

DISH TV INDIA LIMITED

4Q FY19 EARNINGS TELECONFERENCE May 24, 2019, 06:30 P.M. INDIA TIME

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dish TV India Limited Q4 FY 2019 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 call, 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 Tarun Nanda. Thank you and over to you, Sir!

Tarun Nanda: Thank you. Good Evening, Ladies and Gentlemen. Our apologies once again for rescheduling this call. Thank you very much for joining us today for the Fourth Quarter FY 2019 Earnings Conference Call of Dish TV India Limited.

To discuss the results and performance, we have here with us Mr. Jawahar Goel -- Chairman and Managing Director Dish TV India Limited; we also have Mr. Anil Dua -- Group CEO; and Mr. Rajeev Dalmia -- the Chief Financial Officer.

We will start with a brief statement from Mr. Anil Dua and we will then open the discussion for Questions-and-Answers.

Quickly, 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. Anil Dua to address the participants.

Anil Dua: Thank you. Good Evening, Ladies and Gentlemen and Thank You for joining us today for the fourth quarter and year ended March 31st, 2019 Earning Conference Call. I am sure you would have had the opportunity to go through the results and the earnings release, both of which have been uploaded on the company's website.

I am glad to share that Dish TV India Limited maintained its market leadership in the DTH space during FY 2019.

The company added 47,000 subscribers during the fourth quarter, exiting fiscal 2019 with a net base of 23.7 million subscribers and growing.

Dish TV India completed one year of Videocon D2h merger with Dish TV in the fourth quarter of fiscal 2019. Merger synergies realized from almost every operating expense line item.

Net EBITDA margin to expand to 33.2% at the end of fiscal 2019.

The television industry had its fair share of ups and downs during the year, due to regulatory and perception driven challenges.

The fourth quarter of fiscal 2019 witnessed pay-tv distribution platforms continuing the drive to migrate subscribers to the new tariff regime.

However, with the tariff order deadline shifting from December 28th to January 31st, 2019 to February 20th, 2019 pay-tv subscribers remained unsure about channel selection.

January and February therefore saw huge inquiries and call surge at call centers. This rush of customers, along with shifting implementation deadline and a few technological challenges, weighed heavy on recharges and acquisitions during the first two months of the quarter with subscribers deferring the charges for weeks at a stretch.

Dish TV's fourth quarter revenues were therefore impacted due to transition to the new regulatory regime.

Fourth quarter fiscal 2019 consolidated subscription and operating revenues stood at Rs. 13,083 million and Rs. 13,987 million, respectively.

EBITDA for the quarter stood Rs. 4,150 million, up 3.6% Y-o-Y. EBITDA margin was at 29.7%, up 350 basis points Y-on-Y.

There was a sharp turnaround in the third month of the quarter. Improvement in business performance in March set the ground for an even stronger growth in the years ahead.

In fact, FY 2020 started on a strong note with the general elections keeping viewers hooked on to their televisions. The soon-to-start Cricket World Cup should further engage the television viewing masses, bringing revenue growth to the business.

The year is also going to be the first full year seeing the positive impact of the now well in place Tariff Order. We strongly believe that the new regulatory regime will bring the much-needed transparency in the industry. Thus, helping distribution platforms, like Dish TV India, command a premium for its nationwide reach.

The current year should be a landmark year for Dish TV with market leading revenue and EBITDA growth.

The new regulatory regime, along with continuing synergies, should further help us increase our EBITDA per subscriber during the year.

With a strong semi urban and rural base, Dish TV India also stands to benefit from the withdrawal of Hindi entertainment and movie channels by the top 4 broadcasters from the DD Free Dish platform.

The company has been strategically targeting Free Dish subscribers with attractive recharge schemes and bundled acquisition offers.

We are also excited about the future of Watcho, the in-house OTT app that was launched during the quarter and believe that it would ensure viewing stickiness on our platform.

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

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand: I will start with some financial questions. Gross and net debt number and also the content cost that would be helpful. And other financial questions pertain to the impairment of loans and advances to Lanka, Dish Lanka, why is that the case? I will move to the next question after you answer this.

Rajeev Dalmia: Yes. The gross debt was Rs. 2,250 crores and the net debt was Rs. 2,070 crores and impairment was a decision of the auditor as there were some delay in the implementation of the project, because of which we see that the revenue will be coming at a later date. So, the local auditor in Sri Lanka decided that it should be impaired, which was supported by the holding company auditor. So, that is why we had to get the impairment because now we are in the regime of Ind-AS, wherein auditor will take a call for the impairment or otherwise.

