"DEN Networks Limited Q1 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Den Networks Limited Q1 FY17 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not the guarantee of future performance and may involve risks and uncertainties that are difficult to predict. As a remainder, 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Dawar - Group CFO, DEN Networks Limited. Thank you and over to you sir.

Manish Dawar: Thank you very much. Welcome to all the analysts and the investors on the call and thanks for being part of the Q1 full year 2017 results of DEN Networks. I am pleased to introduce our new CEO, Mr. S. N. Sharma who has taken over in the middle of July. As you are all aware, Mr. Sharma is an industry veteran with an experience of over three decades of which he has been associated with media industry for close to almost 25 years. He has been with DEN in the past and has been one of the founding members of the company. I now hand over to Mr. Sharma for the Q1 business update, Mr. Sharma.

S. N. Sharma: Thanks Manish, it is a pleasure to get associated again with DEN. It is like a home coming for me. Ladies and gentleman, the environment and industry landscape is changing rapidly in the country and more so in MSO space. I strongly believe that progress is impossible without change, which is a continuous process. Pressure from services like internet, DTH, telcos and other upcoming technologies is amply evident and consumers have started to change their consumption habits at a rapid pace. We all are part of it, hence there is no alternative for us but to adjust with changing time and set new goals. Competition is encouraging and it inspires us to do better. Winds of change cannot be stopped, but yes we can adjust our sales accordingly. Worldwide it is an established fact that cable, video business has two major advantages over other related businesses; unmatched capacity of pipe spectrum, reaching subscriber and ability to withstand weather changes.

End of 2012 and major part of 2013 brought in a major change in life of cable operators in terms of analog going digital. Thereafter baby steps were taken to increase realization from LCO subscriber coupled with implementation and compliance with regulatory framework laid out for distribution change. That is how we have reached the current level of subscriptions. Now the concept has got synced in and we find majority of LCOs barring 10% to 15% getting aligned with MSOs on the path of improvised revenue sharing in majority of Phase-1 and 2 markets. Phase 3 digitization has been eventful for DEN and will lead DEN to produce substantially better results vis-à-vis the recent past. As you know, DEN has been a fundamental strong player in Phase-3 and we have already demonstrated that through our efficient deployment of boxes and monetization of boxes over there. Our confidence also stems from the fact that the regulatory environment is more benign today. TRAI is helping us push for getting fair share of revenue, better share of revenues from LCOs. Recent orders in TDSAT related to recovery of dues is also helping us to enforce discipline amongst our trade partners against swapping of boxes and to get better recoveries.

Coming to quarterly results, our cable business demonstrated a significant turnaround in Q1 as the same delivered a higher EBITDA on pre-activation basis vis-à-vis the EBITDA for the year 2015-2016. We continue to demonstrate continuous growth on our digital subscriber base adding 0.3 million boxes in Q1. With this addition, our digital base goes up to 9.8 million boxes with strong presence of 4.8 million boxes in Phase-3 markets. On the content side, we have a clear visibility of the cost structure for the current and to an extent the next financial year as we have finalized the pending negotiations with all the broadcasters now. ARPU for DAS-1, 2 and 3 markets stood at Rs. 97, Rs. 71 and Rs. 32 respectively. These ARPUs are average for the quarter, net of taxes and LCO share on per box, per month basis and on the basis of Ind-AS results. Please note that Phase-3 collections are expected to look up since this was the first quarter after digitization process.

On broadband side, broadband business witnessed continuous healthy revenue momentum and significant improvement in bottom-line in Q1. Q1 for FY17 revenue stood at Rs. 18 crores compared to Rs. 5 crores in Q1 of previous year. The broadband subscriber base at the end of Q1 2017 was 1.15 lakhs. Two initiatives that contributed to the increased revenue momentum are increased sales from digital sales channel of overall sales at lower cost of acquisition. Other one is opening new channel of sales that is retail sales. We have made arrangements with 500 plus retail outlets. Besides broadband, we have increased our stake in TV shop business from 50% to 82.87% in July 2016. Business is very close to achieving breakeven results in Q1.

As far as future is concerned, in terms of future outlook we are looking at an ARPU improvement on cable business of 7% to 10% in Phase-1 and 2 and 35% to 40% in Phase-3 from current level going to Q3 end. At this time, I would like to hand over to Manish to walk us through some of the important numbers, Manish.

Manish Dawar: Thank you very much, S. N. Ladies and gentlemen, once again. I am sure you would have gone through the presentation that we have circulated on quarter 1 performance.

