"Siti Networks Limited Q4 FY17 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY17 Results Conference Call of Siti Networks Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Ankit Saint, Head of Investor Relations for Siti Networks Limited. Thank you and over to you.

Ankit Saint: Hello, Good Afternoon Ladies and Gentlemen, this is Ankit here. We welcome you to the Siti Q4 and FY17 Investor Relations conference call. We have with us the Senior Management of Siti, Mr. V. D. Wadhwa, – ED and CEO of Siti, Mr. Anil Jain who is the Head of Finance, and Mr. Munish Kanotra who is the Chief Business Officer for Broadband.

I will quickly run you through the results for FY17; the revenue came in at 1204 Crores, it was up 18% YoY, Broadband Revenue doubled, it was at 97 Crores, subscription revenue increased 39% YoY, it was at 569 Crores. Carriage revenue showed a very strong growth at 17% YoY, it was at 300 Crores. In terms of operating metrics, we added 2.1 million video customers, we have crossed the 10 million mark and we have 1.6 lakh HD subscribers as well. In terms of broadband, we are at 2.28 lakh broadband customers with 16.1 lakh home passes. With that, I open the floor to management for the queries.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Can you share the pure pay channel cost incurred in the fourth quarter and also share the CAPEX number for the quarter and for the full year?

Anil Jain: Pay channel cost incurred during the last quarter is INR143 Crores, which was INR124 Crores in Q3

Sanjay Chawla: What is the reason for this significant jump in the fourth quarter?

Anil Jain: There are two aspects: There were a couple of deals which were concluded in last quarter and we have a practice wherein once the deal is concluded, the catch-up cost is considered in that respective period. Two, with the increase in the size of business, corresponding growth has come in content cost. In a couple of markets, especially south, we have certain content deals which are linked to subscriber base.

Sanjay Chawla: Is there any guidance or outlook you can share with respect to overall increase in content cost for the next year?

Anil Jain: For coming year, we expect this cost to go up in the range of 15-20%.

Sanjay Chawla: This is the gross content cost, pay channel cost that we are talking about?

Anil Jain: Yes

Sanjay Chawla: Can you share the CAPEX number and also the monetization that we have achieved in Phase-1, 2, 3 and 4.

V. D. Wadhwa: Phase-1 collection has improved to Rs. 105, Phase-2 has gone up to Rs. 82, Phase-3 has gone up to 50, and Phase-4 is has gone up to Rs. 25, this is where the significant jump will come in the coming quarters.

Sanjay Chawla: Sorry, you said Phase-4 is Rs. 25?

V. D. Wadhwa: Phase-4 is 25 right now, it is largely analogue.

Sanjay Chawla: Phase-3 wise are we done with the fair level of monetization given we have the ARPUs are the customer end?

V. D. Wadhwa: Phase-3 monetization has to go at par with the Phase-2 monetization in a year's time, so what we are planning is that by the time we exit March 18, Phase-3 ARPU should be close to Rs. 80, so in terms of monetization, it is not done; in terms of digitization, it is a done deal.

Sanjay Chawla: These are the exit numbers you are saying because when I feed this numbers…

V. D. Wadhwa: Yes, these are the exit numbers

Sanjay Chawla: On the CAPEX front?

V. D. Wadhwa: At a gross level the total CAPEX on the cable side is 433 Crores for the year and the broadband side is 73 Crores and net of activation, the CAPEX is 229 Crores because as per IGAAP, we have recovered Rs. 232 Crores activation for the year, the net CAPEX between cable and broadband is INR156 and INR73 Crores respectively, roughly about 229 Crores.

Moderator: Thank you. The next question is from the line of Jai Gandhi from Motilal Oswal Securities. Please go ahead.

Jai Gandhi: Just wanted to understand the bump up in carriage, is there a particular reason for this?