Vivekanand: But sir, this is an entity owned by our side, so we have deployed this amount in operations, right?

Rajeev Dalmia: No. This was mainly used for establishment of a broadcasting center, initial infra support services and then losses incurred for the initial period in order to obtain the required number of subscribers. It was a combination of OPEX and CAPEX as we see in DTH in India also. So, nothing wrong with the business per se. But because of the operation of Ind-AS when revenue is not matching with the desired projection, which was shared with the auditor during the last 2 years or 3 years, they tend to act on a conservative basis and insist for impairment.

Vivekanand: Right, okay. Understood. And what about content cost?

Rajeev Dalmia: See, now content cost is under NTO regime.

Vivekanand: But what was the number for fiscal FY 2019 because that the Tariff Order got implemented from 1st Feb, right?

Rajeev Dalmia: Yes, the actual number for the year was around Rs. 2,275 crores.

Vivekanand: Rajeev Dalmia Ji on this content cost, are we now booking revenue or does it not make sense to book revenue net of the content cost because we are just collecting the revenue on behalf of the

broadcasters and getting a share from that and commensurately are not we now providing or rather paying license fee on a lower revenue number than before?

Rajeev Dalmia: We have discussed this matter with the auditor. And have also obtained opinion from a Supreme Court lawyer. But we are awaiting another opinion on similar lines. Then as an industry we will be booking only that part of income, which is attributable to us, which will be 35% of the content cost plus the 130 which is the NCF. But I think, it will take another 15 days - 20 days before all four of us start doing the same thing and pay license fee on the basis of the income, which is realized by us and not on the income which is the passed through item between us and the broadcasters.

Jawahar Goel: We have written to TRAI to make a recommendation to the government to this context. And they had at least verbally assured us that on 6th of June, they will issue some consultation, a pre-consultation and then recommend to the government.

Vivekanand: Okay, understood. Second set of questions pertain to the business. You have outlined that 93% of your customers have migrated to the new regime. Is it possible for you to explain to us how many or what percentage of these customers have migrated to a-la-carte channel packages rather than the packages that you have suggested?

Jawahar Goel: Well, this is competitive information and we would like to keep it to ourselves. And of course, for the broadcaster, there are 2 price points. One is the bouquet and the other one is a-la-carte rate. This is something we cannot share and it is different for each broadcaster.

Vivekanand: Sir, no problem. And when you mentioned your expectation of prices getting rationalized and that will drive consumption, now we are already seeing that some DPO's, like your south based competitor, they seem to be offering a whole host of content in very low priced packages. It appears as though they are not even charging Rs. 153 as network capacity fee. If this kind of packaging is done by some of your competitors, how is the new Tariff Order going to be any different from the previous regime in terms of your expectations of an improved EBITDA per subscriber?

Jawahar Goel: What you are talking about is Tamil Nadu, right?

Vivekanand: That is right. Yes, sir.

Jawahar Goel: In Tamil Nadu there are analog subscribers still continuing and there are government run cable companies. We, as a DTH operator, have been doing business in Tamil Nadu. And the subscribers are quite clear and sticky there. But on new customer acquisition, they have been quite aggressive. So that scenario is quite different for Tamil Nadu and is not relevant for the rest of the market.

Anil Dua: Vivekanand, I also want to clarify, you said that we migrated 93% of our base. I think, you are quoting from our earnings release. We have actually migrated 100% of our subscriber base, not 93%. What the earnings release says is that 93% our survey showed, has given a thumbs-up to

the migration, which means that there is a lot of noise that customers are not happy, but actually the point we are making is that they are pretty happy with the migration as our survey shows.

Vivekanand: Apologies, sir last question is on the number that you have mentioned of March 2019 average revenue being 18% higher than the January and February average. Is this for the entire month or the daily decrement number? Again, I am asking because the number of days itself would increase revenue by 5%.

Anil Dua: Yes. So, it is for the month.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Can you confirm what has been the ARPU for March or say in April or May? Has it reverted to the pre-NTO levels?

Anil Dua: Yes, it reverted in March. I cannot give you month wise ARPU's. But what I can share with you is that the ARPU for the year is at Rs. 202 which, of course, we exited March at a better number.

