rajeev Dalmia:** Subscription revenue was at Rs. 65 crores, lease rental at Rs. 21 crores, teleport Rs. 5 crores, bandwidth Rs. 20 crores and advertisement & others at Rs. 12 crores.

**Moderator:** Thank you. Next question is from Bhautik Chauhan from Span Capital. Please go ahead.

**Bhautik Chauhan:** How much inventory of boxes do you hold?

**Rajeev Dalmia:** It is around 800,000.

**Bhautik Chauhan:** Okay. Sir we have seen a jump in finance cost for this quarter, if you can throw some light on that number?

**Rajeev Dalmia:** There are two reasons; one is that we have started hedging our FOREX transaction, so per that we need to create mark to market interest. And secondly there was an additional loan of around 200 crores, so there is a provision for interest on account of that additional loan.

**Bhautik Chauhan:** Okay. Sir how much did you repay this quarter and what would be the net debt and gross debt figure?

**Rajeev Dalmia:** See, as on date gross debt is Rs. 1,600 crores and net is Rs. 1,125 crores and so far by nine months we have paid Rs. 505 crores.

**Bhautik Chauhan:** Okay. Sir, how is Sri Lanka business panning out?

**Venkateish:** Sri Lanka business, we have got all the necessary approvals and we are in process of formulating the launch so we should be in market in the next quarter.

**Moderator:** Thank you. Next question is from Akshay Saxena of Credit Suisse. Please go ahead.



**Jatin:** Hi, good evening sir this is Jatin. The question is on the ARPU side, you mentioned that now with Star you have kind of fixed content deals so does that mean that when you have cricket and things pick up by the consumer end it actually boosts both ARPU and margins compared to earlier where it used to be margin dilutive?

**Venkateish:** ARPU is a function of revenue.

**Jatin:** No, what I meant was because your cost are fixed and our revenues will go up because of cricket, does that mean better margins because your cost have been fixed now?

**Venkateish:** Yes, as I said earlier we are guiding for an overall content cost increase in the mid-single-digit. We certainly expect the top line to grow in the teens so therefore it should be margin accretive.

**Jatin:** The question was more specific to sports.

**Venkateish:** I can isolate growth only for sports, for example what happens is during a sport season like where there is cricket you have an overall uptick in subscriber additions and that leads to higher revenue growth. So I am not isolating sports out of the whole thing because ultimately I can have higher revenue growth and then the overall content cost which we have is netted off against that.

**Jatin:** Okay, let me phrase the question differently. Your content cost on sports, are they constant on a monthly basis or they vary with when you have special events like the World Cup?

**Venkateish:** No, we have a structured deal with them which is for certain Tier we have a CPS & for certain deals we have revenue share. So net-net the impact as far as what we are concerned is all what we have built into the content cost



equation, I cannot spread that out and tell you item by item but I am saying including all of these assumptions we expect our content cost to be around mid-single-digit. So that is about as much as we can actually break it out.

**Moderator:** Thank you. Next question is from Rohit Dokania of IDFC Securities. Please go ahead.

**Rohit Dokania:** Just two questions from my side, one would be if you can comment on the possibility of RIO pricing happening on DTH. Because as digitization says that content cost cannot be discriminatory across platforms?

**Venkateish:** RIO pricing is in any case available. In fact we have been one of the most extensive users of RIO, in fact RIO does not work to the advantage of the broadcasters as much in the DTH environment because they are realizing good value from the DTH. They are using RIO as a tool to improve their realization in cable where actual content realization is pathetic, so they are using that RIO to pull it up. In DTH in fact we have used the RIO effectively to negotiate the content deals because I am in opposition in the DTH platform to actually manage these subscribers whereas the cable platform is still not evolved to that point. So for example I can do things like on request channels and give it to my subscriber and still managing the content cost via taking it on RIO, these are capabilities which are not there in the cable system at least today.