Quarter 1 has been a good turnaround quarter for DEN. We have transitioned to IndAS from iGAAP with effect from 1st April 2016. You will not be able to see the previous quarter number as per IndAS since for this quarter we are only giving the previous year same quarter numbers. This will get normalized from next quarter. For the benefit of investors and analysts, we have therefore decided to give the comparative previous quarter and the current quarter numbers basis the iGAAP. This will help you to understand the business performance better. We would be discontinuing the iGAAP numbers from next quarter and we will be completely transitioning to IndAS. At the same time, the published numbers are only for the standalone entity because the consolidated numbers cannot be published without the auditor's review as you all know. Please note that all the consolidated numbers in the presentation are management results and the same have not been reviewed by the auditors.

Moving away from IndAS, we talked about the draft scheme for merger and demerger of 22 entities and demerger of broadband entity that has been approved by the board. As stated in the previous call, this is part of our corporate simplification exercise. The scheme will be filed with the respective courts very shortly.

Coming to the results, consolidated revenues in quarter 1 gone up by 14% on Y-o-Y basis from INR 236 crores to INR 269 crores. The collection efficiency continues to maintain a strong momentum during the quarter and stands at 94%. This is the first time you have noticed that we are sharing the numbers of collection efficiency and let me assure you that going forward we will continue to share the numbers of collection efficiency as well. The placement income declined on a Y-o-Y basis at Rs. 87 crores during the quarter versus 102 crores last year. This is mainly as a result of the net deals that we talked about in the past and as you know we have also talked about that we have entered into the net deals with 2 large broadcasters which had a significant impact on the carriage line. Similarly, the content cost also dropped from INR 121 crores in quarter 1 full year 2016 to INR 112 crores in the current quarter. We had initiated the cost optimization exercise for the company and you can see the results getting reflected in the current quarter numbers.

Revenues for broadband business stood at INR 18 crores in the current quarter compared to INR 5 crores in quarter 1 full year 16 primarily driven by subscriber additions. In addition to the increased revenue, we have been able to optimize OPEX as well through series of cost reduction measures which have yielded results in reducing operation and maintenance cost, marketing cost and bandwidth cost. As a result, the broadband EBITDA loss has narrowed down from INR 18 crores in quarter 1 full year 16 to INR Rs. 9 crores in quarter 1 full year 17.

On the TV shop business, the revenue has improved to INR 5 crores in the current quarter. Currently, the annualized GMVs on the run rate basis at about INR 110 crores, this is lower compared to the earlier quarters because we have shifted our focus to selling high margin items. As mentioned earlier, the focus going forward will move from GMV to achieving positive EBITDA and not to lose any cash on the business. Cost reduction and revenue mix measure have yielded the results in bringing down the EBITDA loss to INR 30 lakhs for this quarter compared to INR 4 crores in quarter 1 of financial year 16.

Moving to bottom-line, consolidated EBITDA post activation revenue stood at INR 44 crores during the quarter compared to negative INR 4 crores in quarter 1 financial year 16. Cable EBITDA post activation increased from INR 14 crores in quarter 1 financial year 16 to INR 53 crores this quarter while broadband EBITDA loss as mentioned earlier has narrowed down from 18 crores to 9 crores. Consolidated EBITDA during the quarter on pre activation basis stood at INR 8 crores versus a loss of INR 25 crores in quarter 1 last year. Cable business contributed a positive EBITDA of INR 17 crores as compared to a loss of INR 7 crores in quarter 1 last year.

You will notice that there is a significant shift in the profitability of the company versus a year ago. On a standalone basis also, EBITDA post activation has improved to INR 5 crores compared to a loss of INR 28 crores in quarter 1 of last year. With that, I would like to open the floor for questions and answers. We will take the question for about 45 minutes from now. I hope it is okay. Thanks a lot.

Moderator: Thank you. We will now begin with the question and answer session. We will take the first question from the line of Ashutosh Shirwaikar from Quantum Advisors. Please go ahead.

Ashutosh Shirwaikar: I just have one question. So I was going through your presentation, there I noticed that the number of subscribers under the current standards is different as compared to what it is under IndAS, I am not aware of this, can you just throw some clarity on this?

Manish Dawar: So as you know, as part of IndAS, basically there have been two impacts on us. One is that the activation income will be treated as a deferred income going forward and second is because of the controlled definition. We are not consolidating line by line 3 or 4 important subsidiaries, I would say, but as far as the bottom-line is concerned, they will come and get reflected in the bottom-line as associate enterprises. So that is the reason why there is a difference in the number of subscribers.

Moderator: Thank you. We will take the next question from the line of Rajiv Sharma from HSBC Mutual Fund. Please go ahead.

Rajiv Sharma: I just have one question for Mr. Sharma is this is regarding your big picture view of the Indian cable space, where do you see this space over the next couple of years and 5 years and I just wanted to understand it from a perspective of profitability, the ARPUs and what is your thought, you must be in discussion with the regulator on the new regime around content cost and so what is happening there, what we can see there and how things going to change, your thoughts will be very helpful. Thank you.

