



DISH TV INDIA LIMITED

3Q FY17 EARNINGS TELECONFERENCE
JANUARY 30, 2017, 5.30 P.M. INDIA TIME

Moderator: Ladies and gentlemen, good day and welcome to the Dish TV India Limited Q3 FY 2017 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Tarun Nanda from Dish TV India Limited. Thank you and over to you, sir!

Tarun Nanda: Good evening, ladies and gentlemen and thank you for joining us today. We are here to discuss the results of Dish TV India Limited for the quarter ended 31st December, 2016. To discuss the results and performance joining us today is Mr. Jawahar Goel -- the Chairman and Managing Director of Dish TV India Limited. We also have Mr. Arun Kapoor -- the Chief Executive Officer; and Mr. Rajeev Dalmia -- the Chief Financial Officer.

We will start with a brief statement from Mr. Goel and will then open the discussion for Question-and-Answer.

I would like to remind everybody that anything that we say during this call that refers to the outlook for the future is a forward-looking statement that must be taken in the context of the risks that we face.

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

Jawahar Goel: Good evening ladies and gentlemen and thank you for joining us today.

Dish TV added 204 thousand net subscribers during the third quarter of fiscal 2017 reaching a net subscriber base of 15.3 million at the end of the period.

While the fiscal third quarter, being the period of festivals, is generally the largest contributor to new subscriber additions during the year, it was not so this time. Demonetization impacted Dish TV's new subscriber additions with the company recording an estimated 8-10% lower subscriber adds during the quarter.

Limited cash supply made people defer their DTH recharges by a few days or weeks depending on the urgency of other basic necessities. Our subscription revenues during the quarter could have been higher by around 8% in a non-adverse scenario. Lower growth eventually resulted in lower average revenues per user as well.

Though demonetization has led to an initial distress, it also will result in certain structural changes that are going to benefit the economy in the long run. As far as our business is concerned, the effect has already started coming in. As online payment transactions, credit cards and a less-cash society become buzz words today, we are happy to note an increase in our online transacting subscriber base from 30% to around 38% with around 22 digital wallets and the like integrated with the company. Every online recharge transaction vis-à-vis EPRS based transaction implies savings on recharge commissions payable by us.

We believe that the negative impact of demonetization is only temporary and that with a strong subscriber growth rate, tight control on costs, reasonably steady free cash flows and a healthy balance sheet we should deliver sustainable growth.

Dish TV has already registered with 18 states for the Goods and Services Tax. The rollout of GST, a hopefully favorable license fee regime and a revenue conscious cable industry should only add to the strengths of Dish TV going forward.

With that, let me now open the floor for the Q&A session.

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

Vivekanand: Sir, just wanted to understand the ARPU trends for the quarter. First of all, can you share with us the key numbers, the revenue split, ARPU, and subscriber acquisition cost and churn?

Rajeev Dalmia: Subscriber acquisition cost is around Rs. 1,725; churn was 0.9%; and the split of revenue is Rs. 692 crores subscription revenue; around Rs. 3 crores lease rental; teleport is Rs. 6 crores; bandwidth Rs. 27 crore; advertisement Rs 12 crore; other operating income around Rs. 8 crores.

Vivekanand: Right. And what about ARPU, sir, is it 152?

Rajeev Dalmia: Yes, it is around Rs. 151, Rs. 152.

Vivekanand: Right. So, in the press release you have mentioned that there has been an impact due to customers deferring the recharges. Given that we must have seen almost the full month data for January. What are the trends like after demonetization especially in the fourth quarter?

Rajeev Dalmia: See, there is some improvement if I compare it with the month of December but still it is not normal. I would say, because the fourth quarter is not the best quarter but the trend is slightly sluggish but it is definitely better than the month of November and December.

Vivekanand: Okay. And sir, with regards to your operating cost structure, the programming cost seems to have seen a decline during the quarter. Just wanted to understand whether there is any one-off in this cost item or is this sustainable and if so, just wanted to understand what about the content deals that we were likely to see a renewal in September, where are we on that?