**Rohit Dokania:** Okay. So you see a very limited possibility of DTH going the way MSOs have gone in terms of content cost for RIO?

**Venkateish:** No, DTH has evolved beyond that in many cases the broadcasters for example when we have a standoff with the guy, I say give me the stock on RIO. Now the guy knows that I can manage the RIO prices because I have the ability and the knowledge of each and every one of my subscribers. For

example, when we did the request for one of the platforms we gave the channel only to those guys who wanted it. So that pressure is not on me, whereas in the cable system because he does not have B2C relationship with the end consumer, the moment you put him into RIO he does not know which customer is who to what to give to whom, so he ends up being under pressure.

**Rohit Dokania:** Okay. And sir the last question would be, I mean area we are planning any price increase in the near future?

**Venkateish:** As I said we are looking at both differential pricing as well as certainly we will move the overall table up because there is the opportunity I think with the cricket as well as the overall MSO system, soon enough but I cannot give you a specific date.

**Moderator:** Thank you. Next question is from V Subbaraman of HDFC Securities. Please go ahead.

**V Subbaraman:** Just a couple of quick questions, one is with respect to ARPU, are we seeing up trading in terms of packages? If you could quantify it slightly with the proportion of subscribers on the base pack and say on the maxi pack that would be helpful. And secondly, there is a comment on the domestic manufacturing and you having a subsidiary Dish Infra Services, so what would be the scope of work of this subsidiary and what would be the quantum of investment that you have outlined? Thanks.

**Venkateish:** Okay. On the first question as far as ARPU, one of the major drivers for ARPU for us is the increased up take of high definition subscribers and a very substantial upgrade from standard definition to high definition. To give you some of the sense of the numbers, today as far as high definition is concerned it is contributing almost about 16% to 17% of our incremental

additions which is up from around 15% in the last quarter and if you take on a month basis last month it was up to almost 18%. So that is a major sort of up move that we are seeing and apart from that if you look at the packaging on our platform, earlier we had standard base three layered platform in terms of packaging, now we have actually introduced intermediary packs which are seeing good uptake, the family pack is base pack at Rs.230. We have launched a family plus sports at Rs.275. So that gives us an intermediate step to push the guy up to Rs.275 before going to the next level of Rs.320. Similar between the Rs.320 and the Rs.440 pack there is another intermediate step upgrade pack which we have put at Rs.380. So there is this constant flow, so instead of a three layered thing we have a five layer thing which actually is also helping the upgrades because the amount of incremental he has to pay for an upgrade is not as much as it used to earlier.

- Jawahar Goel:** As far as the set top box manufacturing is concerned, we are waiting for the budget. We had already sounded our vendor to start producing in the country. And on the investment part on the subsidiary, we are still working out and waiting for the Union Budget.
- V Subbaraman:** Okay. And sir what would be the subscriber acquisition cost during the quarter?
- Rajeev Dalmia:** Rs. 1725.
- Moderator:** Thank you. Next question is from Neerav Dalal of SBI Cap Securities. Please go ahead.
- Neerav Dalal:** What was the churn rate in the quarter?
- Rajeev Goel:** Around 0.7%



**Moderator:** Thank you. Next question is from Vikash Mantri of ICICI Securities. Please go ahead.

**Vikash Mantri:** Few questions on the numbers sir, surprisingly commission has jumped up this quarter?

**Venkateish:** Commission is directly linked to volume Vikash so as volume increases it picks up.

**Vikash Mantri:** So if I would say 10% more subscribers, even actually 5% more subscribers in last quarter whereas commission has gone up from 54 crores to 69 crores sequentially.

**Venkateish:** Yes. It is a combination of the higher off take in terms of the number of activations plus some additional spends on the festive seasons.

**Vikash Mantri:** Okay. On the ARPU front in the last quarter we did mention that we will get the benefit of the price hike in this quarter, is there still some subscribers yet to graduate to that pack or we are so that this benefit will continue to happen in this quarter as well?

