

**“DEN Networks Limited Q3 FY17 Earnings  
Conference Call”**

**January 25, 2017**



**MANAGEMENT:**

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LIMITED**

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LIMITED**

**Moderator:** Ladies and Gentlemen, good day and welcome to DEN Networks Limited Q3 FY17 Earnings Conference Call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. S. N. Sharma – CEO of DEN Networks Limited. Thank you and over to you, Sir.

**S. N. Sharma:** Thank you so much. Welcome to all the analysts on the call and thanks for being part of Q3 FY17 Earning Call for DEN Networks. As you all know, Delhi High Court has finally disposed of all the digitization cases at hand. Government has notified January 31<sup>st</sup> as the final date for implementation of Phase-III digitalization. All the analogue signals in Phase-III areas will have to be mandatorily switched off by this date. Phase-IV digitalization has been extended to March 31, 2017. The draft tariff order from TRAI with respect to broadcasters and MSOs was challenged in Chennai High Court and a stay was granted. Supreme Court has intervened in the matter and TRAI is supposed to file the draft notification with Supreme Court before the same can be notified.

We have not seen any major impact on our cable business because of demonetization. Our focus on improving ARPUs and collections continued during the quarter and the collections have further gained momentum during Q3 versus Q2. TV shopping business has got impacted because of demonetization and we expect it will take some time before the business picks up, again because we are a smaller player in the space.

Cable subscription billing including taxes during the quarter stood at Rs 202 crores versus Rs 176 crores in the previous quarter reflecting an improvement of almost 15% quarter-on-quarter. ARPU including taxes for DAS-I, II, and III markets stood at Rs. 125, Rs. 95, and Rs. 62 per box, respectively. It used to be 113, 90, and 51, respectively in Quarter-2. Phase-III and IV ARPU has grown almost 40% to Rs. 62 from Rs. 45 in Q1. Please note that ARPUs are average for the quarter inclusive of taxes on per-box, per-month basis and includes the impact of associates. The above ARPUs are in line with the guidance given in the previous investor calls. Those who had attended this call will easily appreciate.

We have seeded close to 200K boxes in Quarter-3. With this addition, our digital base has gone up to 10.2 million boxes with strong presence of 5.2 million boxes in Phase-III and IV markets.

Coming to broadband business:

During the quarter, subscription revenue has been flat compared to previous quarter mainly due to the recent demonetization and of course free data plans being announced by telco players despite healthy addition of 20,000 subscribers. However, we had continued optimizing the costs, which had helped sustain breakeven of operations at EBITDA level since September 2016. Broadband subscriber base at the end of Quarter-3, 2016, was 159K. In the coming quarters, while expanding on the existing home pass locations, our focus will be to increase our footprints in towns where we have the existing cable infrastructure that will help optimize the margins and avail the first mover advantage.

On a consolidated basis, we have been able to achieve EBITDA pre-activation on year-to-date basis of 87 crores compared to an EBITDA loss of 102 crores in previous year. This complete turnaround was possible due to host of management actions including aggressive expansion in Phase-III areas, substantially increasing the cable subscription collections, optimization of cost, disposing of non-core business and turning around broadband business operations.

With this, I would like to hand over to Manish to walk us through some of important financial numbers.

**Manish Dawar:**

Good afternoon, Ladies and Gentleman. We have already circulated the presentation on our Q3 performance. As you are aware effective April 1, 2016, we have started reporting our financials as per IndAS, which is a new accounting standards, and therefore, all the SEBI and stock exchanges filings are happening on that basis, however, we continue to give the comparative previous quarters and the current quarter number basis the IGAAP as well, in that consolidated and standalone results have been reviewed by the auditors. Q3 financial results summary which I am about to share with you is basis business overview that is the IGAAP number. The IndAS numbers are also included in the presentation that we have already circulated on our Q3 performance.

Group consolidated revenues pre-activation in Quarter-3 were up on quarter-on-quarter basis from Rs. 287 crores to Rs. 303 crores. Cable subscription revenue at Rs. 172 crores during the quarter grew by almost 45% versus the same quarter a year ago and 15% on a quarter-on-quarter basis. The cable ARPU's net of taxes and LCO share for the quarter was Rs. 111, Rs. 81, and Rs. 53 per box, respectively for DAS-I, II, III, IV areas versus Rs. 95, Rs. 77, and Rs. 43, respectively for Quarter-2 and you would appreciate that we started to give these numbers in our presentation also because this has been a continuous ask from the investors as well as the analyst.

During the quarter, we have received equity funding of Rs. 142 crores from affiliates of Goldman Sachs. This equity infusion coupled with the operational turnaround have resulted in net debt reduction for the group from Rs. 441 crores in June 2016 to Rs. 353 crores in September 2016 and now the net debt for us stands at 183 crores in December 2016.