Jawahar Goel: The content is pending with the two broadcasters and obviously when the subscriber numbers were soft recharges were low so we pay based on the number of subscriber in case of a CPS deal. So, that is why our content cost was low. When subscriber numbers improve then the content cost will go up. With the new draft tariff order, which was about to be released by TRAI and now it is somehow stayed by the Chennai High Court, there is a limbo in the industry. Still, we are talking to the broadcaster for having a reasonable deal. So, we cannot discuss more about it because it is a slightly competitive information. We will let you know as and when the deal is complete.

Moderator: Thank you. Next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Just continuing with that content bit, so you did mention in the opening remarks that there was some bit of deferment for recharge by the consumers. So, the entire benefit is visible on the programming cost because almost a similar 7% to 8% decline if I adjust the activation revenue and ARPU as well. So, will this trend continue going ahead as well?

- Rajiv Dalmia: More or less it will be the same. Second factor is that there was no major sporting event in the third quarter wherein we need to pay more content cost which is of course reflected in the revenue also. So, either was missing in the third quarter. But otherwise, as we have said, the increase will be between 6% to 8% on a Y-o-Y basis.
- Ankur Periwal: Sure. The reason I highlighted this was if I go back in history there have been instances wherein there has been deferment in recharge ARPU by the consumer but at the same time content cost is slightly sticky that way which is very unlike what we are seeing in this quarter.
- Jawahar Goel: Yes, because earlier we had majority fixed fee deals, so there it was difficult to hold the cost. Now as you know, that we have moved mostly to the CPS deal so it moves in tandem but of course it all depends on when do we have a sporting content or any other sticky element in the contract. But this time, we had a positive correlation.
- Arun Kapoor: I just want to add. You see, on the revenue front, two things will happen one is deferment and the other is little bit of down trading also people from higher packs moving to lower packs. When this happens, we save on content costs there also. So, yes, we believe that what has happened in this quarter will be consistent in the coming quarter also, it is sustainable.
- Ankur Periwal: Sure, great. And lastly, if you can put some light on the digitization part Phase-III as well as Phase-IV, will be helpful. Thank you.
- Jawahar Goel: Well, Phase-IV I was just talking to an industry person that Phase-IV will be delayed for another three months to four months but the

boxes are not going even for cable industry. So, people are waiting demonetization has put the whole industry on standstill. And let us see after budget if there is a positive trigger.

Ankur Periwal: Sir, if I may squeeze in a follow-up, what is the incremental subscriber base left let us say, for Phase-III subscribers now, leave about Phase-IV?

Arun Kapoor: We really do not calculate that way. What we can say is that approximately 50% to 60% is coming the DTH way that has happened in DAS-III and will happen in DAS-IV even more so in DAS-IV but town-by-town we are not able to reveal at the moment.

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

Vikash Mantri: Sir, two questions. One is, can you help us with the timeline of the merger? What has been the development and any change in the timeline per say? And second, on the performance in this quarter if I were to do a peer comparison Airtel, that we have seen a flattish ARPU movement. So, what could be the possible reasons for these divergences in our performance and them? Is it because of their subscribers being in relatively markets which are less impacted? Can you help us understand that portion?

Arun Kapoor: Let me answer the second question first. You put it exactly correctly, 65% of our base resides in towns beyond the top towns and these are the towns where the impact of demonetization was felt the maximum both in terms of cash availability and banking solutions.

Rajeev Dalmia: Regarding merger, we will see the light of day in third quarter of next fiscal and it is as per our original plan only there is no delay.

Moderator: Thank you. Next question is from the line of Siddhartha Bera from Nomura Securities. Please go ahead.

Siddhartha Bera: Sir, first on the subscriber addition front in quarter three which you have mentioned like there has been an impact of around 8% to 10%. Sir, if I adjust the subscriber number by about 10%, the total subscriber addition in this quarter is still below our last few quarter's levels. So is this a right way to look at it or I mean, because you mentioned that quarter three is usually much stronger seasonally compared to the other quarters. So how should one look at it?