**Venkateish:** There is still, all the long-term players who paid for six months, one year but that amount is still quite small. Right now I would say we would have converted about 85% of our base to the new price.

**Vikash Mantri:** So from the April quarter onwards to get an ARPU hike it has to be either upgrades or we have to take another set of hikes?

**Venkateish:** Not necessarily, as I said we are getting fairly good traction on high definition, I think that is one of our major driver of the improvement in ARPU and we are seeing that trend accelerating so we expect that as well as we will take price increase and we have been always taking price increase





periodically in this industry and with the amount of headroom which is actually currently available, there is no reason why we should not be taking another hike quite soon.

**Vikash Mantri:** Okay. Another one for Mr. Dalmia, if I am right I remember saying that 85 crores is the lease rental amount carried in the balance sheet in end of FY14.

**Rajeev Dalmia:** We have already done 53 crores.

**Vikash Mantri:** So by Q4 it will end and for next year we will not have this line item at all?

**Rajeev Dalmia:** There will be some amount but it will be a very small amount.

**Venkateish:** It is already down to barely 20 crores.

**Rajeev Dalmia:** It is only la pass through.

**Vikash Mantri:** Will it become nearly 0 or less than 10-15 crores if I mean to put it that way?

**Rajeev Dalmia:** Yes.

**Vikash Mantri:** Okay. On the cost front and this is more for Jawaharji, sir what is the development on the license event, will we see the good news of 8%?

**Jawahar Goel:** Actually the Minister has been busy in other affairs but Dish TV's license renewal file has gone to the Law Ministry. -. And after the budget session we will have a meeting with the Minister and probably on the policy decision on how to renew the license and taking into the account of the recommendation of TRAI. I think we should wait, fair thing will be to work in March.

**Vikash Mantri:** The 8% movement?



- Rajeev Dalmia:** 8% is already given, now we are fighting for 5.5% to 6% that is why it is being delayed otherwise 8% was recommended and in fact it is not 8%, it is 7.3%.
- Jawahar Goel:** Also, IPTV pays license fees through DOT but on Headed in the Sky (HITS) there is no tax regime. So we have requested the government to look at a uniform tax regime or maybe license fee regime.
- Vikash Mantri:** Okay. And sir Zing Media formation is due anytime soon now?
- Rajeev Dalmia:** Zing Media is already in place, now it is called Dish Infra. Only the execution of business, we are waiting for the budget, for the duties and incentives announced for “Make in India”, then it will be formulated very soon.
- Vikash Mantri:** Sir, even if we do not do “Make in India” thing, this subsidiary will any way start taking care of the buying and selling of boxes?
- Rajeev Dalmia:** Yes, but it will depend on how much we can transfer our box purchases to the subsidiary, that will be based on the duty structure, if the duty structure is favorable then everything will go to that company otherwise there may be a combination like HD may remain here, SD may go there or recorder may come here and other things may go there. So we are looking at the final aspect of entry into the budget.
- Jawahar Goel:** I think it is good that we take a decision and wait for the Union Budget.
- Moderator:** Thank you. Next question is Nitin Mohta of Macquarie. Please go ahead.
- Nitin Mohta:** I had two questions. Firstly on the addition side, very strong show this quarter so how exactly does that position us vis-à-vis what we had thought at the start of the year? And secondly, if you could give us any comments



about gross addition for FY16 or net addition for FY16 excluding any benefits that could come because of digitization?

**Venkateish:** Yes, we had earlier guided 1.2 to 1.5, we have already done 1.1 so we are comfortable hitting the top end of our guidance around 1.5 million. As far as next year is concerned we can expect similar numbers without any kicker from digitization, if digitization happens then it would be incremental on that.

**Nitin Mohta:** That's helpful. And just to cross check if I heard you right on the call earlier about a single-digit cost escalation on the content cost side.