The cable subscription collection efficiency continues to remain healthy during the quarter at 95%. Revenues for broadband business stood at INR 21 crores during the current quarter

compared to INR 12 crores compared to the comparative previous year quarter. During the quarter, the revenues remained flat at 21 crores compared to previous quarter because of the reasons already elaborated by SN.

Operational efficiencies and rate reductions in large value contract negotiations have helped us to optimize the cost further to maintain the break even at EBITDA level for the full quarter despite the flat revenue compared to the previous quarter.

Compared to the Quarter-3 of previous year, the subscriber base has more than doubled to 159,000 from approximately 76,000 in the same quarter previous year. TV commerce business suffered a setback during the quarter largely owing to the demonetization and as you know this business is mainly on cash-on-delivery basis, and therefore, it has reported an EBITDA loss of Rs. 2 crores compared to break even which we achieved a quarter ago.

Consolidated EBITDA, therefore, has improved to Rs. 38 crores from a loss of Rs. 43 crores in the comparative quarter a year ago. The EBITDA has improved 13% compared to previous quarter, finance costs have gone up by Rs. 11 crores on quarter-on-quarter basis mainly due to foreign exchange loss that was booked during the quarter versus the gain in the previous quarter. Cable business EBITDA witnessed a robust growth of 16% in Quarter-3 versus the previous quarter.

On broadband business, we have been able to achieve a breakeven compared to Rs. 2 crores loss in the previous quarter. Consequent to the SEBI approval, we have already filed a scheme for de-merger of broadband entity with the court during the quarter.

With that, I would like to open the floor for Q&A, thanks a lot.

**Moderator:** Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Shankar Soni, an individual investor. Please go ahead.

**Shankar Soni:** We being one of the members of All India Digital Federation, why are members not invited in raising monthly bills and solving issues? If we do it unitedly, do not you think chances of LCO falling in line will happens as soon as possible. The other question is when can we expect PAT turning into profits and continuing profits?

**S. N. Sharma:** On the first part, about Digital Federation, let me tell everybody that before we started this drive of increasing our ARPUs and improvising the collections rate and efficiency, we did inform all the AIDCF members and it was a conscious decision, and we informed all that at these rates we are going to collect and this will be the trend and we expect others also to do so. Now the fact of the life is, yes, we have walked that path and have collected and delivered also. As far as why they have not moved along even I am surprised, but I have no comments to make on other's performance and working or the reasons why they have not done, so but definitely we have worked with a focused mind and going forward also, we will be working with the same spirit. As far as the second part is concerned, I would like Manish to answer.

- Shankar Soni:** When we can expect PAT turning into profit and continuing profits?
- Manish Dawar:** Shankar, as you know the depreciation is a large item in the P&L and as we continue to improve the collections, and hence, the EBITDA growth, obviously PAT will turn positive in the next couple of years.
- Moderator:** Thank you. We take the next question from the line of Ronak Shah from HDFC. Please go ahead.
- Ronak Shah:** Congratulations on a good set of numbers and the continued improvement in the cash collections, so I just want to understand, 173 crores of EBITDA post-activation year-on-year so far, how much of this has been flowing down in the cash flow from operations, so just how much is the working capital element here?
- Manish Dawar:** Ronak, if I were to break this up for you, the entire activation income is 100% cash. We collect the money first before the boxes are dispatched. At the same time, we started to disclose the collection efficiency on our subscription income also and currently we are at 95%, and therefore, you can easily assume that the entire EBITDA is basically cash converted.
- Ronak Shah:** Secondly, you made a point about obviously the depreciation expenses being quite high, I just wanted to understand I think you are following a five-year policy on the depreciation of STB's?
- Manish Dawar:** We are following the eight-year depreciation policy on STB's, which is in line with the industry.
- Ronak Shah:** How much is the maintenance CAPEX, actually it is 3 and historically on a per-year basis on a box which is seeded in the past?
- Manish Dawar:** If you look at the total capital that we have deployed so far, it is close to 2200 crores on a gross basis, Typically the CAPEX in cable is driven from the digitization point of view, Hence CAPEX to picks up whenever government drives the digitization process, and therefore, if you are to see spikes on CAPEX side has been linked to DAS Phase-I, Phase-II, Phase-III digitization happening.
- Ronak Shah:** How about if you look at where Phase-I was deployed, so Phase-I was deployed several years ago, if you look at that set of set-top boxes what is the maintenance CAPEX that got into that in the following years?
- Manish Dawar:** The maintenance CAPEX is very low, you can resume about 2% to 2.5%, otherwise, the box life is pretty good, we have good warranty periods, and hence it is not a big issue.
- Ronak Shah:** Understood, and just last question from my side, you mentioned you filed for the demerger of the broadband business, is there a plan to list this in the foreseeing future?