Arun Kapoor: This quarter which is normally supposed to be highest quarter because of the festive season we did 630. We did 650 in the second quarter. Now let me take you to Y-T-D for the first nine months of this year we have done approximately Rs. 1,980 versus Rs. 1,960 of last year. So, there are three data points, one on a Y-T-D basis, we are at par with last year. Second, we have about 25% to 26% share of the gross add of the industry. But going forward, the way things are trending for this full year we actually expect the industry to be lower than last year. Last year, the full industry was 11.3 million. This year, we expect it to be around 9.5 million. But the thing is that we are holding on to our share of 25%, 26% within this industry figure.

Siddhartha Bera: Okay, sir. Sir, 9.5 million is the total DTH industry subscriber additions you are talking about?

Arun Kapoor: Likely this year, 12 months.

Rajeev Dalmia: FY 2017.

Siddhartha Bera: Okay. Sir, second thing is in quarter four because Phase-III signals are getting switched off in January. Do we expect that that can give us a slight boost to our overall subscriber additions in quarter four?

Arun Kapoor: You see, if you look at Phase-III, and if you look at what TRAI reported a few months back, out of the 50 million odd subscribers residing in Phase-III 43 million had already been given boxes, this was four months, five months, six months. So, whether there is a revenue model for cable or not in certain markets that is debatable but box seeding has happened

Jawahar Goel: Yes, in the DAS-III analog signals still continue everywhere.

Siddhartha Bera: Okay. But they are not getting switched off after January?

Jawahar Goel: Well, this is up to the industry people who have to do it with the broadcaster as to take the lead and then they have to enforce.

Siddhartha Bera: Okay. Sir, last question is on the debt levels if you can help us because this year interest costs look slightly on the higher side. So, can you share what will be your total debt levels gross and net? And you have also highlighted that there has been slight increase in terms of credit given to the suppliers because of demonetization. Is there any impact from that also?

Rajeev Dalmia: The total debt is around Rs. 1,220 crores and net debt is Rs. 605 crores and it is Rs. 20 crores less than the last quarter and we hope

to maintain this level or maybe it will be down by Rs. 50 crore in the fourth quarter and there was no impact of preponing the payment of the small vendors due to demonetization. It had just temporary cash flow advancement.

Siddhartha Bera: But then, sir, compared to last quarter the net debt is down Rs. 20 crores but our interest cost is up from Rs. 55 crores to Rs. 59 crores, Rs. 4 crores there is an increase in interest cost, why is it different?

Rajeev Dalmia: That is primarily due to the provisioning made for license fee for the number and interests applied thereon at the rate of 12%.

Siddhartha Bera: Okay, understood. Sir, the second may I squeeze in the form of tax rate. The tax rates, what will be the right number to look at it in terms of annually because this quarter tax rate was about like 38% so...

Rajeev Dalmia: We will be paying around 34.5%. This 38% is due to some under provision in the second quarter.

Siddhartha Bera: Okay, sir. Annual number is 34.5% we should look at it?

Rajeev Dalmia: Yes.

Moderator: Thank you. Next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Sir, I have two questions. One, as you stated the down trading continued in this quarter as well. Last quarter you had stated 0.5 million subscribers which were down traded. So, any number you

want to give in this quarter? And if you can share what will be the total number of subscribers now sitting in the base pack?

Rajeev Dalmia: See, base pack still continues to be around 60%, 65%. It includes Zing; it includes 99 pack, family pack and all the packs which are below Rs. 300. We do not have the exact down trading number this time. But it moved much beyond the 0.5 million but we are coming back in the month of January, quite a few of them.

Naval Seth: And what was this number 60%, 65%, same period last year or last quarter?

Rajeev Dalmia: It was in the range of 60% to 65% but it was towards the lower end, now it is towards the higher end.

Naval Seth: Okay. As there is continued down trading in last nine months will this restrict your content cost increase for FY 2018 now? The guidance what earlier you had stated, can that get curtailed or we still stand by the earlier guidance?

Arun Kapoor: So, we had given an earlier guidance of 10% to 12%. Now, we believe that it will be around 6- 8%.