Yogesh Kirve: That is helpful. Secondly, regarding the content cost, you mentioned that the costs are booked as per the old contracts. And the management believes that even in the NTO, the content cost should not change. So, is that likely to be so? I mean are there any benefits or any impact on a sustainable basis because of the NTO?

Rajeev Dalmia: Up to March, it was status quo. But seasonal impacts will come from the current quarter. And it will continue to be so the whole year. And as per the calculation that we have done in the month of April and May, there are benefits and the cost is lower if we compare it with the last quarter. And as the consumer matures and starts adopting more and more, benefits on an average will continue in the quarter going forward.

Yogesh Kirve: So, you mentioned that the content cost for the full year was about Rs. 2,275 crores in FY 2019. So, FY 2020, I mean is it fair to assume that the figure should be stable or only marginally higher in FY 2020?

Jawahar Goel: One of the components of the Regulation, on the ratio between bouquet and ala-carte prices was not agreed by the Court. TRAI has been noticing that a channel priced at Rs. 19 is available for much lower in a bouquet. This anomaly has to go away. We are talking to TRAI as a DPO community to sort out this matter. Since consumer prices have not come down TRAI is a bit concerned that the a-la-carte prices are artificially high. So, we have to wait for some more time to make a judgment as to how is it going to pan out.

Yogesh Kirve: And sir, finally, regarding 'Watcho', could you please talk about the investments that we have planned for the business and any idea on how the business model should be there in terms of revenues and turnaround or the breakeven that we are targeting?

Anil Dua: In the last call, we have shared that we have invested Rs. 35 crores in Watcho. Our figure remains in that ballpark, Rs. 35 crores to Rs. 40 crores. We just launched it about less than a couple of months back and what we find is that even without much marketing, it is getting very good traction. We already have over 2 lakh users and we have more than 2 million sessions. We have about 20 shows, web series and shows on the platform. But the good thing about this is that, on one hand, the content is very reasonably priced in terms of our cost and on the other hand, the way we are looking at it is for stickiness on our current platform. So, from a cost point of view, we do not see them galloping as we go forward. The investments, I think we are looking at a model where sooner rather than later, it starts paying back for itself.

Yogesh Kirve: Sir, the investments, I was referring to the recurring content investments. I mean what is the annual expense that you are targeting toward the new content or regional content?

Anil Dua: Yes. So, as I was saying that if you look at the nature of our content, it is user-generated content, it is short form videos. So, this content is relatively less expensive. And we have worked for retention activities on our platform in any case. So, a lot of the spend is substitutional in nature. Because we do lots of retention initiatives now it becomes one of them. So, it will not be right for me to segregate this because that will be seen as an incremental spend. Part of it will be substitutional spend. Maybe we will be able to throw more light in the coming earnings call.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Consilium Investment Management. Please go ahead.

Sangam Iyer: Hi, Jawahar Ji, just wanted to check with you the content cost incrementally going forward in FY 2020, would it be more pro rata based on the a-la-carte that subscriber chooses or is it again going to be more like a non-negotiated amount over a period of a year you know a year or two?

Jawahar Goel: Not exactly. Because we are operating on a commission basis. So, that is why the content cost, ideally should be a pass-through item to the broadcaster. It is a new learning for the broadcaster and for the DPO. I can say that we are working hand-in-hand. So that how to grow the revenue, working the marketing needs and all those things. Broadcasters, have been living for so many decades on an extortion model. Now they have to come on the marketing and partnership model. So, total mindset has to change, it is taking a little more time.

Sangam Iyer: Right. So, when we look at last year's Rs. 2,275 crores of content costs, it would also include the cost being paid for a bouquet of channels, which are not subscribed to a large extent. Now under this new regime, those channels, as you rightly pointed out could actually be rather than a cost factor be a revenue condition factor for you? Because as you say, channel enhancement, etc. Am I looking at the right way for those channels which are not much favored by the customers here?

Jawahar Goel: I think what you can safely take if the content cost in the month of March is Rs. 190 crores, Rs. 2,200 crores divided by 12, we should be able to take it to like 25% - 30% gross margin from that amount.