S. N. Sharma: Rajiv, you see to speak about 5 years about cable industry and to mention about figures as of now, one we are correcting to do at this forum that all the same I have already given a broader outlook how we are going to perform over the next 5 to 6 months. I just took the charge one and a half months back and I have already given the forecast that for Phase-3, the subscription level will be increased by 40% by quarter 3 ending and the subscription that we are collecting from LCO today in terms of revenue sharing will increase by around 10% as we end quarter 3 that is December end in Phase-1 and 2 markets. So Phase-1 market as I highlighted stands today at 97 and Phase-2 market stands at 71, that itself will be sufficient boost besides what upside we get from Phase-3 market. Now as far as TRAI is concerned, I have already highlighted that the recent changes, of course it takes time for implementation, understanding of the things and to make LCOs also understand the concept have already helped us in increasing our ARPU and based on that only, I have given this forecast and I am quite confident that such steps will further help us in boosting revenues from the ground. So this is just a beginning, it is too early, too premature to talk about regulator how he is going to behave or what all changes regulator has in mind. So net-net as we move along, we will be discussing all these things and we will definitely open up after what I have said today, it will be more fruitful if I share my thoughts after demonstrating what I have said today. Thank you.

Rajiv Sharma: Just one follow-up question here is basically on the consolidation of the industry, the cable TV industry, what are your thoughts there because I was in Bangalore some time back and I was speaking to some of the MSOs, they are saying that there is lot of cost savings which can happen if 5 of us pull together and become one. So is that something which is playing out between MSOs and what happens with the larger MSO level and with Reliance Jio launching finally the 4G and with the aspirations around the cable TV business, what happens to the consolidation aspect?

S. N. Sharma: You see as far as MSO space and cable space is concerned, a huge initiative has already been taken by us. We have started sharing the infrastructure with one of the MSOs and in terms of sharing the content, in terms of sharing the pipe, that is what normally happens in telcos also. So taking cue from that, we have already started the process. Besides that, definitely we will be bringing in more discipline as we see the regulator enforcing its regulation more strongly, that is also helping us improve our day-to-day operations in the field. Now when you talk about Jio coming in or 4Gs having impact, I have already mentioned that change is a continuous process and continuous upgradation is always needed from the existing players. We are open to such changes. This competition will bring us more opportunities to grow as well and we are sure that as far as video and RF business is concerned, we are quite safe in times to come.

Rajiv Sharma: That is very helpful and lastly, HD something where cable has been a complete absent and particularly in urban centers, this is something which has caused churn. I understand your strengths are in different markets which may not be metro centric, but even then do you think cable will have a big move towards HD or it will continue to stay away, you have a plan but nobody takes it up.

S. N. Sharma: Definitely as I said that, there are plans to move along with the wind and if we have to stay in the business, we cannot ignore the fact that demand for HD is also increasing and our cable partners are consciously aware of this demand and enough boxes are being brought in. In times to come, we will be sharing the figures also to meet these demands. So you will see it happening unfolding over next few months.

Rajiv Sharma: But at the content level, is it profitable with what broadcasters ask for HD content and what you are able to charge or may not be able to charge because that has been the big reason for why you have not been able to pursue it?

S. N. Sharma: That is not the real reason, let me be very frank and honest with you. We have clear visibility as far as our content cost is concerned for next 2 years for at least 18 months when we are talking now. So in that even HD part of the game is also covered substantially, so as far as that portion is concerned, that is not a real concern. The real concern is the drive that has to start from the LCO from the ground level from the subscribers demand level. So as it grows, we are definitely in a position to meet all these demands and we will fulfill the market with whatsoever is demanded from the ground level.

Moderator: Thank you. We will take the next question from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Two questions. Sir I missed the opening, we have closed the investment from Goldman Sachs, is it, 150 crores?

Manish Dawar: Vikas, the board has cleared it and we will be signing the investment agreement shortly and then thereafter whatever regulatory approvals in terms of AGM and everything, whatever is required to be done, other statutory approvals, we will go through that process and that is where we will receive the money. So on the negotiations, all the pricing, number of shares, stakes, all of that is kind of done, agreed, closed.

Vikas Mantri: That is helpful. On the number side, sir I was just looking at there is a difference in how your standalone content cost has behaved and your consolidated content cost has behaved while your consolidation has gone down, your standalone has grown significantly. How do I understand this?