V. D. Wadhwa: Historically Siti has been getting low carriage because among all the national players, our subscriber base was the lowest and when you are adding the subscriber from day 1, nobody gives you carriage unless there is a stable base, so let us say if we are planning to add 5 million customers in the current year, nobody is going to give us carriage at the beginning of the year. One you have seeded 5 million boxes, next year when you are again negotiating the deal, you end up charging carriage, we have been consistently increasing our subscriber base and there has been a lot of regional channels which are coming to the play and that is why you can see the base had significant growth in carriage when it comes to Siti When it comes to the competition, you can see that there is a decline because historically, they were getting decent carriage and Siti was underpaid compared to our potential, so that correction is taking place in the industry.

Jai Gandhi: Is there further headwind for this or is this going to flat line probably at this?

V. D. Wadhwa: No, even for the current fiscal year, we should be seeing the growth of about 10% in carriage.

Jai Gandhi: In FY18, you are saying?

V. D. Wadhwa: That is right.

Jai Gandhi: I just was looking at the accounts receivables, so whilst your subscription has actually gone up by around 40% odd, your receivables has spiraled … any particular reason for this?

Anil Jain: Jai, on the DAS front, there are couple of broadcasters with whom the content deal and carriage deals were not concluded by March 31st, so therefore the content payout also did not happen to these guys, however, it has taken in cost, but at the same time, we did not receive the carriage fee which was supposed to come from them. Largely, the increase in AR is on account of carriage fee.

Jai Gandhi: Sir, just one last question I wanted to ask you is see the activation revenue per box for the quarter, it is a derived number has actually come down a bit, what is the reason for this, is this an accounting thing or?

V. D. Wadhwa: Maybe Anil will be clarifying this, but on a full-year basis, our IGAAP activation revenue is 232 Crores whereas as per the Ind-AS, it is 170 Crores.

Anil Jain: Yes Jai, it is largely on account of change in accounting standard so unlike previous system wherein entire activation revenue will get booked upfront, now different system has come into place.

Jai Gandhi: Sir, the 150 Crores capital infusion is through?

V. D. Wadhwa: It is through; it came in before March 31.

Jai Gandhi: What are the expected debt levels if I may just chime in once more?

V. D. Wadhwa: Currently our net debt is at 1160 Crores.

Moderator: Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Two questions, one was wanting to understand the exceptional item with respect to bad debts that is showing up, is it not normal course of business?

Anil Jain: This is pertaining to the initial days of Phase-1 implementation as we also capture in our notes to financials… because of the pending implementation of agreement with LCOs, we do revenue accounting based on best estimates of management and if we go back to 2012-13, they have been sharing arrangement etc., so in one of the market we have arrived at final settlement ….that is where we are terming this as exceptional item.

Vikas Mantri: That is four-five years old?

Anil Jain: Yes.

Vikas Mantri: To Wadhwa Sir, we are hearing of a new strategy of yours of trying to target the Phase-1 markets with a Rs. 345 set top box plan to get more market share, can you help us understand this or is it an attempt or a new wave of competition that is coming up in the Phase-1 market, how do you see this strategy?

V. D. Wadhwa: We would say at least three-four months particularly from January onwards we have noticed, we have lost roughly 2-3 lakh customers in Phase-1 market and predominantly in Delhi and Mumbai, we are losing the customer not so much in Calcutta. In order to control that decline, this is a tactical move we have adopted, because this is the feedback given by our business associates when we have done the review with them. As these markets are already seeded, so there could be an opportunity where if you give them some effective schemes, they can target DTH customers will be able to increase the subscriber base.

Commercially it makes sense for us because we have already taken a fixed-fee deal from the broadcaster….if we can do it in the existing Phase-1 and 2, nothing like it, because our cost does not go up. This is more to respond where we have lost the 2-3 lakh customer base in Mumbai and Delhi market which is a prime market as well as to arrest the decline and regain that base.

Vikas Mantri: This loss would largely be to the DTH platforms?

V. D. Wadhwa: It is not necessarily that the loss is to DTH, the loss is happening to the fellow competitors as well

Moderator: Thank you. The next question is from the line of Rajeev Sharma from HSBC. Please go ahead.