- Sangam Iyer:** Okay. And this is based on the old reporting standard?
- Jawahar Goel:** Sorry, if they are selling more, the customers pick up more, we will get our share of commission, more commission. So, we would like the consumer to consume more and the broadcaster to advertise their content so that we get a distribution margin.
- Sangam Iyer:** Okay. No, because in March, your content cost was pretty high compared to the revenue generated. And as you said, because of the fact that there was a disruption or uncertainty on the tariff regime by when it would come through. So...
- Jawahar Goel:** Mostly we had agreed that we assume that the contract is extended till March on that same last payment basis. The number of subscribers and stabilization and the recurring charge of the subscriber packaging, etc, it becomes a complicated story and for them to understand and to the billers and also, the SMS, the billing system to mature. So, all these things, that is why we have taken a call that we will pay for March on a similar amount. But from April, we will have a new regime working on it.
- Sangam Iyer:** So, could you give us some idea in terms of what is the kind of run rate that we are looking now that we had 2 months into this new regime in April and May also for this financial year?
- Jawahar Goel:** We will work out the numbers. And then Dalmia Ji will communicate with you or whosoever is interested in a couple of days.
- Sangam Iyer:** Okay, sir. No issues. And sir, finally on Sri Lanka, the impairment that we took, is there any further information that you can share with us on the business in Sri Lanka? Is something wrong with the digital business there? Or why suddenly the mismatch between your aspirational revenue and the actual revenue and in the impairment?
- Jawahar Goel:** Well, you see in Sri Lanka, because of the new regime there is a telecom levy, which is around 28%. And the government on top of that, they have also implemented VAT of around 15%. So, it means that a subscriber has to pay or we have to share 43% revenue. So, this whole proposition has become unviable. And we are a 70% shareholder, the majority and also in management. So, we are working with another operator over there to sort out this issue so that we can plan further. So, when we were not growing, obviously the auditor has to be cautious in the interest of the minority shareholder and for the sake of transparency.
- Sangam Iyer:** Got it. So, now all these issues are already factored in when you are taken this impairment. So, any further incremental regulations that comes in might change otherwise there is status quo over there?
- Jawahar Goel:** Yes, like in India, we have a VAT as well as a telecom levy. So, it is like a sin type of tax. Telecom is also suffering in that market. But telephone has become like a necessity like food, clothing and shelter whereas television is not. Local channels over there are all free-to-air, all means A to Z. So, then people will prefer the free-to-air and etc. So, our numbers are not growing and we do not want to put in more money in that market.

- Sangam Iyer:** Got it. Great. And sir, finally, given the debt levels that we have currently or net debt of Rs. 2,000 odd crores, based on your CAPEX spend for this year, where could we exit FY 2020 in terms of net debt? Some clarity, can you give us on that?
- Rajeev Dalmia:** Around Rs. 1,600 crores.
- Sangam Iyer:** Okay. And what is the CAPEX that is actually in this?
- Rajeev Dalmia:** We had around Rs. 850 crores this year, that was FY 2018 - FY 2019. But this year, we can wrap up in Rs. 600 crores to Rs. 650 crores.
- Sangam Iyer:** And how much of this debt would be foreign denominated?
- Rajeev Dalmia:** No, now the foreign denominated debt is very low. Most of the debt is already turned over into rupees. Either it was paid back or we have not availed fresh buyers' credit. And that is why the interest outgo is also slightly high.
- Sangam Iyer:** Okay. Got it, sir. And any outlook over the kind of subscriber growth the net subscriber addition that you are looking at?
- Rajeev Dalmia:** In next quarter.
- Anil Dua:** Yes. So, we have a plan actually to get back to our 14 lakhs or 1.4 million kind of net adds this year. So, the start has been promising and we are hoping to get there.
- Moderator:** Thank you. The next question is from the line of Rajiv Sharma from SBICAP Securities. Please go ahead.
- Rajiv Sharma:** Just a couple of questions from my side. So, now that it is almost two months into this new tariff regime. So, is it fair to say that this one-off revenue decline, which has happened this quarter in Q4 is unlikely in Q1, given that the full tariff regime is stabilized now in this first quarter, so the first two months, we are able to see that very perfectly? And second is this 15% a-la-carte and bouquet thing, which you talked about which already been decided by High Court. Will it be really possible for try to now go and revisit it? Or it will be again a long-drawn legal process there? And also, your thoughts around both these issues?
- Jawahar Goel:** Well, see, you can always litigate. But I think, previous litigants have already realized that it is an expensive affair. They are very much onboard. TRAI can always create a basis. Based on that, they can come out with a short consultation and announce whether it should be 14% or 16% or 20%. Broadcaster would like to have more than maybe 35% - 40%. So, we have to wait till the consultation comes out. Paper are ready with them but they were probably waiting for this election to complete or why we do not know.
- Rajiv Sharma:** And my first question please?