Rajeev Dalmia: For FY 2018, let us do some numbers, we are working on FY 2017 now. So maybe we come back. But yes, it will be in the mid-single digits for FY 2017 and around the same level in FY 2018 also.

Naval Seth: Okay. And is my understanding correct that this down trading will also restrict as you stated, this quarter also there were some impact of down trading with the lower content cost?

- Arun Kapoor: Yes, it was there. But as time is going it is getting restricted. Less and less people are down trading now because initially, there is always a deluge, now it is slowing down.
- Rajeev Dalmia: The intensity has gone down. There is no doubt about it.
- Naval Seth: And any update on, sir, HD because our promotions are also focused on HD. So, any numbers you want to throw over here?
- Arun Kapoor: Yes, see, HD continues to grow, and all our promotions and advertising is focused on that. In terms of subscriber, 13% of our base is HD subscribers, which is I think, up from 12% last quarter.
- Naval Seth: Okay. And, sir, lastly on demonetization, was there impact on the recharges from the top 10 cities, top 15 cities as well or it was primarily rural, what you stated earlier?
- Arun Kapoor: See, by the middle of December I think the top cities are more or less normalized.
- Jawahar Goel: As we stated that 70% of our collection comes through EPRS, which the Company is managing through dealer and distributor and for first five weeks, six weeks, they could not access to their bank account, they could not go and deposit in the bank and transfer the money. So, there was a total chaos and we extended the credit to the consumer, extended the credit to distributor. But that was not enough actually.
- Moderator: Thank you. We have follow-up question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand: Yes, I have a couple of questions, one with respect to the merger. What are the timelines with respect to the same? And what are the roadblocks that you are facing now because we have not seen any update after the announcement? Secondly, with respect to the license fee and the new license conditions, any progress on your discussions with the MIB?

Jawahar Goel: See, on merger thing, we had made the application to Competition Commission. We had two, three round of communication from them. It is already one and a half month. We had also done with Stock Exchange and SEBI and within February we will go to the NCLT Board Tribunal for the scheme. On license fees, the cabinet note is under preparation that is 8% on AGR basis. Till the matter goes to the cabinet and then some approval happens we are not able to access any information.

Vivekanand: Right. Sir, just a small follow-up on the license fee case, why is it such a bone of contention now that the ministry has also accepted the license fee at 8% of AGR? Why is the cabinet node getting delayed so much?

Jawahar Goel: You see, some of the ministries in the government they are well-equipped to do the cabinet note very quickly. In our I&B Ministry, we normally do not have cabinet notes so frequently. So, that is why it is taking some time.

Moderator: Thank you. Next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: A couple of questions from my side. One is on the Videocon Dish TV merger. Sir, there are markets where the merged entity must be exceeding the 50%. So how does Competition Commission treat that? Will it allow you some window to go and reduce the market share post-merger or it is upfront an objection from CCI? And second is, similarly on the regulatory side which is on the draft tariff order which is now being challenged in the courts the draft interconnect thing. Just trying to understand that now Supreme Court is asking TRAI to justify the order and asking for reasons. But the whole matter was initiated by Supreme Court, then TDSAT and then TRAI took it up. So, how do you read this development? Thanks.

Jawahar Goel: See, these questions are from the deep industry insiders which you are asking. There was a famous case of NSTPL where even TDSAT and Supreme Court has said that you have to come out with a new regulation tariff order that is why TRAI has initiated this aspect. Now, matter is in the High Court of Chennai and the Supreme Court only allowed TRAI to proceed with our permission. I do not know what they are doing. On CCI, there are expert people on the job and our understanding is that it is total cable and satellite home. So, we do not see any such apprehension that you have raised.

Rajiv Sharma: Sir, thanks for the clarification there. I am hypothetically just trying to understand. In case, let us say there is a market where you exceed 50%. Will CCI allow you a period or it will raise an immediate objection to this?

Jawahar Goel: See, if there is a village, there are four houses in farm and in two houses Dish TV is installed in two houses Videocon is installed then you can say 50% market share is there, 100% is there. In a city or

village or all these things where there are hundreds of thousand subscribers and there is a cable company, there are so many DTH company, there are Internet-based supplies, so there the question of 50% market share does not arise.