Rajeev Sharma: Sir, my question around this loss in market share in Delhi and Mumbai, so if you lose it because of the competitor, LCO will work out clearly and that should be very much visible and evident, I am just trying to understand why there is a confusion that it is you do not have the clarity between it is a loss between DTH and cable? Secondly, I missed out on your ARPUs in Phase-1 and Phase-2, how are they shaping up end of this fiscal, and thirdly, your big picture thoughts on the new tariff order and how much is this positive, theoretically, it looks very positive as intent becomes pass through, what could be the incremental cost which come in given that everybody will have a 130-tariff plan, so how do you see that and what about the LCO share because LCO incomes go down in the new tariff order, so who compensates that?

V. D. Wadhwa: In Phase-1, our exit ARPU was 105, in Phase-2 it is Rs. 82, Phase-3 is Rs. 50, and Phase-4 is Rs. 25, these are different Phase wise realization currently, net of LCO share, and net of taxes.

Your second question was that, yes, if we lose it to the competitor that system should show that. If we have got 2000 cable operator in a particular geography, all 2000 disappear. If there is any such competitive activities going on, let us say one cable operator is having 1000 customers, if we are competing with somebody else, we generally go and remove 100 or 200 customers out of that 1000 customers and for that the cable operator continues to pay you the money. You do not realize that till the time you lose the base, so it happens only after certain months because whenever somebody is doing this competition this is the trick everybody follows, it takes three-four months' time before you start registering yes, we have lost the base because slowly gradually 10%, 20%, 30% keeps moving and then finally one day it disappears, then only you realize that this was happening over a period of time. The issue here is as per your system, the cable operator is still active; his number of boxes are still active, so you do not pick up that information.

The third one coming to the tariff, the tariff right now has been notified and as you know, it has been challenged, the Chennai high court is hearing that matter but we think all these things can have a delay of another three-six months or so, our sense is that it is unlikely to be implemented before April 1, 2018. There are two pressure points for the industry, one is that every year the content cost keep increasing regardless of monetization improving or not, and second challenge is how do we get our fair share of what the LCO is collecting from the consumer, once the tariff order gets implemented, our content cost increase will moderate.

It will not be that there is like this year our payout was about 500 Crores and next year our 500 will go to 600. Our estimate is that let us say if the tariff order would have been implemented from April 1 in the current year itself, the content cost would not have gone up even a single Rupee, rather on the contrary we believe the content cost should have come down because the penetration of each channel will come down and whatever the cost is there, the consumer is paying the cost, we will get 20% plus 15% extra incentive, we will get 35% margin as a distribution platform and the balance will be passed through, so content cost is not likely to go up once the tariff order is implemented, it will get rationalized.

The second part of this question is that LCO share will go down, so that is a big issue on the implementation side because right now whatever TRAI has suggested they have again given the recommendation that there should be 55-45 revenue sharing in favor of MSO, but it is not mandatory, so this is going to be a challenge in terms of implementing this because LCO's share is going to go down drastically. We do not believe that is going to happen, we believe again there may be some kind of a tug-of-war between the MSO and the LCO in terms of the revenue sharing arrangement, Rs. 15-20 collection on the LCO payouts, we think will be smoothly sailed but anything more than Rs. 20 reduction in the LCO retention will be challenged and the LCO will fight tooth and nail on that issue, so that is going to be a nightmare in terms of implementation, but I think Rs. 15-20 correction should not be a big deal.

Rajeev Sharma: Thanks, this is very helpful, so we have always seen in the past that whenever LCO goes through a nightmare, the entire MSO space also goes through a lot of pain which means that even though there looks improvement in EBITDA per sub post the new regime, but actually it may not flow through?