- Rajeev Dalmia:** Ya revenue is much better than the fourth quarter, it is in line with Q2 and Q3 and with the World Cup coming up next month, I think, the improvement will be quite good.
- Rajiv Sharma:** Okay. And one more thing, yesterday, Sun TV, in their earnings call, were mentioning that there is a huge traction which DTH is seeing, post the Tariff Order. Could be confined to south markets, could be more TN issue but overall, they were suggesting that given that the cost for cable has gone up, DTH should benefit. But your subscriber additions this quarter plus your overall guidance of about 1.4 million is not suggesting a similar trend or momentum. What is the disconnect there? And secondly, what are your thoughts on more consolidation in the DTH space?
- Anil Dua:** On the first one, I will say that you mentioned a while back, one of you mentioned the prices at which the acquisitions are being made in south by this player, of course, at heavily discounted prices so you can always talk of much bigger numbers with those prices. But we are definitely, when I say 1.4 million, I am looking at the 0.7 million that we had this year and therefore, that is the minimum aspiration that we have, that we will go for 1.4 million kind of a growth. But certainly, we are quite excited about the opportunities that exist at the moment both from Free Dish platform as well as the cable. And as was just mentioned, there with the cricket season almost throughout the year and we having launched our special India Cricket service, which is finding very good favor with the customers, we feel that we should be able to do pretty well in terms of subscriber addition.
- Rajiv Sharma:** Okay. And thoughts on consolidation in the DTH space?
- Jawahar Goel:** Well, there is always an opportunity for consolidation. So, currently we do not have to discuss that and these things cannot be discussed on the conference calls.
- Rajiv Sharma:** So, there has been news reports about Airtel and Dish TV kind of merger or takeover or those kinds of things. So, any thoughts around that?
- Jawahar Goel:** Well, the management of the companies are not privy to or any such things and we cannot comment on that.
- Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** So, sir, under the new regime, now since content cost which was the biggest variable part is already a pass through, this becomes a largely fixed cost oriented business and hence, the commensurate of getting leverage benefits. So, do you think that this can result in a quest to add more subscriber for the existing players, which can in turn result in a downward pressure in the NCF going ahead? Your thoughts on that, please?
- Rajeev Dalmia:** Well, that was always the case in DTH and that is why the industry used to add around Rs. 11 million - Rs. 12 million per annum, and everybody was trending for more and more number of subscribers and that is how the subsidy started. And the industry, as such, is quite used to it. And

more or less it will continue to be in on the same line. And this question for the fixed cost that we are paying is covered by the NCF which will take care of the fixed cost plus the EBITDA margin. This content benefit that we get from 20% to 35% or maybe higher will be an additional stake. If we really analyze this the variable cost we are well covered within 130 plus GST.

Ankur Periwal: Okay. And, sir, on the other overhead front, while there are certain taxes or incremental levies which DTH as an industry pays versus cable has not been. So, one, has there been any thought with the authorities as per our representation, if there will be a level playing regime? And second, internally, the other overheads that we have, the fixed cost, do you think there is a scope for rationalization of them under the new regime?

Rajeev Dalmia: You are discussing about the license fee?

Ankur Periwal: Both the part. So, the levies that we have as a DTH industry, which is more for the industry. And secondly, our own fixed cost for the company, ex the levy part, wherein probably, if there is any rationalization possible there?

Rajeev Dalmia: No, the fixed cost like transponder, salary, administration, establishment, general administration will continue to be there. And on license fee, there are some decisions going to happen either by court or by the government. We really need to wait and watch and this has been different in the past calls also that what is our viewpoint on the license fee going forward.

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

Mayur Gathani: Sir, I just wanted to check what is the free cash flow for FY 2019 and for the quarter?

Rajeev Dalmia: For the quarter, it was Rs. 95 crores and for the full year, it was Rs. 690 crores.

Mayur Gathani: Okay. And secondly, as you mentioned technological changes disruptions in January -February. So, has that been taken care of?

Jawahar Goel: Yea, it is sorted out.

Mayur Gathani: Can you just explain what could be the technology issue? I am sure you are not going to bet for this thing to happen.

Jawahar Goel: It is historically, the system legacy which came from the d2h, the capacity of the subscriber management system was not adequate to take that kind of pressure to shift the subscribers within a very short span. So, glitches were there but our distribution system was pretty good. It was succeeded well and it was done well. So, now we have migrated to the new system.