**Venkateish:** It is single-digital., yes.

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

**Sumeet Rohra:** Sir, I wanted to ask you that with the World Cup coming up next month what is your sense on subscriber addition because the way it is going, our subscriber additions can far exceed our guidance. So what is your view on the subscriber addition? And secondly on the license fee issue, you touched upon that. Would it be like 8% or could it also come down to 6% and how much would that add to EBITDA margin?

**Venkateish:** The subscriber additions yes, World Cup has always been a strong sort of thing, it will also depend on how well India does so if it goes up till the finals. But suffice it to say what we have guided on similar set of numbers on Q4 as Q3 as far as subscriber additions is concerned, what we think is a prudent guidance at this point. On license fee, yes TRAI themselves have recommended 8% AGR which means a net actual license fee of around 7.3%. If that happens obviously there will be 270 basis points expansion in

the margin. We are also arguing for content cost pass through, if that happens then we are looking at 6%, it is still something that we need to argue for. In either case, whenever this happens we are hopeful we will get some relief in the license fee to the extent of which there is something that we cannot put our finger on.

**Moderator:** Thank you. Next question is from Kunal Vora of BNP Paribas. Please go ahead.

**Kunal Vora:** First on high definition, what is the ARPU and can you also provide the take up rate now that you are allowing high definition customers to not opt for high definition service, like what proportion of the customers are actually paying for high definition? That's one. Second, what is the license fee amount outstanding payable and when do you expect the payout, is it possible that you can escape that payout or it is a matter of time? And finally on the content cost side, it looks like we are in an environment in which you will see fairly strong customer additions and also ARPU improvement. How confident are you that let's say it won't go beyond the high single-digit number which you talked about?

**Venkatesh:** Okay, I will take your last question first. See as far as content cost is concerned I explained earlier on the call that we have already stitched up deals over periods ranging from 2 year to 3.5 years, so my next content cost deal which is coming up for renewal is in September 2016, that are the two major broadcasters and another one in March 2017 and one in March 2018. So the content cost guidance that we have given is on the basis of actual deals that we have on hand. Roughly approximately 50% of our deals are fixed fee deals, 50% of our deals are CPS deals. Therefore we know the blend of CPS as well as fixed cost and therefore it gives us a good comfort when we give that guidance of the increase.



**Rajeev Dalmia:** On license fees, the amount payable as on date is around 900 crores out of which interest is around 200 crores. So we are waiting for the decision of the court then we will decide how to go about it.

**Kunal Vora:** Some of your peers already paid out that amount, right?

**Jawahar Goel:** Partial and only one and there are some operators, they are not even paying 6% but Dish TV has been paying regularly.

**Rajeev Dalmia:** Not paying and not providing also.

**Moderator:** Thank you. Next question is from Sadanand Shetty of Taurus Mutual Fund. Please go ahead.

**Sadanand Shetty:** Can you please share with us the key points from the joint representation that you have made to the Ministry and how hopeful you are about this?

**Venkatesh:** Yes, there are four or five points on which we made the representation to the Ministry – one is of course on the license fee which we have already discussed, Mr. Goel also mentioned the disparity in license fee across platforms, we have also requested them to look at the pass through of the content cost and the reductions thereof. Second thing, which we made a representation is that until such time a GST comes we have requested that DTH be put on the negative list for service tax like multiplexes and failing which we have asked that at least there would be abatement to the extent of entertainment tax paid from the service tax or at least to a cap of 60%. So either of that coming on a negative list of abatement, so that the overall payout is similar to what we would pay under a GST regime is what we have done. The third thing we have asked for is we asked for normalization of the withholding tax on satellite which is on certain satellites which are non-treaty countries we pay 25% whereas for treaty countries we are paying



10% so we have asked that. So mentioning the fourth thing that we have asked is for reduction of the withholding tax on the satellite from 25 to 10 and then separately we have also asked for grant of infrastructure status to the DTH industry which is a long pending demand. If that happens that could help us in finding ways to reduce our finance costs significantly. So these are the sum total of all the biggest representations which have been made, not only on behalf of DTH association but also including the other stakeholders in the media as well.