- Manish Dawar:** There are no plans as of now.
- Moderator:** Thank you. We take the next question from the line of Tushar Sarda from Athena Investment. Please go ahead.
- Tushar Sarda:** I wanted to know the breakup of your 10.2 million subscribers in various phases?
- Manish Dawar:** Tushar, 10.2 is a gross-seeded number. We have about 5 million in Phase-I and II put together. We have another 5.2 million in Phase-III and phase IV.
- Tushar Sarda:** How does the profitability and ARPU work? You have given the breakup of ARPU under various phases, so for Phase-III and IV, the realization is very low, so how do you make it profitable?
- Manish Dawar:** As you know Phase-III digitization date as Mr. Sharma said, the date has been extended to January, but despite that we have already broken even in Phase-III. Phase-IV is still a loss-making proposition because there the boxes have to be seeded and monetization will start to happen post digitization. Phase-I, we already touched the profitability level of almost (+30%) at EBITDA level and Phase-II is close to 20%. So therefore, as the phases mature, you start to collect more, and therefore, they become a profitable proposition.
- Tushar Sarda:** Phase-III also you expect that on maturity it will go to 30% kind of margins?
- Manish Dawar:** No, I am not giving any guidance on that. , but we to expect the company level profitability to reach that level in future.
- S. N. Sharma:** Let me further clarify that Phase-III, the general ARPU level at the ground also is overall all collection that operators are making with the subscriber is on a lower side vis-à-vis Phase-II and Phase-I subscribers.
- Tushar Sarda:** Your costs remain the same, the per-subscriber cost of the box that you seed?
- Manish Dawar:** Over a period of time, the box prices have been coming down, so let us say for example during Phase-I, when we were doing the digitization the landed box cost used to be almost Rs. 2200 to Rs. 2400 on a landed basis, which today is at about Rs. 1400 and we expect this to go down further by another at least 10%. Therefore, from that perspective the capital deployment is far more efficient in line with and at the same time as the phases mature, the content cost in Phase-III will be lower compared to Phase-I and Phase-II.
- Tushar Sarda:** The broadband subscribers, do you break them up also phase wise or just is it more in Phase-I or Phase-II or Phase-III?
- Manish Dawar:** Broadband roll out is in Delhi which is (+95%), there is a small network in Kanpur that we have, so basically we are in these two cities and as you know, we do not look at broadband roll out and profitability from phases perspective.

- Tushar Sarda:** In smaller terms, obviously the realization would be lower?
- Manish Dawar:** No, if at all our experience says that the smaller town realization is better than Delhi because the competition is far more intense in larger cities, metro and bigger towns, but in smaller towns, the data need and the hunger is same and at the same time our ARPU's are in line with the existing players in these markets
- Tushar Sarda:** What are your costs in the broadband, do you need to pay for data?
- Manish Dawar:** Yes, we hire lease lines and bandwidth lines, and therefore, we pay for that.
- Tushar Sarda:** What will be the variable cost or the cost of that, like you have content cost?
- Manish Dawar:** Our bandwidth cost as a percentage of revenue will be about 12-13%.
- Moderator:** Thank you. We take the next question from the line of Kaustav Bubna from SKS Capital and Research. Please go ahead.
- Kaustav Bubna:** Just wanted to know, first on DAS-IV, how does it look like from here on, how long do you think it will take for monetization to start and how is the scenario different from DAS-III, could you talk a little bit about that first?
- S. N. Sharma:** Phase-IV the switch off is likely to happen post March 2017 and effectively looking at the geography and terrain that is involved, I would say that effectively the whole sunset would happen somewhere close to April or May in realistic terms, so if they give couple of months post that and then the real drive and momentum will be given for collections and realization, but nevertheless, we have not stopped. As we said that Phase-III, we started collecting though the sunset is yet to happen and we really were able to succeed in switching off the majority of our towns where we had seeded the boxes from analogue signal and to collect some revenue and are already clocking somewhere close to 62. Similarly, in Phase-IV, we have ended with around Rs. 40 ARPU in December, so going forward my effort would be to take it up marginally to the level possible and once the sunset happens realistically in rural area in April-May depending upon how the various stake holders play the game, we should be able to take it upwards from thereon in realistic manner.
- Kaustav Bubna:** Let us say since you understand the industry, vision of yours by FY20, how much do you think Phase-IV could contribute to total subscribers and what could EBITDA contribution likely be in terms of like just a vague estimate like what could margins be in such a phase?
- S. N. Sharma:** Overall, as of now our subscriber base is 13 million. We have already seeded 10.2 million, so another 3 million will get seeded in next six months or eight months' period. Your question is what kind of collection we will able to realize, that is what you asked?
- Kaustav Bubna:** Yes, what kind of collections will you able to realize and hence what would be the possible EBITDA contribution from such a phase looking at ground reality?