Mayur Gathani: Okay. And going forward for FY 2020, what would your EBITDA guidance be? EBITDA margins, because you were guiding for 35% or so for FY 2019, you were tad below it ...

- Rajeev Dalmia:** Yes, we had 33.2% this year. Definitely it will be more than 35%. Now, it will also depend on how do we account for the same. Like, if it is a pass-through item, the content cost then this 35% can also become 38% to 40% because the numerator will be less.
- Mayur Gathani:** Right. Okay. Fine, so at least more than 35% in case everything remains the same?
- Rajeev Dalmia:** Yes
- Mayur Gathani:** Okay. And you had given a guidance of 1.4 million subscriber additions for the year FY 2020?
- Rajeev Dalmia:** Yes, net additions.
- Jawahar Goel:** And when we are able to, all the DTH companies are able to decide, on the accounting part on the content cost, we will apprise to our analysts whether through a note or a conference call. It is just a matter of two weeks that we conclude along with the help of our auditor.
- Mayur Gathani:** Okay. I mean the reason for having lower additions for this quarter 47,000 only, would you just leave it for the transition period or would we see some slowdown also? It is a very poor number.
- Anil Dua:** So, mostly the transition because if you lose two months out of three, then this is what happens. So, practically, it is probably some loss in January February and some gain in March, which were proud to this 47,000. So, it is largely due to that.
- Mayur Gathani:** So, it is largely due the transition only, nothing to do with, you do not see any slowdown of pickup of set top boxes?
- Anil Dua:** No, we have seen some acceleration now.
- Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.
- Alankar Garude:** More of a continuation of the previous question on EBITDA. While I understand that on margins, you said 35% and 38% - 40% in case of that accounting change, but would it be possible to comment on the absolute EBITDA growth in FY 2020? Any aspiration which you may be having?
- Rajeev Dalmia:** See, this is the growth in turnover. It can be anywhere between Rs. 2,300 crores to Rs. 2,500 crores, but then we have to spell out the growth in the revenue figure, we can discuss in the next call when the effect of NTO is more mature and we have digested at least three full months of the consumer behavior.
- Alankar Garude:** Understood sir. So, Rs. 2,300 crores to Rs. 2,500 crores for FY 2020, right?
- Rajeev Dalmia:** Yes. This year, we had Rs. 2,044 crores, so this kind of range, we can say that it can happen.

Alankar Garude: Okay. Dalmia Ji, secondly, I just needed some clarity on this impairment. So, while we discussed the impairment pertaining to Lanka but this impairment of goodwill of about Rs. 1,500 odd crores seem to be a very high number. So, can you just explain the nature of this impairment and what led to such a big impairment?

Rajeev Dalmia: Alankar, if you remember, that we had around Rs. 8,000 crores of goodwill because of the merger, divided into three, goodwill, brand and customer relationship. Now, the kind of projection which was given at the time of merger and the initiation of NTO and the change in the business scenario plus slightly lower number on a roundup turnover was responsible for impairment on account of goodwill. You see, in the former regime, before Ind-AS, we used to depreciate goodwill like any other fixed asset. Now, there is no depreciation chargeable to the goodwill. It is impaired, basis the business projection given and actual realized business numbers. So, this will keep on happening. This is the number shared with the auditor at the time of merger and how we are able to see those numbers. More particularly, what happened in Q4 it was much less than the number which was provided. So, we could not hold and that is how the big number of Rs. 1,542 crores were provided as goodwill. It will have two positive impacts. One is that we will not be paying MAT because of the charge of goodwill. And secondly, it will strengthen our case in income tax on full tax also but because it was charged in the books of accounts.

Alankar Garude: Okay, sir. And this will be done at the end of every quarter? Or just the end of the fiscal?

Rajeev Dalmia: Like as per law it has to at the end of every quarter but because of the volatility at business, auditor is also of the opinion that we should see at the end of the year about the number and actual achievement versus the planned number at the time of the merger.

Alankar Garude: Okay, sir. And given that we had the NTO in this year, the impact of the NTO, should we expect this impairment number to be significantly lower from next year onwards?

Rajeev Dalmia: That is what we are hoping. Rather some of the guys in our own company says that it can be reversed also if that number or the achieved number is much more than the planned number. But we really need to see the full year number before we can comment on the same.