Rajeev Dalmia: Let us see till we get some order in finally...

Arun Kapoor: I think this question is, maybe there is a Vodafone, Idea thing, which is happening today and this is probably topical on everybody's mind. But the construct for the telecom business is different. It is circle wise circle there is spectrum involved. There are so many other things involved. In our case is a pan India license so those things do not really play.

Moderator: Thank you. Next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Sir, earlier I think this year you had indicated that the objective or target of the Company would be to achieve 12%, 13% revenue growth over the next maybe one year or two years. Now you have indicated that content cost increase will be in the similar range next year as well as it has been this year. So, I am wondering has anything on revenue growth in terms of outlook changed in the past six months or nine months or should we expect content cost increase to be much lower than revenue growth for another one year or two years?

Jawahar Goel: Yes. Now content cost wise there is a new paradigm that has evolved because of BARC and lots of news channel have become free-to-air. The free-to-air channels are coming from the GEC channels and also

film channels. There are some Hindi film channels they run the movie in five days, six days on their second run channel for free-to-air market. That is a matter of concern for all the pay distribution industry and we will have some discussion with the broadcaster as well. So, anything beyond that, I cannot explain what we will do and how we have to arrest this tendency.

Jay Doshi: Understood and one more follow-up on that. So, should we expect that some of these content deals will perhaps be renegotiated again post-merger with a much larger scale that you would be having?

Jawahar Goel: Wherever there is an anomaly or extortion kind of a contract so we will definitely rework on it. Otherwise, as our revenue grows and our content cost is not growing that much, we have no problem in sharing with the content owner. So, this will be our guiding principle for the merged entity.

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

Rohit Dokania: Just a few questions. One is could you talk about the free cash flow generated in this quarter?

Rajeev Dalmia: Yes, it was around Rs. 49 crores.

Rohit Dokania: Okay, sure. And Jawahar ji, if you can confirm, could there rather be sort of a precondition that the existing license fee or the pending license fee has to be paid before the MIB that gives the approval for the merger?

- Jawahar Goel: See, the period for which license will be renewed, the previous one is under the court stay the new one is not under court stay. So, any difference that is there we will pay happily.
- Rohit Dokania: Okay. So, you are talking from October 1st, 2013 onwards?
- Jawahar Goel: Yes, we will pay happily and settle it.
- Rohit Dokania: And lastly, sir, I am sorry, I missed the part on the content cost increase. Did you talk about around 6% to 8% kind of an increase for FY 2017 and almost similar for FY 2018?
- Rajeev Dalmia: It can be less in FY 2018 but we continue to maintain the same.
- Rohit Dokania: Sure. Sir, I was just wondering given the fact that there are content renewals with two large broadcasters. Will we be able to maintain especially FY 2018 in such low brackets?
- Jawahar Goel: See they keep on growing their channel and offering, right. So, they need the distribution and suppose you grow your services by 25% and the market is not able to take it. So obviously, they want to have a reach. So, this will always be traded off.
- Rohit Dokania: Sorry, for the follow-up, can we put it this way that we do not expect much of growth on the bandwidth revenue as well and net content cost and that content cost line item could grow in the range of 6% to 8%, is that a fair way to look at it?
- Jawahar Goel: Currently the smaller channels who wants visibility, they do not have money, and they are not able to pay to their teleport provider. Let's wait for some time, one or two months. Let us see how the economy

of the broadcaster evolves and then we will give any guidance. But we continue to grow our bandwidth revenues.

Moderator: Thank you. Next question is from the line of Deepesh Mehta from SBICAP Securities, you may go ahead with your question please.

Deepesh Mehta: Just wanted to get some sense about the recovery in market and how one should look at about margin picture because earlier we suggested our margin to be around 35% adjusting for the accounting treatment what we have done at the beginning of the year. So, I just want to get some sense about, you earlier hinted about some recovery you have seen till now from November, December low level. But if you can provide some more color about how one should look overall revenue and margin?