- S. N. Sharma:** As far as Phase-IV towns are concerned to be sharing the ground realities with you, let me tell you majority of towns operate at 30-60 channels as of now when we are talking and transformation to better TVs are yet to happen in that area. Phase-III, alright, transformation of TV sets has happened and number of channels have also grown. I visualize that in next 10 months' time we should be able to clock Rs. 75 from Phase-IV. That will be post April-May once the sunset starts happening.
- Kaustav Bubna:** What is the loss in this right now, EBITDA loss?
- Manish Dawar:** Phase IV EBITDA loss is there because the collections are low, content is still going and the OPEX is there, we expect at the Collections levels that Mr. Sharma has indicated Rs. 75, we will be turning profitable in Phase-IV also.
- Kaustav Bubna:** A question on the broadband business now, I understand that you know Jio services' free right now is causing havoc everywhere, but I mean when do you think the law will not allow the service to be free anymore and how do you see competition spreading so fast into 15 to 20 locations in the next six to eight months, how confident are you on expansion on this front, if you could share a little bit of your thoughts?
- S. N. Sharma:** As far as law and regulation is concerned, I will not like to make any comment over here in this platform. As far as we are concerned, I think you will appreciate that broadband business is a business of experience. Manish just now mentioned to you that there are cities where we are fully aware of the desire and hunger and need of broadband services is there and there are hardly any player or there is just BSNL in some cases. To meet those demands and to catch up with the requirement of subscriber where we have our good strong cable infrastructure, when I say strong cable infrastructure, I mean to say that the fiber is just 300 meters away from the household that is the up-gradation level that we have already achieved in these towns and desires being same, ARPU level we visualize will be around 800 to 900 easily, as of now, they are at Rs. 1000 or Rs. 1200 that was what BSNL is collecting.
- Kaustav Bubna:** Your ARPU for broadband is around 725?
- S. N. Sharma:** That is in Delhi, but in the smaller cities I am talking where there is no player. In Delhi, there are 10 players competing with each other. All the major metros have multiple players whereas in the smaller cities, there is hardly any player and the demand is equally good, so these are the towns that we will be exploring in next eight to nine months.
- Manish Dawar:** First of all our current ARPU is Rs. 752, not Rs.725.
- Kaustav Bubna:** What is your penetration level now in Delhi?
- Manish Dawar:** On a cohort basis, 21%.
- Kaustav Bubna:** This month how much percentage points would you have grown compared to December, if I could get a sense?



- Manish Dawar:** Are you talking about January?
- Kaustav Bubna:** Yes, January?
- Manish Dawar:** We are discussing Q3 results and we will not be able to discuss the January numbers.
- Kaustav Bubna:** But you see no problem over there for the next?
- Manish Dawar:** As we have also disclosed in our numbers, we have added almost 20,000 subscribers in Quarter-3 despite the competition and demonetization and as Mr. Sharma has explained, broadband is a matter of customer experience, we did face some more than usual churn and suspension in November, December period, but the customers have started to come back now. When we call up the consumers can we collect the equipment, the answer has been predominately No. The standard response is that give me some more time and I will take a decision. Obviously as the mobile network gets filled in more, the customer experience that is possible on a wired line will not be the same on the mobile platform.
- Moderator:** Thank you. We take the next question from the line of Bhaskar Chaudhary from Entrust Group. Please go ahead.
- Bhaskar Chaudhary:** Just a quick question on the broadband, you said demerger, what legal from will the demerger take?
- Manish Dawar:** It is going to be 100% subsidiary owned by the listed co.
- Moderator:** Thank you. We take the next question from the line of Rajiv Berlia from Edelweiss. Please go ahead.
- Rajiv Berlia:** Just some bookkeeping question, what is the ARPU excluding taxes?
- Manish Dawar:** Rajiv, it is there in the presentation also, I do not know whether you have seen that, but ARPU excluding taxes, I can repeat the numbers for you, it is Rs. 111 for Phase-I, Rs. 81 for Phase-II and Rs. 53 for Phase-III.
- Rajiv Berlia:** Sir, on a steady state level what will be ARPUs in Phase-I and Phase-II markets like you are expecting around 7-10% kind of a growth, so that is still achievable?
- Manish Dawar:** From where are you getting this 7-10% number?
- Rajiv Berlia:** In the last quarter, you had mentioned that the Phase-I ARPUs will be growing at around 7-10%.
- Manish Dawar:** Compared to what we have mentioned on the call, we have already grown by 14% in Phase-I, this was mentioned in the first call of Mr. Sharma and from that level, we have improved by

almost 14% in Phase-I, and if you see the call that we talked about the guidance on 125, 75, and 50, and we have crossed all those numbers.

**Rajiv Berlia:** Sir, on the market wise, can you discuss on which markets are doing well for you and what is the contribution from like UP markets and are you seeing some ARPUs increasing on those, are the ARPUs coming in from some market or it is broad based across all the markets?

**Manish Dawar:** Rajiv, it is broad based across all the markets and UP which used to be a problem area has also improved and Mr. Sharma will talk about UP.