V. D. Wadhwa: One is your content cost going up every year. The second thing is your monetization not improving, once the tariff order comes in, your content cost will not be going up so your cost which has been going up regardless of your monetization level, will stop. That is the major positive thing and that will straight away flow into the bottom line. The second part is whether we will be able to get incremental monetization from the cable operator, this will also be there, but it will not be to the tune of what we think the law makers have envisaged because currently LCO is retaining Rs. 140-150 net of the payout to us, we are expecting that LCO should be happy with about Rs. 80 retention, which is not likely to happen

Rajeev Sharma: Who compensates for the Rs. 50-60?

V. D. Wadhwa: No, today if he is retaining Rs. 150, from Rs. 150 he will go down marginally. It is unlikely that he will go down to Rs. 80.

Rajeev Sharma: Just couple of follow up questions, on the implementation side are you ready in terms of providing a-la-carte channels if required to every household?

V. D. Wadhwa: In terms of the backend and technology, we are ready. In terms of the strategy also we are ready, the only thing is we need to configure the bouquets and the packaging has to be done so that is what we are actively collaborating with all the other players in the industry as well as with the broadcasters.

Rajeev Sharma: Again, going to this collaborating with other players, I fail to understand that when we have all met couple of years back and there was discussion about not poaching, not eating into each other's share and this 2 lakh loss you suffer in the metro markets, the average realization could go up to as much as 120-130 in these markets, but it is kind of fixed at 105 because of these one-two lakh numbers, if you can just provide some color as to what is the key issue there?

V. D. Wadhwa: Key issue is that somebody is having a market share gain ambition. We can assure you one thing from Siti's side that we only react, if somebody is attacking us, we only react. We never call the first shot, so there is unfortunate occasion that let us say if we are losing the base, if we do not do that, people will keep on getting encouraged and we will keep on suffering, so sometime attack is the best self-defense so you have to react and retaliate so that it stops. We have always been the pioneer, earlier we engaged McKinsey as well, and we took the lead. Even the cable federation also, Siti took the lead. We are trying to inculcate all the best practices and we think if there are 10-15 different issues concerning the industry, leaving aside one or two issues by and large on all the other issues we think people are mature enough, they are discussing, debating, and we are working together, so we think based on these one or two issues, we cannot say that there is no collaboration and there is no understanding among the industry player.

Rajeev Sharma: Last question is on the carriage income, which is reach per fiscal, under the new regime, there is a serious doubt about carriage fee coming down and it has been already pegged at 5% of base and 25 paisa, so how do you see that, and will there be a provision to get some carriage in that Rs. 130 free-to-air channel pack for including FTA channels because you may have some discretion to decide that?

V. D. Wadhwa: No, but in the FTA channel, there is one clause in the carriage, the moment the carrying channel is having more than 20% penetration, it is not supposed to pay the carriage, so the moment you put the channel in FTA bouquet, obviously it will get 100% penetration, so in fact on the FTA channel, you cannot expect the carriage to come.

Rajeev Sharma: Given that there are 600 free-to-air channels to decide on, how will that decision be made?

V. D. Wadhwa: We would not like to share the full strategy right now on this call, we will definitely discuss and share all the details, but definitely we can assure one thing that whatever is our current Gross content cost, let us say we are paying about full year basis about 506 Crores and carriage is about 300 crore, so on a net of carriage, we are paying Rs. 200 crore. This 200 crore is not likely to go up that much. The day the tariff order is implemented whatever the content cost is there on that day of implementation, the content cost will not go up on the same subscriber base.

Rajeev Sharma: But realizations may suffer little bit given the LCO tussle?

V. D. Wadhwa: LCO will be fine with Rs. 10-20 correction, so whatever our current realization is there that will definitely go up but it is not likely to go up by Rs. 60-70 if anybody is hoping and believing in that, that is the point we are clarifying.

Rajeev Sharma: Any EBITDA per subscriber you have been mined in a steady state in the new region?

V. D. Wadhwa: We do not work on that because right now till the time we complete the entire digitization, it is still Phase wise we are going and we do not do the P&L also on the different Phases. We always try to look at it at the company level. We can give you one guidance; we are targeting the operating EBITDA should be at 20% of the Cable business.