Manish Dawar: Vikas, look standalone is not a measure in terms of directionally what is happening because we have a lot of centralized deals on content thereby let us say the deal is with DEN or as a ListCo and therefore in turn the billing is raised to the JV companies as seeder charges, so therefore you will see that there is a higher content cost and then you will also see that there is higher other income also. So the right reflection is basically to look at the consolidated results that will give you the true picture.

Moderator: Thank you. We will take the next question from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta: Sir I have a couple of questions. You are suggesting we have almost clear visibility about our content cost, sir can you help us understand how one would look net content cost per subscriber basis? How it will behave for us? Second question is about can you help us understand difference between IndAS and iGAAP little bit more in detail because I missed your brief comment, so if you can help us how it will impact major headline item kind of thing?

Manish Dawar: The way we look at it as far as your first question is concerned, we look at content and placement together and therefore what is the net impact on us on a per subscriber basis. So you would have seen let us say quarter 1 numbers that we have already given on consolidated basis if you were to look at, the net basis between content and placement, it comes to about Rs. 15- Rs. 16 per subscriber, I am talking about including Phase-3 numbers on an overall average basis. So more or less, I would say that it will be around that number going up to about Rs. 20 towards the year end. So that is a kind of ballpark, it is not going to be changing very dramatically as Mr. Sharma has mentioned before that we have a clear visibility on the content cost for the next 1-1/2 to 2 years. Coming to your second question on IndAS and iGAAP, so basically for us there are two adjustments that have taken place, I mean two, I would say significant ones, there are small ones which are neither here nor there. So one is the activation income is being treated as a deferred revenue item and therefore whatever activation income we get upfront, earlier we used to book it straight into the P&L, now it is being deferred over a period of 4 years and similarly we are getting some credits from the past because there has been change in the past accounting as well and therefore on a balance if you were to look at the current quarter, more or less the number is the same and the other change is as a result of new control definition in IndAS, we are not able to consolidate a few subsidiaries on a line-to-line basis, but the numbers will get reflected in the bottom-line as associate enterprises. So those are the two big changes for us.

Moderator: We will take the next question from the line of Vivekanad S from Ambit Capital. Please go ahead.

Vivekanad S: So one pertains to the cable business profitability. I understand that a lot of fixed costs pertaining to Phase-3 are already being expensed in your P&L and also on the content side, you have secured visibility for the next 2 years. So as per your projections, how profitable on a per subscriber basis can the cable business become given that you have already started becoming profitable on an operational front that is number one and secondly, Mr. Sharma you mentioned about some of the infrastructure sharing deals that you have entered into, can you elaborate on how profitability can shape because of this and also your any possible savings on CAPEX?

Manish Dawar: Thanks, Vivek. Vivek, I will answer your first question and then Mr. Sharma will answer the second one. So first question basically you are saying, obviously we are not giving any guidance at this stage in terms of the profitability of the cable business, but what we have done, I do not know whether you have noticed that in the presentation or not, we started to disclose our DAS-1 and DAS-2 profitability. So our quarter 1 DAS-1, DAS-2 profitability stands at 22% which is actual for quarter one. So you know the ARPU numbers and therefore you can derive the numbers that you are looking for and we think that this profitability, I am talking about DAS-1 and 2 have still got room to grow and at the same time, DAS-3 currently is negative for us as we are bringing the monetization up and once we achieve the numbers as laid down earlier, we will be profitable in DAS-3 as well.

Vivekanad S: Sir just one small follow-up here. So you mentioned about profitability in DAS-1 and 2, this is something you mentioned, it is there in the presentation, is it?

Manish Dawar: Yes, it is there. If you were to look at the cable segmental highlight which is slide 3, it is there. So, Mr. Sharma will answer your second question Vivek.

S. N. Sharma: Vivek, as far as infrastructure is concerned, it is just 1-1/2 months back I joined as I mentioned and two steps, major steps that we have taken as of now is you see this cable has a plus point in terms of localized content. Another MSO who was collecting lot of regional content, localized content in terms of live shows, in terms of live artis and poojas from holy places like Gurudwaras, temples and other places of interest and that content is being shared with us. As of now, it is being picked up from I would say around 12 different locations in India and we have also started extending that content in our network, that is one. Second, we have started sharing our pipe, our bandwidth, our capacity to deliver the signal into different towns. So we have exchanged certain pipes and obviously you will appreciate both the things that we finally tried to do on our own definitely would have involved lot of expense on either of us. So that is just two initiatives to pronounce at this forum at this stage and as we move forward, definitely more such initiatives are in store.

Vivekanad S: Alright, this was helpful. Thanks sir, I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta: Sorry to repeat the question, I think somehow my line got dropped, so can you help me understand the content cost, how we expect per subscriber basis moving for us?