**S. N. Sharma:** There is only segment that is stuck because of some high court intervention. There the entire state is of rating at a lower ARPU, otherwise, we did face many litigations in UP, lot of operators took us to courts TDSAT to when we went on our mission to increase the collections and increase the subscription, but nobody got any relief, thanks to the regulations, thanks to the transparency that regulator has established and we simply follow the rule book and that really helped us in achieving what we have achieved. Rather, I would say UP, when we talk of Phase-III is much ahead then other places. We exited the Q3 that is in December in UP at Rs. 75, so that itself shows around five months back everybody was asking me what about UP, there will be roadblock and all, that market is really working very positive to us and if I take you back slightly five to seven years back when DEN got started, this is going to be 10<sup>th</sup> year of DEN's existence, DEN took the initiative of going to UP with certain reason and clarity that our promoter had in mind, and that is paying off today. Otherwise, in normal course, states like UP nobody was venturing and nobody was going out and doing the networking that is the time we did establish our business over there and that is paying off very well. It has paid off in terms of viewership, TRP ratings, getting us good carriage from the broadcasters and is paying up in terms of subscription also.

**Moderator:** Thank you. We take the next question from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

**Ishpreet Kaur:** Just wanted to know what would be active subscriber base out of the 10.2 digital subscribers that we have?

**Manish Dawar:** 8.2 million.

**Ishpreet Kaur:** Which is were then subscription revenue what match when we take up the ARPUs that you have mentioned in the presentation?

**Manish Dawar:** Absolutely.

**Ishpreet Kaur:** If we could get the breakup of this 8.2 in Phase-I, Phase-II, Phase-III?

**Manish Dawar:** Phase-I and II will be about 3.7 million, and Phase-III will be about 3.9 million and Phase-IV will be about half a million.

- Ishpreet Kaur:** After how many days is it that we consider the subscribers inactive?
- Manish Dawar:** Anyone who has not paid us on the appointed day, if there is a delay, it is considered as inactive.
- Ishpreet Kaur:** That would be a month gap.
- Manish Dawar:** LCO's have not paid us on the appointed day, which means whatever is their subscription renewal date the box is considered as inactive. What you also need to understand that there would always be a floating base of consumer, for example, if there are school holidays, people tend to disconnect their connection for the time period if there are some religious holidays or something like that in UP people tend to suspend the connection for about a month or so, so therefore, all that gets accounted for as Inactive Box, This does not mean that those boxes have got deleted, but it could be in a temporarily suspension phase or temporary inactive state and those people may actually come back after a month or so, therefore, the numbers that I am sharing with you are the actual billed number i.e. the active boxes in the system as of a particular date
- S. N. Sharma:** That is why we are reporting a good efficiency in collections, 95% is the collection efficiency.
- Ishpreet Kaur:** How much would be your accumulated losses?
- Manish Dawar:** The total reserve & surplus will be about Rs 1000 crores, which includes obviously the share premium and other accounts, the accumulated losses are Rs 650 crs which is netted off in the total reserve number of Rs 1000 crores.
- Moderator:** Thank you. We take the next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani:** Just wanted to stick by your number that you said DEN subscriber base is 3.8 million out of the 5 million in Phase-I, Phase-II, so this difference continues to remains for some time now, what is the reason for this considering they are Phase-I and Phase-II?
- Manish Dawar:** Cable as you know, Mayur, is a very sticky business, so the churn levels which are typically there in telecom or broadband business are not there in cable, the consumers loyalty is high in cable business, What we lost in Phase-I and Phase-II, was right at the initial starting time of digitization, post that the churn rate have been very low in cable business
- S. N. Sharma:** Especially when the drive and momentum is on for better realization, we are ensuring that we do not compromise on our quality and service standards.
- Mayur Gathani:** My point is out of the 5 million subscriber base where you put the set-top boxes, 3.8 million have been paying you and they have been paying you consistently for over the last four-five quarters, I am asking about the balance 1.2 million or 1 million subscribers, why do not you

take them off your system or there are not there with you, or they are using some competition set-top box or DTH, what is it?

**Manish Dawar:** Mayur, we talk about these numbers from a gross boxes seeded perspective, because if you see the entire industry talks about in the same definition and this is how the TRAI also needs the information. We charge off the boxes by way of accelerated depreciation in our books.