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

Amit Kumar: Just one point on the other expenses side both on a quarterly basis and as well as on an annual basis, the other expenses are actually inflated quite strongly almost 25-30% odd inflation out there, I just wanted to get a sense what is happening in that line item?

Anil Jain: Other expenses which includes bandwidth cost because of the increase in location over last year plus the bandwidth input cost on broadband business that is considered in other expenses, that is resulting into percentage growth which you can see over year-on-year, otherwise, other expenses which are admin cost etc., the increase has been marginal

Amit Kumar: This is essentially because your subscriber base is increasing and you are entering newer markets, that is why this cost item is inflating?

Anil Jain: We opened new locations, so that fixed cost also comes in.

Amit Kumar: Just a bookkeeping question on this carriage and placement, revenue side about 300 odd Crores, so how does it split between carriage and placement broadly, how much is carriage, how much is placement, roughly?

V. D. Wadhwa: There is no difference between carriage and placement; this is one and the same thing for us. Having said that, any channel wants to have presence in the Siti Network, part of our bouquet, they pay us, so we can call it is as marketing fee, placement fee or carriage fee, so this is all clubbed under one head.

Amit Kumar: Just a follow up on what the previous participant asked essentially that you have a situation where carriage is essentially regulated under the new tariff order, but placement and marketing which TRAI has also explicitly said also that placement and marketing, we are not sort of regulating at this point of time, so that is what your banking on basically to keep your overall carriage in placement sort of at similar levels?

V. D. Wadhwa: TRAI has further clarified that even the placement in marketing and carriage; they are all covered under the regulation. There is no exclusion from that, subsequently in the new tariff order what they notified, they have already factored this.

Amit Kumar: You have those channels number one, channel 999, the first channel which the consumer sees, if you sort of advertise there, those expenses or even the channel numbers, what channel numbers you assign to different channels, of course, you have to keep the channel in the same joiner, but you can still decide the channel number essentially and that is what broadcaster traditionally have paid for, do you have flexibility to decide the channel numbers also or no?

V. D. Wadhwa: Yes, we do have the flexibility, but within the overall guideline given by TRAI, you cannot charge more than X amount.

Amit Kumar: Then I am not able to reconcile, how do you get your 300 Crores carriage number with that 20 paisa per subscriber?

V. D. Wadhwa: We never said that, today my content cost is 500 Crores, carriage is 300 Crores, and we do not necessarily get the carriage from the same broadcaster to whom we are paying content cost. People those who, 60% of the carriage comes from the broadcaster whom we do not pay anything; it does not work that way. The second part we would like to clarify what we said that our net content cost, net of carriage which is currently at 200 Crores, it is not likely to go up, so carriage may come down from 300 to 200 but at the same time, my 500 also will come down from 500 to 400. We will not have a P&L hit on account of the net content cost, which is the point.

Amit Kumar: Sir, just quickly, the 10 million digital subscribers, if you just sort of I think Phase-1 and Phase-2 are in the region of 3.5 to 4 million subscribers if I remember the past call, if you could just breakdown the remaining 6 million subscribers across Phase-3, Phase-4 for us, please?

V. D. Wadhwa: We were mentioning that we have lost about roughly 2-3 lakhs in the Phase-1 and Phase-2, so our Phase-1 and Phase-2 subscriber base is currently at about 3.2 million, Phase-3 is 4 million, and Phase-4 our current base is about 1.8 million.

Amit Kumar: 3.24 which is 7.2 and 1.9, that makes just about 9 million subscribers, Sir?

V. D. Wadhwa: Yes, these are our active subscriber base.

Amit Kumar: Out of the total of 10 million?

V. D. Wadhwa: Yes, that is right, because over the last five-year period, all these boxes have been lost.

Moderator: Thank you. The next question is from the line of Shayon Chatterjee from Moon Capital. Please go ahead.