Manish Dawar: Deepesh, I think you asked this question earlier right, so let me repeat that. So basically you had two questions and correct me if I am wrong. One was you wanted to understand how is that we are getting impacted because of IndAS and what are the key differentials between iGAAP and IndAS for them and second one was how do we look at the content cost going forward, is that correct?

Deepesh Mehta: That is right sir.

Manish Dawar: Fine. So let me first take IndAS and iGAAP thing and I am sorry for others because I will be repeating myself. So on account of IndAS, we have got impacted majorily on 2 items apart from the small ones in terms of how the interest has to be accounted, how the ESOPs or stock pension provisions had to be done, so those are very small items. So predominantly two items, one is activation income, so activation income going forward will be treated as a deferred revenue and as far as we are concerned, we have decided and we are aligned with the auditors to charge the deferred income on account of activation over a period of 4 years. Earlier, it used to be accounted for at the time of receipt in the P&L and because this change is happening, there have been some past credits because the change is happening from the retrospective effect because you will have to see as to what all unexpired activation income is there for the last 4 years. So all of that will gradually start to come in as credit. So as far as the current quarter is concerned, there is not a big impact because of this change. It is probably a couple of crores here and there. As far as the content cost is concerned, I think just to kind of let you know the way we look at content is basically content net of placement. So if you were to look at content net of places, placement on a total universe basis is currently at about Rs. 15 per subscriber and therefore we expect to remain that in the range bound. So it will move from about Rs. 15 to Rs. 20- Rs. 22 odd. So that is what you can look at by the time we exit the year.

Deepesh Mehta: Okay and sir can you help me with the CAPEX plan for FY17?

Manish Dawar: So if you were to look at cash CAPEX in the first quarter was 16 crores for us, out of which 12 crores was cable and 2 crores was broadband, I am talking about cash, so you need to notice that because for example the boxes that we have seeded, we had that seeded and it is kind of getting accounted from there. So going forward in the next 3 quarters, we do not see cash CAPEX to go beyond 25 to 30 crores.

Deepesh Mehta: All put together or per quarter?

Manish Dawar: No, all put together.

Deepesh Mehta: 25 crores include your broabdand plan as well?

Manish Dawar: Yes. Broadband as I mentioned in the earlier call that we are no longer doing it further homes pass. We are only trying to convert whatever homes pass we have into connected subscribers, so that is the plan that we have for the remainder of the year. Once we get the Goldman money that we have announced today because that will also take a couple of months. So we will go back to drawing board, revalidate those plans and then come back to you guys with a detailed plan. So as of now the plans that I am talking about are basis the current business.

Deepesh Mehta: (+8) lakh broad home pass what we have, we will focus to monetize those home pass rather than spending money on additional home pass.

Manish Dawar: Absolutely. So we are doing home pass wherever some filling requirements are required to be done. So you can say it will be range bound between let us say 800,000 to max a million.

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

Alankar Garude: Couple of questions from my end. Sir firstly when do we see our broadband business breakeven. This is after considering like we get money from Goldman and deploy it in broadband, so do you have any specific threshold subscriber level in mind?

Manish Dawar: So broadband as I have said, we are moving very well. There is a significant demand of broadband in the market. I think we talked about the data consumption which is happening on the pipe on a per home basis or per connection basis that we have which is very healthy. In the current quarter, we are at about 9 crores negative for the quarter. As we discussed, we are at a run rate of less than a crore a month and so we are expecting broadband to breakeven positively in the next quarter. So therefore the drain which was there on broadband business from cash perspective that will also stop.

Alankar Garude: Secondly, S. N. sir mentioned about 40% improvement in Phase-3 realization happening in next 2-3 quarters, now how important will be the contribution from Uttar Pradesh in this?

S. N. Sharma: You see, I am talking of the entire universe. Every pie of the universe is equally important and if I am talking about this 30%-40% hike, 35%-40% increase in the revenues that is after considering Uttar Pradesh, Bihar, Jharkhand all across the country.

Alankar Garude: So broadly that 35%-40% increase would be spread across various regions.

S. N. Sharma: Where so ever we have, that includes Uttar Pradesh also. It is not that I am going to ride on Rajasthan to cover Uttar Pradesh expenses. Uttar Pradesh has to be on its own.

Moderator: Thank you. We take the next question from the line of Rahul Agarwal, an individual investor. Please go ahead.

Rahul Agarwal: I work with Easy Investments. Just two questions. First question on the cost cutting side, so on the cable side you have done about 15 crores of betterment, wanted to understand on a yearly basis is that like what number should we look at on a sustainable basis. Do you have a target in mind that 50 crores is what we expect in terms of OPEX reduction for the year as a whole and then that should sustain or is this 15 will continue quarter-on-quarter and you have something more to that?