**Mayur Gathani:** This accelerated depreciation would move in after 90 days?

**Manish Dawar:** It is part of depreciation.

**Mayur Gathani:** When would you do that, I mean after 90 days?

**Manish Dawar:** Yes, the boxes which are deleted in the system which is more than 90 days of inactivity

**Mayur Gathani:** You said UP was 75 exit in December, so this is including the tax or without tax?

**Manish Dawar:** Including tax, Phase-III numbers.

**Mayur Gathani:** What was it two quarters back, how has this improved?

**S. N. Sharma:** It used to be around Rs. (+/-40).

**Mayur Gathani:** So Rs. 35-40 has gone up to around Rs. 75.

**Moderator:** Thank you. We take the next question from the line of Rahul Agarwal from VEC Investment. Please go ahead.

**Rahul Agarwal:** Just one question, if I look in the time period past 12 months which we have spent, there were quite a few milestones which we wanted to achieve namely which we have also mentioned start of this call that you wanted to divest into non-core businesses, you had certain ARPU targets across phases into cable, you wanted to break even into the broadband business, which is already achieved, and if I look at the last thing which is cash burn across all segments separately, it looks like more or less they are all servicing their interest on a standalone business P&L basis. Now, going forward for next 12 months, just wanted to know if you can share certain targets like that for how will the businesses shape up over next 12 months since we have already achieved lot of things which were set as basic targets, so if you could help me understand across the business segments into cable, Phase-I, Phase-II, Phase-III is there any mindset in terms of fixing ARPU targets as well as broadband what happens next because now it is break even so in terms of growth where do you want to grow and how many sub-editions, which can actually see over next 12 months and lastly on the CAPEX side for both business separately since you are obviously getting money from Goldman Sachs has already put equity, on the CAPEX side how do you want to fund and what is the number like for the next 12 months basically?

**S. N. Sharma:**

You are making our life a bit tougher by making us commit in august presence, but I will not shy off. Let me tell you that honestly speaking I am waiting for ground situations to improvise that is my competing friends also start the collection drive in the same excite that we are doing, plus the DTH players which looks like have been affected by demonetization also start increasing their ARPUs a bit that will help me in further increasing our ARPUs, but nevertheless, the momentum has not been taken off, the drive is still on. I visualize Phase-III overall average to clock at 75 say after five months or so, and there is definitely headroom for Phase-II also going up from Rs. 95 to 100 to Rs. 105-110 in next five to six months. These are clear thoughts in my mind plus there will be some marginal upside in Phase-I collections also, which I will not like to quote any number but definitely, I am not stopping the momentum and the team is aggressively pitching for better realization month-on-month and that is as far as collection is concerned. Besides this, we also mentioned that OTT is another service that is around the corner, in a week's time you will see a formal announcement coming on that front plus next six months, I would say the focus and drive would be towards HD services and seeding of HD boxes. I am very keen in driving this whole HD service across our network and there will be quite good schemes that we plan to launch as we are very keen to collect some extra income for that service although our deals for HD services are sealed for next six to nine months, but still I will be able to make some extra money as far as HD is concerned.

Besides that, the other technology that we have started working is 4K. After having seeded the HD boxes, we definitely are aware that 4K is also around the corner and the box development is already in progress may be in next three to four months' time, I will be able to share further details on 4K and also definitely by middle of 2017, we will be trying to offer to our subscriber an open box that is the latest concept that has caught up in states that ensures better gaming facilities on the same box through internet and many other features that technology brings in to our life. As far as the overall movement in the year 2017, these are the few milestones that we would like to achieve. On broadband front, we intend to roll out in next eight to nine months around 20 cities as I mentioned just few minutes back, I clarified that we have huge intent to roll out in smaller towns where either there is nobody giving them the service or there is just BSNL who is providing and the demand level over there according to our reading and feedback is equally good as we have the demands in metro and ARPUs are going to be quite good in those towns with lower operational cost. I hope I have covered broadly all the aspects that you had enquired. On CAPEX, I would like Manish to add on to what I have said.

**Manish Dawar:**

Roughly speaking, I will talk about CAPEX in two buckets which is cable and broadband. As you know, on cable, we are left with about 2 to 2.5 million boxes to be seeded and the cash subsidy levels that we are currently operating on are about Rs. 200 to Rs. 250, so therefore, if we were to seed another 2.5 million boxes, we are talking about Rs 60 to 70 crores of Net cable CAPEX. On broadband side, our intention is to go to smaller towns and we are planning to open another 15-20 towns, Each town opening will cost us about a 1 crore to 1.5 crores and after that it will be a self-paying proposition. At the same time, we continue to drive Delhi penetration and we are currently doing a little less than 1% every month and for that we have to incur the CPE CAPEX this includes modems ,router and in home wiring

**Rahul Agarwal:** Just so sum it up, broadband you said 1 to 1.5 crores you have to multiply it by 20 cities, is that the number you are looking at, the number pending?

**Manish Dawar:** Yes, along with Delhi expansion.

**Rahul Agarwal:** Would you also have like some kind of rough number in terms of subscriber like home passes, any targets like that in to these 20 cities or is just like, have you specified that as well in your mind or how is it?

