

DISH TV INDIA LIMITED

1Q FY20 EARNINGS TELECONFERENCE July 30, 2019, 06:00 P.M. INDIA TIME

Moderator: Ladies and gentlemen, good day and welcome to Dish TV India Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Tarun Nanda. Thank you and over to you, sir.

Tarun Nanda: Thank you, Raymond. Good evening, ladies and gentlemen. Thank you for joining us today for the First Quarter FY20 Earnings Conference Call of Dish TV India Limited. Our sincere apologies, we had to delay this call, because we were stuck with a technical glitch that was not in our hands. We were hence not able to upload the results. And as soon as we were able to do that, we decided to quickly come on this call. Although we have got very limited time to go through the results, but we are hoping that we should be able to answer your queries now or even post this call, if there is a need.

To discuss the results and performance, joining me today is Mr. Jawahar Goel – Chairman and Managing Director of the company, Dish TV India Limited; along with the senior management team, that is Mr. Anil Dua – Group CEO; and Mr. Rajeev Dalmia – CFO.

We will start with a brief statement from Mr. Dua, 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 our outlook for the future is a forward-looking statement that must be taken in the context of the risks that we face.

I would now request Mr. Dua to address the participants.

Anil Dua: Good evening, ladies and gentlemen. And thank you for joining us today for the first quarter fiscal 2020 earnings conference call. The results and the earning release both have been uploaded on the company's website.

Building on the foundation set by the last month of the previous fiscal, the company continued to add subscribers throughout the first quarter. Net additions for the quarter stood at 209,000, with more than half of them being high-definition. With the television industry finding its feet, the new regulatory regime seems to have finally stabilized. The tariff order has led to the beginning of a new era with programming costs becoming a pass through expense. Apart from the accounting significance, the move indicates a massive shift from the traditional way of content negotiation. Considering that the new regime emphasizes the role of à la carte, content would be subject to subscribers' filtration. As a distributor, we would only be procuring content that sells, while adding

value through our packaging, quality of our service and our new products. Fiscal 2020 is going to be the first full year of the tariff order implementation and should witness its positive impact as well. We strongly believe that the new regulatory regime will enable large distribution players like Dish TV, to emerge stronger than ever before.

The first quarter fiscal 2020 consolidated subscription and operating revenues stood at Rs. 8,261 million and Rs. 9,263 million, respectively. EBITDA for the quarter stood at Rs. 5,360 million. In line with expectations, subscription revenues were strengthened due to an engrossing cricket season. The general elections too had TV viewership going up significantly, which ultimately positively impacted the subscriber additions and revenues. The company achieved an EBITDA margin of 57.9% under the new tariff regime.

Watcho, the in-house OTT app of Dish TV India should continue to strengthen its presence in the OTT space, thus becoming an effective retention and value addition tool for us. Having jump-started the year, we find ourselves all set to leverage the possibility of multiple growth opportunities that lie ahead. In the near-term, operating efficiencies resulting from further realization of synergies due to the combination of Dish TV and D2H should continue to positively contribute to the business and financial performance of the company.

With that, I would like to open the floor for the Q&A session.

Moderator:

Sure. Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman:

Sir, I have two questions. One, with respect to consumer behavior after the implementation, do you think consumers are exercising their choice and they are choosing à la carte packages? Or the packages that you have suggested, they are more popular? And could you give some color on how much are consumers paying now after the regime versus what they were paying to you earlier?

Second question pertains to some financial issues, like the outstanding amount that you had payable to Zee, and recently there are media reports where Star has filed a case against you for receivables pertaining to content. Where does that stand? And another accounting or rather financials related question is, how does the license fee computation happen now?

Anil Dua:

Yes. Vivekanand, thanks. So, last quarter, we had discussed that consumers were in a state of transition, trying to understand how to create their new packaging. We were offering them all the opportunities, in fact, we were the first ones to start and give all options on various channels to create their own packaging. Customers lapped it up; we gave them a lot of choice that also led to a certain amount of time taken by the customer to settle down with new packs. But I am happy to report that, that process is behind us, and the whole process has settled down. And consumers are now watching the packs that they want to watch. It's a combination of à la carte channels that they have chosen, the DPO packs that we have provided and, of course, also the broadcaster bouquets, which are part of those packs. So, that's on the first one that customers are taking a combination of various things to their liking, to their choice, to their price point.