Manish Dawar: Rahul, we have a target in mind to be honest and we are working towards that, but we have not disclosed that target. But needless to say whatever is the current run rate typically as you have seen in quarter 4, the OPEX is a little higher for us because of some true ups with JVs and those kind of things, but as a percentage to the base number, you can take it as that the saving will continue. At some point in time, we will be looking because you need to look at the OPEX and the payroll together. So basically that is what we are looking at, but at some point in time, we will be revisiting some of our partner payouts, incentives and all that, but we will disclose that in time for you guys.

Rahul Agarwal: So as of now you are saying the 15 crore run rate is basically continuous?

Manish Dawar: Yes.

Rahul Agarwal: And secondly if I look at your balance sheet, you have about 250 crores of free cash and I am removing the margin and everything else separately and of course you mentioned on TV that you want to repay some debt out of this 140 crores of Goldman money. I was trying to understand the rationale here because earlier question you answered that the CAPEX for broadband was hardly anything for next 9-12 months. So essentially where do you spend this money, 140 plus 250 your balance sheet that is almost about 400 crores.

Manish Dawar: So very clearly Rahul, for example I said before, I do not know whether you have been there in the previous calls or not. On broadband, we wanted to establish the model before we actually looked at expanding the broadband to other cities and that we are almost on the verge of completing that because we wanted to ensure that the Delhi market where we are, if you look at the number of subscribers that we have, more than 95% of those subscribers are in Delhi market. So we wanted to establish that we are able to breakeven, we are able to drive the consumption with the consumers, so all that has happened in a way and that is the reason we are raising more money and we will share the broadband plans with you may be in the next call.

Rahul Agarwal: So essentially as of now it is a stop, but broadly speaking this money essentially going to spend on broadband post you basically form your final plans on this segment, right?

Manish Dawar: Yes, mainly for broadband I would say.

Rahul Agarwal: And for the debt repayment, any number you would like to give?

Manish Dawar: We have for example in the current year, we are supposed to repay little over 300 crores as debt, I am talking about 16-17.

Rahul Agarwal: Of that, I think that is refinance or pure repayment because you did about 130 of repayment this quarter as well.

Manish Dawar: So I am talking about repayment purely and quarter 3 and quarter 4 numbers are more heavy than quarter 1 and quarter 2. So therefore we are preparing ourselves for that as well.

Rahul Agarwal: So 300 is a gross number. Out of that, 130 is done and balance has to be done. Is that correct?

Manish Dawar: No, if you see let us say the current schedule of debt, there is a 132 and then there is raised also 89 crores because wherever let us say we have some buyers credit and all that gets converted into term loans, so therefore it kind of gets accounted for both. If you were to look at the net repayment, it will be 132-89, so about 40-45 odd crores.

Rahul Agarwal: That is for the 1Q right?

Manish Dawar: First quarter, correct.

Rahul Agarwal: I understand. What I am saying is for fiscal 17 as a whole, your net repayment would be about to the tune of 300 crores is what you mentioned right?

Manish Dawar: I am talking about net which is the equivalent of 40-45 number.

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

Rohit Dokania: Just a few questions from my side and sir welcome back. It would be great if you could speak about your top 2-3 priorities after coming back and also what do you feel in terms of what DEN is today versus the time when you left it, is it in better shape, your comments would be highly appreciable.

S. N. Sharma: The top most priority in this world today is monetization and nothing else and basically I have interacted with the trade in 15 days, I interacted in a very open forum with trade partners with LCOs whom I have worked in the past also and this initiative was also done for the first time, in a very open manner we transparently discussed where we are today, what technologies are likely to come and what likely effects that they are going to have if we do not discipline ourselves, if we do not tighten our belts and if we do not start working properly and even I was surprised that the response was quite warm and they were all very enthusiastic and they all increased my confidence that they are sort of now changing with time, I have been with them, I have spent good 20 years in the trade, I know their pulse, I have been associated closely on the ground, but I could see lot of change in their attitude. They were quite receptive, they knew what is happening in around them, they are quite meaningful businessmen to an extent they were okay in terms of increasing the revenue share and that is the result that within 15-20 days, I could see increase in collections and revenue in Delhi market itself. Now it is spreading out widely in Uttar Pradesh, in West Bengal and other areas also because drive gets started from national capital, in the past also it has been so and I am seeing the same trend now also. Now next month again like if 20% of daily accepted our call for increase of revenue sharing, the next month already have tasted around 40% of them coming forward. Put together, roughly 50%-60% has already accepted this drive to increase revenue sharing. So that is how based on that performance, that has given me strength this interaction with the trade from different states. Now I increased my interaction to other states also and all the meaningful serious cable operators and cable players who are going to be there in times to come and including the independent ones, they are all talking very healthy and positive about increasing in revenues from the ground. So that is why I said monetization, monetization, monetization. This is all can be clubbed with the other steps that I am taking of bringing in discipline, sharing of infrastructures with other MSOs which has never happened in the past, implementing regulations to the utmost 100% compliance without fail, without hiding yourself you should be able to face regulator that also is helping us out. I will give you a small example, I do not know I might be wasting time of others, but I switched off town for sake of non-availability of LCO agreements, 40% of the town in Bihar was switched off, I got calls and of course after serving them notice as per regulations, as per regulator and it took us 3-4 days to get that LCO agreement signed as far as SIA prescribed by the regulator. You will be surprised that all of them finally signed and we did not lose any LCO, we did not lose any subscriber all this way. So that is why I am quite confident, I am happy to see these changes, I am happy to see the cable community at large getting aligned with all these basic fundamentals that are needed to drive the business in a positive manner.