Alankar Garude: Understood, sir. And last question from my side for Jawahar Ji. While I understand, we cannot really comment on the speculation in the media about any merger of Airtel and Dish TV, but just wanted some thoughts from your end regarding, if any merger, whether it involves us or not, can there be any benefit to the incumbents? And if at all yes, then what can be the possible synergies which can come out of such a merger?

Jawahar Goel: Actually, it is the same question in different words. But reply will remain the same.

Moderator: Thank you. The next question is from the line of Aasim Bharde from IDFC. Please go ahead.

Aasim Bharde: I have just had one question. If you could just tell me the reason behind your trade payable figure doubling in FY 2019, what constitutes these payables? And why have they doubled?

- Rajeev Dalmia:** No, because of the confusion created by NTO about the payment of content it was not decided I would say till 31st of March but now it has been cleared and it has been normalized in the month of April and also in the month of May.
- Aasim Bharde:** So, it pertains mostly to content payments only, right?
- Rajeev Dalmia:** Yes. And that was also because of the confusion created by the transition period between the normal that we used to book and the NTO regime.
- Moderator:** Thank you. The next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.
- Rishabh Chudgar:** I just had one bookkeeping question. Can you tell me what is the liability which is related to the license fee?
- Rajeev Dalmia:** At the end of 31st March, it was Rs. 3,200 crores out of which the interest is 1,150 crores.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** My question is on content cost. It is in two parts. First is, you mentioned that up until March, you have booked the content cost based on the older contract. So, is there a possibility that this could be revised upward for the fourth quarter when you sit down for reconciliation as per the NTO?
- Rajeev Dalmia:** No. This was anticipated by us also but in the month of April, it was all finalized. And the figure provided by us in the account is correct and it has been duly confirmed by the relevant broadcaster also.
- Jawahar Goel:** Actually, the whole industry has decided in a similar fashion, so that is why we had taken the call.
- Sanjay Chawla:** Okay. And the second part of this, I just wanted to confirm, did you mention that we could expect the growth of 25% to 30% in the content cost in fiscal 2020 Y-o-Y?
- Jawahar Goel:** Well, it is related to the commission. So, if the margin goes up, if the consumer does more consumption more sale happens, we will get extra margin.
- Rajeev Dalmia:** And that is good for the company now because content is coming to us as a commission for more we sell more we get.
- Sanjay Chawla:** So, I am just trying to reconcile the margin expectation of 35% plus compared to 30% that we reported in the fourth quarter because it seems that your content cost to subscription revenue ratio is going to go up under the post NTO in the NTO regime. It is already at probably in the low 40's. It just seems like it is probably going to go to 45%, 46%, 48%. I am just trying to

understand how do we reconcile the margin expansion, which is expected in fiscal 2020 35% plus, with the fact that content cost as a percentage of subscription revenue will rise significantly.

Rajeev Dalmia: 130 is a big number, because if you multiply the number of subscribers, which is 23.7 into Rs. 130 that itself is a big number to take care of all the fees expenses. And the commission that we did out of content is an additional amount which directly flows to the EBITDA as per our calculation, which is say Rs. 2,300 crores - Rs. 2,500 crores. These are the first 2 months of our operation under the new regime. So, we are feeling confident that margin will increase to 35% and of course, if you are adopting the new accounting methodology then it can be 38% to 40%.

Jawahar Goel: Earlier our sales growth on the revenue used to be either we increase the package prize or we do additional sales, right? Now, we will be getting revenue from the sales, additional subscriber as well as the more consumption by the consumer. And the broadcaster when they start doing marketing of their content, so the consumer takes Rs. 19-channel, so obviously, we will retain 35% - 40% as we agreed with the respective broadcaster. That is one element. And secondly, as a pass-through revenue, our license fees also go down. So, it is a multi-pronged benefit. We actually have to go in a different model now, remodeling of our business.

Sanjay Chawla: Sir, where I am coming from is that there seems to be now I understand this Rs. 130 network carriage fee or NCF, which should be margin accretive, but where I am coming from is that there seems to be implicit discounting in your packs on the NCF. For example, I am just taking the base pack of Rs. 213 inclusive of tax, the ARPU on that is Rs. 180 or so excluding tax. But the underlying content cost here is Rs. 135. So, there is...

Jawahar Goel: You see, the fourth quarter or previous quarter was different. Now, in the NTO regime we have to count the subscriber number 4x a month. So, this means the suspended subscriber, they will get equated, we will have some upside like on an average we have a loss of billing of around 15%. Now it will come down because we will be taking readings four times in a month and communicate to the broadcaster.