As a part of the question, you had also asked how much they are paying now versus earlier. So, as we had said in the past that there are customers, a little less than half, who have gone for a price point lower than what it was earlier and a little more than half have gone for a price point which was higher than earlier. But the good thing is that with cricket and election season and other things during the quarter, they have also added on channels on top of that. We have to now see as we go forward how to build upon this.

Rajeev Dalmia: Yes, As far as licenses fees is concerned, now that will be on the basis of Rs. 926 crores, rather than the earlier regime where it was including the content cost. So, it will go down to the extent of the content cost. To give you an example, like we paid say Rs. 2,000 crores last year, so this year license fee will be less by Rs. 200 crores.

Now coming back to the amount payable to Zee and Star, there were certain issues in terms of how the billing will be done and how the incentive will be allocated to us. Because of this, there were some delays in payment to both the broadcasters. But now things are more or less settled and we have started paying to both of them and it will be cleared by the month of September, all the outstanding dues, and we will be starting fresh from 1st of October.

Moderator: Thank you. The next question is from the line of Abhishek Shrivastav from Zaveri Securities. Please go ahead.

Abhishek Shrivastav: Sir, just wanted to understand what would be the consumer level ARPU under the new regime?

Rajeev Dalmia: ARPU is Rs 116 based on the new accounting that we have done. But the consumer level will be around Rs. 270, 275. But it varies on a month-on-month basis, because things are still not completely settled at the consumer's end. But we hope that in the second half of this year we will get a flavor that what is going to be the run rate as far as the consumer ARPU is concerned.

Abhishek Shrivastav: Okay. And this is net of taxes, right?

Rajeev Dalmia: Yes. It is net of taxes.

Abhishek Shrivastav: And going forward, what do you see, it will be going up or it will go down?

Anil Dua: So, that's exactly what we are seeing, as a steady state if I remove the effects of cricket, we definitely see it going up. But because of cricket, customers come and go, and they add packages, they remove packages. So, the steady state figure will emerge. This is the first quarter with the new accounting, and first time we are talking of a figure like Rs 116. I think we will have to wait and watch. But fundamentally, the way we have planned things and the way we see things during the first quarter, the underlying growth in ARPU should be there.

Abhishek Shrivastav: Okay. Just one more question. Compared to cable, is it higher or lower, or is it at par with the cable ARPU?

Anil Dua: The good thing is that this NTO (New Tariff Order) has created a level playing field between cable and us. So, earlier cable prices used to be lower than us, now cable prices are pretty similar to our prices.

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

Rohit Dokania: I just had two questions. One is, continuing on the ARPU bit, if you can give us a comparable number sequentially? So, if I calculate your Q4 ARPU under the erstwhile norms, it was about 185, 186. What would that number be comparable for this quarter?

Rajeev Dalmia: It is Rs. 199- 200.

Rohit Dokania: Okay. That's helpful, sir. The other question that I had is, if I look at the Note 4 of the results, under the old regime vs new regime, I see that sequentially your expenses have actually grown by almost 7%. So, from overall expenses point of view, it has gone up to Rs. 1052 cr. from Rs.984 cr. So, is it because of a cricket heavy season that we have had to give more content as well, and that's the reason why expenses have increased? That's one. Secondly, if I adjust for this in the Note 4 in both revenue and operating expense, then the EBITDA under the earlier regime appears to be Rs. 476 cr., is that the correct calculation?