**Manish Dawar:** We are still working on those details.

**Rahul Agarwal:** Because that will entail a separate CAPEX apart from this 20-25 crores?

**Manish Dawar:** This is part of that. I have talked about one city 1 to 1.5 crores everything included.

**Rahul Agarwal:** That basically a 100 crores CAPEX program over next 12 months, is that fair?

**Manish Dawar:** That is fair.

**Rahul Agarwal:** That is all funded through the cash in the balance sheet?

**Manish Dawar:** We have the leverage also available because our net debt is one of the lowest in the industry.

**Rahul Agarwal:** So it is 180 crores of net debt basically goes up by 100 crores that is how you will fund it?

**Manish Dawar:** Yes.

**Moderator:** Thank you. We take the next question from the line of Shekar Singh from Excelsior Capital. Please go ahead.

**Shekar Singh:** My questions have been answered.

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

**Rohit Dokania:** One is if I look at your net content cost it appears to be about Rs. 12-13 odd on 8 million subscribers for the first nine months, so can you talk about how this would move in FY18 on a net basis per sub?

**Manish Dawar:** Rohit, FY18 is also a matter in terms of what and when will Phase-IV happen, but just to give you some broad brush numbers, currently, for example, the net of content & placement and those are the numbers you are talking about on a per subscriber basis, is about Rs 120 crores on a full year run rate. This 120, we expect will go to close to 200 crores on a net basis.

**Rohit Dokania:** This is for FY18?

**Manish Dawar:** That is right, yes.

**Rohit Dokania:** The other thing, I am sorry, but I am not able to understand this activation line item under the new IndAS accounting norm, while this quarter we had added about 200,000 boxes, the activation revenue has jumped up very sharply sequentially whereas my understanding was that we are trying to match revenues with the amortization of the boxes, so that should be a more linear item, could you please explain me that if you do not mind?

**Manish Dawar:** Rohit, what had happened in Quarter-1, if you remember we had talked about the activation revenue being spread over four years and auditors were still taking a **final** view In Quarter-2, I had said that we have finalized with the auditors what we had agreed with them was that we will spread over the activation revenue over eight years, As a result of that, therefore, Quarter-1 whatever was recognized was corrected on a YTD basis in Quarter-2, therefore, Quarter-2 actually looked substantially lower than the actual activations revenue. Quarter-3, now we continue to recognize at eight years, but at the same time what you also need to understand that the past activation revenue also had to be restated as per the accounting standards, so therefore, the current one is getting absorbed on the basis of eight years, at the same time, the past one which is unamortized will also get kind of recognized whatever is the required period in the current quarter so that is how it is kind of getting build up, We are also giving you the IGAAP number so that you are able to kind of compare and correlate the numbers in a better way on a quarter on quarter basis.

**Rohit Dokania:** The other thing was for S. N., if you can talk about, as you rightly pointed out that the competition is probably not as efficient in terms of collections yet so is there's a possibility if we continue to collect as much as we are collecting or slightly higher over the next two-three months whereas competition probably just does not do anything, the LCUs can they sort of come back and can they get back to the old ways of doing business and start to give you less saying that the competition is collecting less whereas you guys are at a higher price, something of that sort?

**S. N. Sharma:** I was jittery around three months back on that front, but all that is now history and I am least bothered if one LCO or two LCO go away, I am least concerned. I am not going to spoil my show, my game which you all are liking. I am getting good messages and compliments from all across, so I do not see much of dents will be caused because as I said besides collection, I am ensuring that I am giving them foolproof service, the quality of our box is really appreciated across the country and we are moving ahead with the time by focusing on seeding of HD boxes, developing 4K boxes, developing open boxes, moving with the time to ensure that all such things and of course our OTT that we are going to call DEN TV plus is just around the corner, may be a week away from the day that we are talking is already under trial, so I am not going to get deterred by this.

**Manish Dawar:** The journey itself to these numbers in the last six months has not been an easy one, from LCOs perspective, they have tried everything that was available. As Mr. Sharma mentioned they have gone to the courts, they have called us over, they have tried the competition, so it is not that

anybody will start to pay, if let us say they have the alternatives available or if they have not exhausted the alternatives.

**Rohit Dokania:** Sure, I understand that. Just one sort of related question to this, in your earlier comments that you made that you are hopeful that competition will also probably fall in line and DTH might increase prices, let us say just hypothetically if these two things were not to happen, is it fair to say that in FY18, net realization increases for us would be difficult to come by?

**S. N. Sharma:** All negatives in my life, you will have 5% upside, after all, I am not god also.

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

**Gautami Desai:** Manish, there is one question from my side, have you thought about kind of CAPEX and payback that HD could give us, I am sure you have to replace the box and what can you get in lieu of that?

**Manish Dawar:** Gautami, we are very clear that HD boxes will be paid for by the subscribers. We are not going to be subsidizing it and we are not going to be putting HD boxes at our cost.

**Moderator:** Thank you. We take the follow up next question from the line of Ronak Shah from HDFC. Please go ahead.

**Ronak Shah:** My question was what percentage is the current broadband subscriber base is also the cable customer of yours?