Shayon Chatterjee: Just two questions, looking forward, given what you have seen with the mobile companies and Jio's hunger to kind of destroy that industry, do you think the MSO industry is a bit worried about broadband, I mean in a way it is good that you guys have only spent about 120 Crores or something since inception on broadband give or take, but is the industry worried given that fixed broadband was supposed to be a huge crowd driver and then Mr. Jio can come in take it or do you guy have a plan that in some of your geographies they will not be attacking, effectively the 400 to 500 that they are targeting in the mobile they will have a similar sort of strategy on fixed broadband and they will not be going into the interiors of India, let us put it that way, so that I think is a very important part of whole cable MSO versus satellite landscape?

V. D. Wadhwa: We are not worried, but definitely we are alert on that issue that what should be our strategy and we are revisiting what we are doing currently, are we on the right track or we need to change course.

Munish Kanotra: Let's compare the mobile landscape with the emerging broadband landscape in India. When Jio entered the mobile landscape, India had urban penetration above 100% whereas when Jio is going to enter the broadband space in India or the fixed broadband, the penetration is going to be sub 5% in India, so from a landscape point of view it is entirely differently. Also, a large part of the pain of the mobile industry comes from the unlimited voice calling which Jio is giving, this specifically has an IUC payout which is involved, 14 paisa per every off-net call which is terminated and that kind of entity does not exist in the broadband space. Having said that, an operator's ability to compete is also going to be dependent on cost structures. There was a media article today which says that Jio will probably enter with a 100 GB broadband plan at Rs. 500 as a rental. Now that effectively means a Rs. 5 per GB kind of a plan. We are offering plans which are less than Rs. 3 per GB, we are not worried, but yes we are alert.

Shayon Chatterjee: Do you think given this whole TRAI regulator actually becoming a regulator. For the last 15 years, there was no regulator for cable and satellite, do you think at some point the foreign cable guys would actually take a stake given that we have had them taking stakes in such a competitive mobile field or do you think the MSO, the cable industry in India is just too unpredictable and too nascent for any foreign guy to ever come into this take a strategic stake?

V. D. Wadhwa: All the foreign investors as well as cable companies are actively monitoring what are the developments in India. As you know that we are in the last leg of digitization right now and the two big things which people are watching closely… whether it is an internal investor or external investor … how digitization is shaping up and when is it going to get over, and how the monetization is improving. The third one which is more to do with the taxation side, with the GST coming in, the taxation side is being taken care of. Then the two big challenges which remain, one is that your increasing content cost which has got no linkages with the monetization level, the tariff order will address that issue. Then we are left with the fair share between us and the LCO, which is still an open issue.

TRAI has tried to address that, but guidance does not work in this industry given the profile of the business partners, somewhere we need to collaborate at the industry level. We are trying very hard at the regulator level, at the government level, that instead of having a recommendation, if it can become mandatory, this is what we think for the last couple of years we are pushing that, but unfortunately because TRAI is a common regulator for Telecom as well as for the broadcasting industry, most of the time they try to equate the cable industry with telecom industry ….that we are having prepaid and postpaid in Telecom, why cannot you also have, we have to give choices to the consumer. What we are doing on a standalone basis, we think as you know that INCable has already moved to the prepaid completely, Hathway is moving to prepaid, we are also moving to prepaid.

Currently, as we speak roughly 10% of our base has already shifted to prepaid, so this is the only way where you can ensure that there is no gap between the billing and the collection and you do not create an AR situation, and B, for in terms of increasing the ARPU, we think even if today if you ask us, we are willing to let go 5-10% of our universe for the sake of increasing our monetization because ultimately if the people are not paying or people are short paying ……no point carrying those customers with us and most of the time it is not the end consumer who does not pay, it is the middlemen who does not pay. For that, we need to have an internal discipline of A, moving fast to the prepaid, and B, doing auto-dunning through the system ……whosoever is the short paying customer or the non-paying customer, we need to do the dunning, so these are the two things we are aggressively pursuing.

Coming back to your question that we think foreign investor is very much interested, we have shared some of the details with some of the investors friends that currently even at our level also there are actively two investors those who are looking for making investment in our business, so we do not think the interest level has gone down, but people are cautious, because given the some of the history of the people those who have raised funds in the past, people have burned the fingers, so people become cautious whenever they invest in this market and do not make a return, obviously they get more cautious before making further investments.