Rajeev Dalmia: Yes. Now it is 536 crores and it was 476 crores earlier. And if you compare the expenses with the fourth quarter, definitely first quarter was higher because of selling commission, service payout, and overall marketing costs, because the number of subscribers added were quite high as compared to the fourth quarter. But if I go line-by-line, then we have saved on general administration expenses, we have saved on collection cost, and we have also saved on the personnel cost, because personnel cost used to be Rs. 65 crores to Rs. 70 crores per quarter, which has gone down to Rs. 45 crores. And we further see some Rs. 1 crores or Rs. 2 crores going forward saving on account of personnel costs. So, overall line-by-line it has gone down. But of course, because the savings and service is linked to the number of new installations, that has gone up in the first quarter.

Rohit Dokania: Okay. And any comment on content cost, particularly because of this being a cricket heavy quarter?

Rajeev Dalmia: On Content cost, now the scenario is that higher the content cost, more will be the revenue because we get 35% of what we bill to the consumer. So, content cost according to our estimate was around Rs. 610 crores.

Rohit Dokania: Okay, fair enough. Sir, last question, can you talk about your gross and net debt at the end of this quarter?

Rajeev Dalmia: Yes. Gross debt is Rs. 2,150 crores and net debt is Rs. 1,900 crores.

Moderator: Thank you. The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

- Himanshu Shah:** So, just couple of questions. What is driving this decline in employee costs?
- Rajeev Dalmia:** Because there was some rightsizing done in the last quarter, and the benefit of which is coming into this quarter. And it will continue. And there were some changes in the model of service, which led to saving of cost because of less employees required under the new regime. And as we guided during the last year about the synergy benefits, so this is one of the items in which we worked quite hard. And this year the difference between the last year and this year will be around 92.
- Himanshu Shah:** Okay, sir. Second thing, sir, can you help what would be the cash benefit on the license fees...?
- Rajeev Dalmia:** Yes. It will be around Rs. 200 crores this year, minimum on the basis of the last year average. And if we are able to generate more revenue, it will be relatively higher.
- Himanshu Shah:** Sir, this will be cash savings or at P&L level?
- Rajeev Dalmia:** It will be definitely at the P&L level, but some of it will flow in the cash also, because when we derive the number after adjustment, based off the TDSAT judgment, the number will be around Rs. 175 crores lesser than the last year on the basis of the current accounting pattern.
- Himanshu Shah:** Okay. And sir, what would have been any churn for this quarter, churn percentage or churn ratio?
- Rajeev Dalmia:** It was 0.95%.
- Himanshu Shah:** 0.95%. And sir, can you help with the revenue breakup, besides the subscription revenue that we have called out?
- Rajeev Dalmia:** So, subscription revenue was Rs. 826 crores, carriage was Rs. 43 crores, advertisement income was Rs. 20 crores, other operating income Rs. 38 crores, and total is Rs. 926 crores.
- Himanshu Shah:** Okay. And sir, just lastly. How do we plan to bring down the pledge that is there, because probably from whatever we are gathering from the media, these stake sales may not be sufficient to pay off the entire group level debt in the corporate books of theirs? So, how do we plan to bring down the pledge?
- Rajeev Dalmia:** Himanshu, I will not be able to comment on this because this is not part of the operating team. And maybe at the opportune time we will come back on this, as this is a very sensitive issue in which it is difficult to...
- Himanshu Shah:** Fair enough, sir. No issues. That's it from my side.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead

- Sanjay Chawla:** I Just want to confirm if I picked up these numbers correctly. The comparable ARPU this quarter was Rs. 199 to Rs. 200, and the comparable programming cost was Rs. 610 crores, can you confirm that?
- Rajeev Dalmia:** Yes, roughly. Correct.
- Sanjay Chawla:** Okay. And second question is, can you indicate in terms of the consumer profile, how many customers, what percentage would have taken the à la carte vis-à-vis the DPO bouquet that you have offered, broadly?
- Rajeev Dalmia:** These are still evolving; we are just two, three months old in the new regime. Maybe after second quarter if you ask this question, there will be some kind of certainty. Because it was heavily affected by the World Cup and IPL. So, it was quite a mix of many events.
- Sanjay Chawla:** So, because of the cricket events, you think the à la carte percentage would have been higher than where it eventually is?
- Rajeev Dalmia:** Yes. But now they are again gone, maybe they will come back because the West Indies series is again on from 3rd of next month, so there will be again a rush of subscribers for cricket.
- Sanjay Chawla:** Okay. And in terms of the customer additions for the year, what level are we expecting? Because I believe you gave a number of 1.4 million last quarter, are we sticking to that, or you think we would want to update it?
- Anil Dua:** So, the 1.4 million is an internal thing. We had said last time that we will be sharing our guidance only at the end of the first quarter. So, our guidance is to the tune of about 8 lakhs for the year in terms of net adds.
- Moderator:** Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jaykumar Doshi:** Could you please disclose the license fee provisioning for the current quarter and the base quarter, on the P&L, provisioning of license fee?
- Rajeev Dalmia:** See, license fee will be around Rs. 55 crores.
- Jaykumar Doshi:** In this quarter?
- Rajeev Dalmia:** Yes. And this is because of the change in the accounting. Overall, we will be saving Rs. 175 crores this year because of the new top line as compared to the last year.
- Jaykumar Doshi:** Right. No, but last year, base quarter provisioning would be much higher, more than Rs. 100 crores, I would assume, on the P&L?
- Rajeev Dalmia:** Yes, Rs. 106 crores, because of Dish Infra.

- Jaykumar Doshi:** Understood. So, when I look at your other expenses like direct operating costs, the base quarter would have Rs. 106 crores of license fee and the current quarter would have Rs. 55 crores, so there is a delta of Rs. 60 crores from an EBITDA standpoint. And in terms of payout, sir, did I hear you correctly that Rs. 2,000 crores were a payout for FY19 full year, on like-to-like basis, everything else being same you would probably save about 7%, 8% over there?
- Rajeev Dalmia:** Right.
- Jaykumar Doshi:** Understood. That is helpful. Sir, so there won't be a significant gap between what you provide and what you pay out in the current year?
- Rajeev Dalmia:** Yes. The content cost which was announced to be a pass-through item is now being passed through top-line. So, there will be less confusion going forward.
- Jaykumar Doshi:** Correct. But even now sir, your provisioning is 6% of revenues, as against maybe 10% on adjusted. So, what are the adjustments that you can still do now that content cost is pass-through?
- Rajeev Dalmia:** The balance is due to Dish Infra, the 4% leverage is because of the revenue generated in Dish Infra, which is not subject to license fee.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead
- Rohit Dokania:** Just one question. So, sir, the difference in EBITDA under the earlier regime and this regime, which is almost like Rs. 60 crores, I think bulk of it is explained by the license fee. So, if you said about Rs. 200 crores saving, probably Rs. 40-50crores will be explained by that. What would be the other changes that could be there sir, in terms of the difference in EBITDA in this regime versus the earlier one?
- Rajeev Dalmia:** So, it will be mainly the content cost which we will pass through. And there are three items on which we will get synergies this year also. It is box price, personnel cost and logistics. Interest, of course, in terms of percentage we may not get, but whatever percentage benefit we got last year, will continue to be there this year also. Apart from that, selling expenses, distribution & service, will be linked to the number of new activations. And now under the new regime, more we sell, more we get commission. So, the content cost may not be a yardstick going forward. Other items like the transponder and collection charge, the taxes, will be same or in line with the revenue that is in the next three quarters.
- Rohit Dokania:** Sure. Actually, my question was slightly different. I was asking sir, your reported EBITDA is about Rs. 536 crores, and as per the earlier regime it would have been Rs. 476 crores, so there's almost a difference of Rs. 60 crores. So, I just wanted to understand what is causing this difference? One, obviously, would be license fee from an earlier regime to this regime, I am talking from an accounting perspective. Is it entirely explained by license fee or is there something else as well?