**Manish Dawar:** Let me answer it differently, Ronak, 40% of our broadband subscriber base is a non-DEN home, Even though we have rolled out the network in DEN areas, what we mean by Non DEN home is either our subscriber is with competing MSO or they could be a DTH Subscriber.

**Ronak Shah:** Are you starting to offer any time those bundling services between that kind of offering both cable and broadband?

**Manish Dawar:** There are no immediate plans, but it is an obvious question and therefore at some point in time, we will start doing it.

**Ronak Shah:** If you can kind of help us understand this because no one really does it in the industry from what I understand, how much more profitable will a bundle subscriber be assuming you do not offer any discounts for bundling?

**Manish Dawar:** As you know, broadband profitability is a case of how much penetration that we can achieve on our network, but assuming let us say for example if we are able to get say 25% penetration level, broadband business can give us about 35% EBITDA and cable numbers in any case you know, so therefore, it is a straight away edition.



- Ronak Shah:** Let me get back differently, I meant more on the OPEX front, will there be significant OPEX reduction for a customer which in both on a broadband and in cable network?
- Manish Dawar:** Not really, we are already optimizing the network maintenance costs on our broadband and cable business irrespective of bundling, and rest is in terms of for example collections and all that on the broadband side is mainly online, so it is not going to be, it is only from a customer convenience point of view, and therefore, as I told you that 40% of our consumers are non-DEN home so that will straight away add to the top line which will flow into the bottom line, so that is where a real leverage lies.
- Ronak Shah:** There is a previous question as well talking about your net debt which is currently at 118, you mentioned another 100 crores at CAPEX next year, so obviously there will also be cash flow from internal accruals coming in, so these numbers do not include any internally generated cash flow?
- Manish Dawar:** The Net Debt will be a combination of fresh capex, internal cable accruals and debt repayment.
- Ronak Shah:** Given the momentum you are seeing in cash collection, are you looking at being cash flow from operations positive in FY18, is that the trajectory, is that how we should think about it?
- Manish Dawar:** We are positive in the current quarter also.
- Moderator:** Thank you. We take the next follow up question from the line of Kaustav Bubna from SKS Capital and Research. Please go ahead.
- Kaustav Bubna:** Just wanted to know you were talking about rolling out 4K boxes in the future, this is more of a light question, nothing to do with financial or anything, just wanted to know, so no one is doing that right now and what is the potential of that and I am guessing companies like Hathway, etc. would also be getting into this if that is the case, could you talk a little bit about the future of 4K resolution in India in general?
- S. N. Sharma:** On HD front, the MSOs did not move with the time, we were all busy sorting out our business model and setting the thing right. We all stretched ourselves on seeding of boxes and suffered also. Now having realized that the subscription *hai to zingdagi hai*, so I also mentioned around six months back my focus will be on monetization, monetization. It is high time that we cater to requirement of our subscribers in cable network whose immediate requirement is HD, that is why our focus for the next three to six months will be to give them HD, they are willing to pay for better experience of HD services and as the content is likely to move towards 4K, definitely there will be demand and this time I do not want to miss on a single demand from a single of my subscriber to give them 4K services, that is why we are taking initiatives and ensuring, I do not know the game plan in the houses of my competition, I am sure they would also be pulling their teams to ensure that they do it in time before the customer goes away for sake of one service or other, that is the whole idea and concept of focusing on 4K.

- Kaustav Bubna:** Apart from online polls and surveys that are conducted, is there any metric that you guys can share or I can get from you all separately apart from this call where I can see or kind of compare quality of your broadband service compared to your competitors?
- S. N. Sharma:** There are two ways to go about it, one is you physically go around and meet our subscribers independent of ours. We can share some database and you go around, there are people who have done this who have gone around and met our LCO and cable operators have visited our subscriber that is one way of going about it. Other is you interact with me or any of my colleague in our broadband business and share our experience, whatsoever way you want to go about, you can deal with it.
- Moderator:** Thank you. We take the question from the line of Tushar Sarda from Athena Investment. Please go ahead.
- Tushar Sarda:** I wanted to know about this cost of HD box and what is the additional ARPU that you get because of that?
- Manish Dawar:** As I said, that we will not be incurring that cost, it will be paid for by the consumer and we will not be subsidizing that box also. In terms of the opportunity on subscription is concerned, it could be anywhere between Rs. 75 to Rs. 100 per month, for HD Services
- Tushar Sarda:** How much does the subscriber has to pay for the box?
- S. N. Sharma:** Box would be anywhere between 1500 to 2000, I would not like to disclose the scheme at this stage.
- Tushar Sarda:** How many HD subscribers do you have as of now?
- S. N. Sharma:** That is not a number worth mentioning.
- Manish Dawar:** It is very small as of now.
- Moderator:** Ladies and Gentleman that was the last question. I would now like to hand the conference over to the management of DEN Networks Limited for closing comments.
- Manish Dawar:** I would like to thank all the analysts and the investors who joined the call.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of DEN Networks Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.