Rohit Dokania: So that is great. Sir could you also talk about what kind of average revenue shares that you are seeing with the LCO in most of your SIAs and contracts?

S. N. Sharma: As far as regulator is concerned, it prescribed 35% revenue sharing and practically all the MSOs are around that level only. As we move ahead as I already given the forecast of increasing, you will see it definitely moving towards 45%-50% in times to come.

Rohit Dokania: Sure, this you are talking of your share right?

S. N. Sharma: That 35% is prescribed for LCO and 65 should come to MSO. Today all the MSOs stand on the reverse side of it. That is the irony and that is a fact also. I should not hide anything, but you will see the upswing taking place with the projections that has already highlighted and month-on-month, I have already started seeing, we are talking of Q1. The figures of Q2 have already started prickling in and that is giving me confidence that every month there will be overall increase of small-small pieces. So I will be touching the figures that I am talking about.

Rohit Dokania: And also S. N., if you remember the regulator is undergoing the whole content cost nondiscriminatory piece exercise, so is there any update on that if you are aware of?

S. N. Sharma: That is for the regulator, we all are keeping our fingers crossed and everybody is on toss to understand how it all going to unfold and I am sure there are certain good things for MSOs that is what the indications are.

Rohit Dokania: And sir any timelines on that if you are aware just in case.

S. N. Sharma: No, I cannot say maybe by the time call ends, you may say they are on the screen but I really cannot say.

Rohit Dokania: Sure, I appreciate that. Just one or two quick questions for Manish. Manish, could you please talk about the number of subscribers that you have taken in the denominator in Phase-3 to calculate Rs. 32 average ARPU?

Manish Dawar: We have taken about 4.1 million subs Rohit.

Rohit Dokania: And the last with also when you talk about the content cost touching about Rs. 20 net, again what is the subscriber base that you are looking at when you are calculating that number?

Manish Dawar: So Phase-1, 2, 3 put together, little over 8 million.

Moderator: Thank you. We take the next question from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sharmaji, I understand that this could be early days for broadband to ask this kind of a question, but your experience as a wireline person could really help us. Out of 8 lakhs home pass of broadband, you say that you have some one lakh something customers, so my first question is would this 8 lakh be only your DEN cable TV customers and like if I take 1 lakh out of 8 lakhs, that means we are currently at less than 10% penetration. So all the current competition that we have from the small ISPs, Airtel, MTNL etc., what do you think at best could your penetration be in your own home pass like out of a particular neighborhood when you work out your plan, what is it that you look like what would you be happy at the penetration level?

S. N. Sharma: Good evening Gautami and as far as broadband business is concerned, my observation so far is that although we have upgraded the markets where we have majority stakes on the ground. Now out of the 100 connections that we have got in that market, 60 are our existing cable TV subscribers and 40 would go to non-DEN homes, it may be DTH also, it may be some other MSOs home also, that is part A. Now part B, as Manish just now mentioned that at current level, we are about to turn it around and breakeven is around the corner may be next month it will be so and that is at the level of 17% of penetration and as of now, I am quite happy to share another good observation that as of now our run rate is coming to close to 10,000 plus subscriber generation a month that is I would say much higher than even the other telcos in the town in wireless business. As far as wireline business is concerned, we will be happy to have a subscriber base of say 25% of the home pass upgraded so far in next 6 to 8 months' time.

Gautami Desai: Okay sir, out of 8 lakhs, we can say that like 2 and 2-1/2 lakhs kind of subscribers we can get in 6 months?

S. N. Sharma: Yes, 6 to 9 months.

Manish Dawar: Gautami, you can take about let us say 10,000 to 11,000 per month and you can extrapolate that.

Gautami Desai: Okay, but is a 50%-60% kind of penetration in a neighborhood possible, would it be ever possible like near future 3 years, 4 years, 5 years that is my question.