**Moderator:** Thank you. Our next question is from Mayur Gathani of OHM Group. Please go ahead.

**Mayur Gathani:** Just wanted to check, what is the contribution of Zing to the number of additions we are making quarterly?

**Venkateish:** I mentioned earlier around 17% to 18% is where Zing is right now.

**Mayur Gathani:** Okay. HD and Zing both are 17% to 18%?

**Venkateish:** Yes, that's right.

**Mayur Gathani:** Okay. And sir if I understood correctly you said in FY16 also, we can look in addition of 1.2 to 1.5 million?

**Venkateish:** Yes, true, we have still not done our numbers this year because we have not as yet tried to put in what will happen in Phase-3 or Phase-4 if actually that digitization happens. So without that you will look at similar set of numbers.

**Mayur Gathani:** Okay. And what is HD ARPU that you are generating currently?

**Venkateish:** Rs.434.



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

**Srinivas Seshadri:** My first question is on the HD subscribers, can you please share how many HD subscribers are there in the system as of now?

**Venkateish:** We have close to about 7 lakhs subscribers.

**Srinivas Seshadri:** Okay. And sir any number you have to share for the year-on-year basis?

**Venkateish:** No, we don't break that out.

**Srinivas Seshadri:** Okay, sure no problem. And secondly sir you spoke about the differential pricing strategy, just to get into it a bit further do you think there are upsides mainly in the base pack or across packs on an immediate basis if you compare yourself with the pricing structures which cable is evolving into in the Phase-1 and Phase-2 markets?

**Venkateish:** Yes, good question. I would say primarily the upside is in the base pack which also represents the largest customer base that we have. As far as the top packs are concerned, we have less headroom on a geographic basis but still there would be some depending on the markets. Some markets like if you take Bombay or Pune for example, Pune is historically a very high price cable market where the base cable price is Rs.350 and the top pack goes up to almost Rs.600 to Rs.700. So in those sort of markets we could get the headroom, depends on how we manage this, we will do it on a smallish basis and then try to expand it as we are able to do it.

**Srinivas Seshadri:** So on Phase-2 also you are envisaging a city wise kind of a pricing model as well?



**Venkateish:** Yes. Initially we will start with let's say a fixed metro pricing and then see how that plays out, there will be leakages like somebody mentioned but we can live with the leakage because anyway I am getting an upside from where I am today.

**Srinivas Seshadri:** Right. And the contribution of the base pack in say those 6 metros, is it similar to the national or is it fair to assume it will be much lower in terms of the percentage of subscribers?

**Venkateish:** Not dramatically lower, yes it is lower but if I say all India I am at 50% in these metro markets on average it will be about 40%.

**Srinivas Seshadri:** Okay, so that is where the immediate upside can come when you start doing this?

**Venkateish:** Yes.

**Srinivas Seshadri:** Understood sir. And just one small point, you spoke about certain barter deals you are doing on the advertising front, can you kind of explain it, I didn't quite understand it.

**Venkateish:** See, when we do a carriage deal with a broadcaster apart from paying him I also get a substantial portion of air time committed as part of my deal and that air time is available for me to use.

**Moderator:** Thank you. Our next question is from Sadanand Shetty of Taurus Mutual Fund. Please go ahead.

**Sadanand Shetty:** I am sorry my line got disconnected while you were explaining some key points about the joint representation. What was the last point you were saying, the fourth point after normalization?