Sanjay Chawla: Sir, can I just talk about this particular pack, in which Rs. 180, you are getting ARPU but the content cost Rs. 135, now even if you pay 65% of that to the broadcaster...

Jawahar Goel: Initial discount is so that there is a less disturbance to the consumer. But gradually, this discount will go away. Plus, we have added some channels, which is costing us a very small amount from the broadcaster. They were part of our DD Free Dish. So, these are the petty expenses which we had taken a conscious call that from NTR we will provide them.

Sanjay Chawla: Sir, do we expect the pack prices to basically go up so that the NCF gets closer to Rs. 130 compared to the discounting that we are seeing currently in your DPO packs?

Jawahar Goel: Yes. We will continue that way but you see, you have to understand the broadcaster. Earlier, we used to get the content and we used to give to the consumer in the same fashion. Ad has been forced by the content provider because of the competitive scenario between themselves and

competitive scenario at our end. But now, you will find a broadcaster that their reach has come down drastically for one channel and or additional broadcaster. So, they are doing resetting that how they want to do the pricing. And I am sure they are clever enough to understand this whole new regime and based on that, they will very soon, come out with the new pricing.

Sanjay Chawla: So, do you expect some upside in terms of the carriage, placement and marketing fee? Because obviously, broadcasters want to improve their reach, so instead of maybe lowering the channel price, maybe they can give, do you see a significant scope there on the carriage and placement front?

Jawahar Goel: You see, we cannot discuss this on the conference call because we had told the broadcasters to come sit with us, take the call center and do the upsell to our consumer. There is a regime by TRAI, you cannot have a discrimination. But DTH companies has got call center and a whole lot of expenses, which a MSO do not have. They had outsourced to their LCO. So, they are operating different regime. So, just I cannot explain you how it is going to impact on the conference call but definitely, as we decide how we are going to do accounting, so I am sure Tarun will discuss with you some new model based on that you can build your modeling and on the company or you do that what are the sales collection and the EBITDA. So, it will go in that regime per subscriber what is our profit.

Sanjay Chawla: Sure. I will discuss that separately. Just a last question. As things stand today in terms of the base prices that you have for your inventory level prices on the DPO packs that you have and also the kind of selection that you are seeing from the a-la-carte customers, who are choosing their own packs, between the two as things stand today, which one is actually generating better gross margin for you in terms of revenue minus the content cost per customer basis? Which seems to be more profitable for you in terms of contribution?

Jawahar Goel: I think it is a changing scenario, it keeps on changing. If I say that it is the same scenario but we may see the trend differently next month. So, we have to wait for it. Let us see that what the broadcasters offer, unless they start doing marketing and start communicating to their consumers. See, one learning we had in this whole of MTRO, that the broadcaster was the holy cow before the consumers and that we as a DPO were the bad boys because we were collecting or there were complaints on the service and etc. Now they realized that we had put their price on the EPG. Now the consumer has realized that there is a DPO and the culprits are the broadcaster and let the broadcaster have a communication with their consumer and we are just a hawker.

Moderator: Thank you. Ladies and Gentlemen, we will take our last question for today, that is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Sir, your net debt is Rs. 2,000 crores and your free cash flow for this year was Rs. 700 crores. I am assuming you will have a much better cash flow for FY 2020. Why is the net debt at Rs. 1,600 crores in FY 2020 end? I mean should not we reduce it further?

Rajeev Dalmia: Yes. Because of the operation of NTO we are also in a watch mode that how the cash flow is likely to emerge. And that is why we have taken a conservative figure of Rs. 1,600 crores. If you strictly ask about the scenario, it can be Rs. 1,350 crores to 1,400 crores also which is the, I would say, last 2 months of operation but we have to really see at least 6 months that how it unfolds.

Mayur Gathani: My further question is, by all means, the cash flow will definitely be way better if we understand how this NTO regime runs. I mean, maybe you can be conservative to say the Rs. 1,600 crores band sure the debt can be reduced way further as well. And your CAPEX is also lower.

Rajeev Dalmia: Yes, but I cannot say below Rs. 1,500 crores because there is a lot of uncertainty due to NTO. Maybe as we go forward in the first call, second call, it will be clear that what is the likely scenario in terms of the cash flow.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Tarun Nanda for closing comments. Thank you and over to you, Sir!

This transcript has been suitably edited for ease of reading

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