S. N. Sharma: You keep raising the bar, we will keep taking the leap as much as the bar is raised. Definitely if there is a demand, definitely we will be happy to touch but as I said when I have clocked 10,000 and I have already surpassed the leading most telcos of Delhi. So at this speed, definitely there is no ceiling to the upside, but 25%-30% is doable in the next one year's time and 50% let us see how the market unfolds.

Manish Dawar: Gautami, theoretically what you are saying is absolutely possible because the infrastructure is there, the capacity is there, the capability to service is there, so all of that is there. So theoretically yes, the consumer demand is there, the consumer experience is good, so you can reach those levels. But the reason why we are cautious and we are saying 25% to 30% because so far if you see let us say the international levels or let us say domestic wireline levels, we have not seen that kind of numbers crossed. That is the reason we do not know how it will unfold, but there is no reason also as to why it should not. So that is the reason we are probably a little cautious.

Moderator: Thank you. We take the next question from the line of Vivekanad S from Ambit Capital. Please go ahead.

Vivekanad S: Just a couple of questions, one with respect to what Rohit asked before on the revenue sharing between you and the LCO. So if I understand correctly, the industry has been experimenting with a simplified packaging structure since the beginning of the current fiscal. Any progress on that front and any ARPU implications due to that and revenue share implications that is one. And secondly, what I find is that the pay cost on a per subscriber basis and the broadband CAPEX on a per home pass basis, these numbers are fairly different for all the three listed MSOs. So can you help me understand the reasons for these differences, thanks.

S. N. Sharma: Vivekanad S, part 1, me, S. N. will respond and part 2 will be responded by Manish. Now as far as this revenue sharing, how it is being to increase, definitely you have got me on the right note and that is what I mentioned earlier also that I will perform, demonstrate and then talk about it because we keep talking and sometimes there are certain hiccups and I do not want to fail on any front but the plans are alongside as I have seen positivity in the minds of cable operators, in the minds of cable partners, we will be definitely implementing packaging in its true sense on the strength that SIA and MIA is giving me and very soon you will start hearing noise from the cable fraternity that we are implementing revenue sharing in true sense instead of in the manner that is being done today. I think that is what you were asking me about.

Vivekanad S: Yes sir, will this also give you visibility on what the consumer is paying right now or that will still take a long time.

S. N. Sharma: Yes, definitely we will be taking very bold initiatives to publicize our package prizes and the discussions are already on with the cable partners and majority of them are aligned. It is a matter of chance, I cannot comment whether it happens next month or next to next month but it is around the corner, it may happen in couple of months. The focus is over there because that is the way forward, but I would not like to comment in this forum today when do I do it, I will rather perform start getting numbers against it and then share with you it is done.

Vivekanad S: Sure, I understand sir.

Manish Dawar: Vivek on your other question in terms of broadband CAPEX, so I think you would have noticed that we started giving the CAPEX on home pass in per subscriber basis also which has not been done before and which is not being done by the other players in the market. So obviously I will not be able to comment in terms of what their numbers are but to answer your question, I guess as you know there are different technologies available and obviously different technologies because historically as I know one of the large competitors, they had LAN networks and those kind of things. Now LAN network obviously is a far lower CAPEX cost compared to a DOCSIS 3 versus GPON which is the latest technology which is available. So depending on who is using what kind of technology is probably I would take a guess, but let us say if you have some numbers that you can share on a one-to-one basis, I will be happy to comment on that.

Vivekanad S: Sure, okay and the numbers that you have specified are predominantly for the DOCSIS 3 rollouts that you have done, right?

Manish Dawar: Yes.

Vivekanad S: And on a related note, there is also significant difference in the content payout on a per subscriber basis that you are incurring versus competitor MSOs. So just wanted to understand the reasons for this distinction?

Manish Dawar: Vivek, if you were to ask my personal view, if you were to look at the numbers that I have talked to you about was on the basis of net of content and carriage right, but if you were to look at gross content and I am particularly talking about the large broadcasters. So let us say if you take Zee or Star and all, I do not think that deals with different MSOs are very different. So it will be pretty much in line, the advantage that we have because of our historical structural advantage of being in SSM markets, we get a higher placement compared to the competition and that is the reason probably our net cost is probably the lowest in the industry because I have also done some kind of benchmark, so obviously in this call we cannot talk about that but maybe we can share those details separately.

Moderator: Thank you, that was the last question. I now hand the conference over to the management for their closing comments.

Manish Dawar: Thank you very much all for participating in the call. We look forward to such calls in the future as well and if you want to have any clarifications, any further information requirements, please feel free to contact either SGA or our company secretary or investor relations. Thank you very much.

Moderator: Thank you. On behalf of DEN Networks Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.