Rajeev Dalmia: No. There are other things as well like teleport income is nil this quarter, it has not been booked in our accounts. Plus there are some savings in the collection cost which used to be 4%, now it is averaging around 3.4%, 3.5%. Of course, the personnel cost which was Rs. 65 crores to Rs. 70 crores is now Rs. 45 crores. So, these are some of the items which have changed.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead

Alankar Garude: My first question is, if you look at some of our competitors they have been looking to aggressively cut prices of set-top boxes. So, just wanted to get some sense from you, are we also looking to pare down our prices on the set-top boxes? And similarly, I just wanted to know your thoughts on the current subsidy levels on the set top-boxes, both standard-definition and high-definition?

Rajeev Dalmia: See, the current subsidy is Rs. 1,520, which is lower by around Rs. 150 on average of last year.

Anil Dua: You see, ultimately you have to look at what the rest of the market is doing. I think, luckily, we have been getting synergy benefits on the costs of the boxes, and that is helping us to be competitive in this market. Yes, there have been price drop on the set-top boxes. I think they are pretty low, and taking them any lower will not be advisable. But having said that, I think our costs are the best, and therefore we are well placed to meet any such price competition in the market.

Alankar Garude: Understood, sir. My second question is on the Free Dish. Now with most of the FTA channels being pulled out by the major broadcasters, are you seeing any benefit from Free Dish or is it too early to really gauge the impact, the benefit coming in from this particular move by the broadcasters?

Anil Dua: So, I will say that customers have been in a wait and watch mode, some of the creamy layer has definitely moved to other options, and we have also benefited from that. But having said that, a large number of customers are still hoping that they will have their channels back or other new channels substituting for the ones which have gone. And there are, of course, bare minimum channels in terms of entertainment, movies, still available. So, many customers are staying put, but also, I think it has opened up opportunity for other players, which we have capitalized upon during this quarter. But it really depends upon how that platform evolves how customers react to that going forward.

Alankar Garude: Understood, sir. And one last question on the accounting, any idea about what is the methodology being followed by the other players in the industry?

Rajeev Dalmia: Same.

Alankar Garude: Okay. So, all of them are now netting-off the revenues?

Rajeev Dalmia: Right.

Alankar Garude: Netting off the content cost?

- Rajeev Dalmia:** Yes, all of the DTH players.
- Moderator:** Thank you. The next question is from the line of Vishnu KG from JM Financial. Please go ahead
- Vishnu KG:** Sir, I had three questions. So, my first question is, what is the total license fee provision as of June?
- Rajeev Dalmia:** License fee, as I said, it is around Rs. 50 crores to Rs. 55 crores. Total provision is Rs. 2,950 crores, including interest of Rs. 1,100 crores.
- Vishnu KG:** Okay, sir. And in the last quarter you had given a guidance of Rs. 2,300 crores to Rs. 2,500 crores for EBITDA. So, as per the new accounting, what would be the revised guidance, sir?
- Rajeev Dalmia:** We have not given any guidance, but nevertheless, the new method may not change much at the EBITDA level, except the provision of license fees. Otherwise, the top-line is changing, but not the EBITDA, because rest of the item of expenses remains the same. The guidance for EBITDA this year will be around Rs. 2,250 crores to Rs. 2,300 crores. And last year, the EBITDA was around Rs. 2,045 crores, so it is Rs. 205 crores or Rs. 255 crores more than the last year, which is around 10%.
- Anil Dua:** 12.5%.
- Vishnu KG:** Okay, this is really helpful. Just to squeeze in a last question. So, for this quarter what was the Capex and what is the capex guidance for the entire year?
- Rajeev Dalmia:** The Capex was Rs. 205 crores for this quarter. And for the full year, it will be in range of Rs. 650 crores to Rs. 675 crores.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to Mr. Nanda for closing comments.
- Tarun Nanda:** Yes. Thank you once again for joining us, ladies and gentlemen. We will soon have the transcript of this call uploaded on our website, www.dishtv.in. And we look forward to speak to you again at the end of the second quarter, or even earlier on a one-on-one basis. Thank you, and have a great day.
- Moderator:** Thank you very much. On behalf of Dish TV India Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

This transcript has been suitably edited for ease of reading