Moderator: Thank you. The next question is from the line of Nandita Parker from Karma Capital Advisors. Please go ahead.

Nandita Parker: Mr. Wadhwa, I have couple of questions, one is on the cable side and the other one on the broadband side. On the cable side, as you mentioned you have cut your activation, your setup box fee you mentioned tactically, now whether you cut it tactically or strategically, the point is that does not sound like a very cooperative strategy vis-à-vis the other MSOs, and so I am just wondering in terms of maintaining industry discipline and your targeted goal of increasing monetization, how does that actually work when all the other operators had decided in the forum to keep the price not below 999, that is my first question?

V. D. Wadhwa: Nandita, we have decided that we will not keep the price below 999; Siti is also one of those parties to that discussion. The date of implementation of that has not been decided. Nobody has proposed the date, nobody has agreed on the date so far, so in principle everybody has agreed, let the floor price should be minimum 999 but no one has implemented, so Siti cannot be accused of not following that because the date has not been decided. As and when the date is decided, everybody will abide by that.

Nandita Parker: If you were to maintain discipline and you have all agreed on maintaining discipline then why do you need a date for maintaining discipline, discipline has to start now, right?

V. D. Wadhwa: Discipline cannot start only from Siti, please understand, discipline has to start from everybody, at least the national level top four players have to follow the discipline.

Nandita Parker: The second question related to ARPUs what is your target plan for increasing ARPUs this year and you mentioned along those lines that you cannot get a higher share from the LCO more than say Rs. 10-15, is not there a plan you are thinking about it in terms of a zero sum game that look the price that the LCO charges is fixed, and therefore, if you increase ARPU from the LCO basically it is cutting away from his revenues, but should not there be a plan because in every other instance, the consumer is used to paying more when they see value being delivered, should not there be a plan to increase overall revenues from the consumers and should not the industry work together in order to achieve that, that is my strategy question for you?

V. D. Wadhwa: Nandita, we totally agree that the payout by the consumer has to go up, but since you are well aware of the industry, in the current regime because of the broadcasters, the best of the content is available at the entry level bouquet, so when the entry level bouquet, all the GEC channel, all the Bollywood, Hollywood everything is available, there is very little incentive for the consumer to go and subscribe to the higher bouquets, that is the challenge. Once the tariff order comes in, then it is going to be a pressure point for the broadcaster because even their top ranked channels are not likely to get 100% viewership even in one year's time, so again the fight is going to be that their channel should get the maximum eyeballs, so that they can safeguard their ad revenue… that can happen only when they get larger penetration and larger penetration will come in only when they push their channels on the basis of low price or they put it under the cheapest bouquet available from the DPOs.

From the DPOs point of view, we have got limitations to increase consumer ARPUs, we can do it by promoting HD, by convincing the customer to go for higher bouquet, but today the practical situation is between the entry-level bouquet or the top-level bouquet, the only difference is probably the cartoon channels or may be few English news channels, other than that there is no other difference, so when the consumer is happy by paying Rs. 180, Rs. 190 plus taxes and getting 400 channels including the best of the content, he is not motivated to go for Rs. 300 plus taxes bouquet.

As a distribution platform, we totally agree, we are totally committed for doing that, but we have got limitations of our own. Long ago, we had given this suggestion at the IBF level where all the broadcasters were there that if you want the consumer ARPU to go up …..which ideally should go up if we have to fix the industry issue then the best of the GEC channels, sports everything should be, we have to agree on something that this will not be available at less than Rs. 400 bouquet or Rs. 350 bouquet, whereas the issue is that even the top ranking channels they are fighting to push the channel into the lowest pack possible and they are willing to pay price to you for doing that. Obviously, today if we are getting money from certain Broadcasters to put in the lowest possible pack, we cannot say no to getting money, so there is a compulsion on that, so there is a limitations. We think the collaboration is not among the DPOs, we think between the broadcasters, DTH, and cable, all three of us have to sit together and make sure that none of us should suffer and we still increase the consumer ARPU so that all the three stakeholders in the industry benefit.