Jawahar Goel: We have to come out of the shock which we had faced in demonetization. Give us some time to work out. I will come back to you on one-on-one basis.

Deepesh Mehta: And, sir, last thing is about, related to some expense we expected some kind of cost savings in quarter four. Those savings are likely to pan out or because of license related clarity yet not emerged it may slip to FY 2018?

Rajeev Dalmia: No, as far as license fee is concerned we are fully providing based on the license agreement. All other savings, we are continuously striving for the same like in the third quarter we had huge savings in administration and content though we continue to do marketing and selling and distribution on the similar line. But there is nothing specific about in fourth quarter.

Deepesh Mehta: Sure. And last thing is, can you provide the CAPEX incurred during this quarter and nine months?

Rajeev Dalmia: CAPEX for the quarter was around Rs. 180 crores and we have done around Rs. 570 crores for the nine months.

Jawahar Goel: Deepesh, on coming to your question on the license fees, I think as the file is moving there is a most likely chance that we will get a resolution within March or before we finalize the balance sheet for the current financial year. That is one. Number two, on the margin, we had discussed this last time that we will aim to have 35% EBITDA. But we have no doubt that we will be below 34% on annualized basis.

Deepesh Mehta: Sure, sir. I was looking more for medium-term maybe we can talk when more clarity emerges for next.

Jawahar Goel: Yes, let us wait what happens on GST and what happens on Service Tax. The GST rate is another factor So; these government actions will give impact on our margins.

Moderator: Thank you. We have next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just a quick one, I mean, you sort of talked about all the subscribers which have sort of deferred their charges in the month of November, December and even January so that has not sort of come back to normal. Do you sort of anticipate it has almost been around 80 odd days, 120-day churn policy? Do you see the effective churn rate also going up in 4Q as the impact of the demonetization on subscriber adds basically comes true?

Rajeev Dalmia: This quarter it 0.9% and we hope to maintain the same because in the last three quarters it was around 0.8%.

Amit Kumar: Okay, it was 0.9% this quarter, is it? Sir, finally, during the early stages of this demonetization impact you had launched one scheme essentially giving some time to consumers to essentially make the recharges basically I just wanted to understand how did that impact your revenue because I presume that scheme at least would be overwrite so we should not see the impact of that. If you could just detail the scheme a little for me?

Arun Kapoor: It was simple. When this thing happened, we did not switch off people for about seven days and we continued with this for about six weeks as there was a cash crunch to paybacks. Now this could not continue indefinitely because then we would have been hit with a huge backlog. So, it is no longer happening. We stopped that, I think, towards the end of December. It helped us maintain churn. Otherwise, people would have churned out.

Jawahar Goel: And also, let me tell you that even if we had given them 7 days' extension and the people had finally not paid, so we are doing accounting on a payment made basis. So, we had not created a debtor on that account. So, this is also one of the reasons that we had taken a conscious decision and forever we had kept a prepaid model and till the money comes we do not recognize as revenue.

Amit Kumar: All right. Just one clarification on this, so this seven days of incremental gain to the users there was no free period within this, right? I mean as and when consumer recharges these seven days will be adjusted against that payment?

Jawahar Goel: Yes. It was not free period.

Moderator: Thank you. We take the last question for today and that is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Sir, you talked about savings because of demonetization on the recharge. What is the percentage savings we can expect?

Jawahar Goel: See, normally, we run our EPRS, which was around 70% of our collections through our distributor and dealer network of almost 100,000. So there our average cost is about 3%-3.6% whereas all the payment purse, debit card and credit card, all these things, the cost is around 1.5% in some cases, 2%. So definitely, our recharge cost will come down as the percentage goes up and also it will help the consumer to directly deal with company and transfer it then going through intermediary So, this is what the structural change was in the beginning of November, we were at around 28% now, we have 38%. We had taken target to reach to up to 45% in this next three months, four months. So, this is the good positive thing happening for us.

Moderator: Thank you. This was the last question for today.

This transcript has been suitably edited for ease of reading.