**Venkateish:** On granting infrastructure status to the DTH industry.

**Sadanand Shetty:** How hopeful you are, what kind of body language or feedback or feelers you have got?

**Venkateish:** This is something that we have been representing and there is every logic and rational for us to be granted this status because we have made numerous representations. The last meeting we had with the ministry, the ministry was very positively inclined given the kind of investments that are required to be made for digitization for Phase-3 and Phase-4. This is basically an enabling factor which allows this industry to raise the capital that they need.

**Jawahar Goel:** Sadanand, you see when we talk about “Make in India” we say that we can do it but who will finance. And the MSO and DTH operator has been using a banking product which is called buyers credit extensively. And now this buyers credit is only for the capital goods you import where you can get it upto 3 years’ time and a concessional dollar loan you can avail. Whereas when you buy from domestic market you have to pay on delivery. So the banking product has to change and financing norms have to change and all these things. And the interest costs are in our category which is termed as non-priority, all of the broadcasting is termed as non-priority sector so the many of the avenues for financing is not available. So probably for Make in India the government is more inclined, even they are considering to create a fund to finance the set top box purchases, they are talking about Rs.1200 crores or so. So that is why I am saying that to “Make in India” initiative the infrastructure status will help the MSO & DTH to get the various types of credit facility.

**Sadanand Shetty:** Right. What you are referring is not a manufacturing, the financing facility, correct?



- Jawahar Goel:** Yes.
- Rajeev Dalmia:** It is linked to manufacturing because there is a separate financing facility for imported goods and high cost incurred when we buy in India.
- Sadanand Shetty:** But isn't it you require a minimum threshold capacity to make it viable?
- Jawahar Goel:** The capacity can be done, we can tell the manufacturer for domestic manufacturing and convert it that is one part. But financing is the major bottleneck for domestic manufacturing apart from the inverted taxes.
- Sadanand Shetty:** Sure. In you joint representation it is only the DTH operators' body or there were other stakeholders involved in this?
- Jawahar Goel:** We got IBF, NBA, DTH and MSO Alliance; all went together and had a good meeting with the Revenue Secretary.
- Moderator:** Thank you. Our next question is from Abhishek Jain of JHP Securities. Please go ahead.
- Abhishek Jain:** I just want to know, how are we doing in rural segment, what kind of growth we are seeing in rural segment because of Phase-3 and Phase-4.
- Venkatesh:** Phase-3 and Phase-4 segment is the one which we are targeting with Zing and we are witnessing very strong growth there, entirely the growth of the Zing brand is coming from the Phase-3 and Phase-4. So in terms of market share for Zing it varies from state to state, for example in states like Orissa and West Bengal it has almost 35% incremental share.
- Moderator:** Our next question is from Ankit Kedia of Centrum broking. Please go ahead.

**Ankit Kedia:** Sir you mentioned that Sri Lanka operations will start from next quarter, just wanted to know in a two to three years' timeframe what could be the subscriber additions from Sri Lanka operation we can see and what will be the ARPUs in that market?

**Venkatesh:** It is too early for us to put that, it is a small market and it is a market which is attracted to us because of high ARPUs which are prevalent there and a zero subsidy model which exists. So we would not like to put any specific numbers at this point till we actually get launched in the market.

**Moderator:** Thank you. Our next question is from Naval Seth of Emkay Global. Please go ahead.

**Naval Seth:** My question is on the debt, you said that debt had increased by 200 crores this quarter, am I right?

**Rajeev Dalmia:** Yes.

**Naval Seth:** Sir any specific reason for that?

**Rajeev Dalmia:** Because of the higher inventory and we are preparing for World Cup and that activations are just double the activation of last year that is why it has increased, but in the fourth quarter it will remain the same, it is not meant to go up, rather it will go down by 50 crores.

**Naval Seth:** So you are expecting gross debt to be at 1550 crores by the end of this year?

**Rajeev Dalmia:** 1,550 crores to 1,575 crores.

**Moderator:** Thank you. I will now hand 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 on our website [www.dishtv.in](http://www.dishtv.in). We look forward to speak you again at the end of the fourth 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.*