Nandita Parker: It is really weird to be listening to this discussion when you see the way people are consuming data and the hunger for data today, it is now becoming a necessity not just for the top of the pyramid but for most people in terms of how they function, how they study and so on, and so you look at what is happening to this end of the system where you are actually perceived as not delivering any value and then you look at the other end of the spectrum which is data or whatever you are consuming has a higher value perception and that is why to vacate this whole broadband space and say we are not going to fight it because we are going to wait and see what Jio does and what pricing they deliver, to me that seems very, very short term in strategy and I am wondering why you guys are not more aggressive, I do not just mean you, I mean all of you in rolling out the broadband because that is a fight where you clearly have an advantage right now, it will go away over a period of time but not right away and that is from a consumer standpoint is a higher value service?

V. D. Wadhwa: Nandita, we never gave that impression, just to assure you that broadband is the top most priority for us in terms of all our recruitment, all our funds to be committed, it is largely going to be on the broadband side. Like cable if you say, cable we are hardly going to spend about 100 Crores in the current fiscal year whereas for the broadband we have allocated 350 Crores to be spent on the broadband side of the business, so there is no disagreement, we are totally focused on the broadband, there have been some operational issues because of which we have not been able to pace up the way we should be pacing it up and because as you know that the cable industry, 90% of the network is overhead, it is not underground fiber, so obviously when it comes to the matching what the Jio's or the Airtels of world are doing, obviously they will have an edge in terms of network capacity. The network is far more robust and we would say that it is immune to breakdowns, whereas cable is not immune to breakdown, so cable works out cheaper, obviously we have the advantage of having connectivity with 13 million customers, so that advantage nobody can take away from us, but when it comes to going and connecting it faster, we are following DOCSIS.

Now, there is another technology called Ethernet on cable. If we follow Ethernet and cable and we tell the cable operator you please connect, you invest the CAPEX, then in next 12 months also half of our universe could be connected to the broadband, but that is not the current technology, that is an outdated technology, we shall be offering to the consumer, so we do not want to compromise on the consumer interest and what are the advantages to consumer we can give through the DOCSIS platform. Going forward, now we are going to FTTH also, Noida is the first pilot market where we have launched the FTTH, so that we can take care of all these internal quality of transmission issues related factor.

Munish Kanotra: Broadband or fixed broadband in India is a large space and a relatively under-penetrated space, customers to some extent have been understanding the speed with reference to 4G and the way we are positioning our proposition in the market, we are saying that we offer you speeds 10X of 4G, because if you see 4G, typically if you see the TRAI reports and other reports published by open signal, the typical speeds at an average level for the industry which 4G is giving is 5 mbps to 10 mbps, so we today offer plans which are 100 mbps, so the we say we offer proposition to the customer at speeds which is 10X than 4G, number one. Number two is our price per GB to the customer is already lower than what you would have read in the press today around what Jio is planning to do. Number three is on the geographical expansion, yes, we are working out on a slew of new towns to be launched in the next couple of months. From a technology standpoint, so far, we have been working on DOCSIS as a technology which is oriented around coaxial cable. We are now going to start mixing technology which means that partly it is going to part of the cities are going to be on DOCSIS and large part of the new roll outs will be on FTTH as a technology which offers a superior customer experience.

Nandita Parker: Mr. Wadhwa, what is the current on the churn for broadband, please?

Munish Kanotra: The churn is roughly around 5.5%.

Nandita Parker: Is there any plan to bring it down?

Munish Kanotra: We are working on it so the movement towards FTTH as the technology is one of the steps we are looking at as a means towards churn reduction and yes we are looking at other options on reducing the churn. The churn could be related to various factors, it could be a competitive-related churn, it could be a service-related churn or it could be a customer-related churn. We are looking at each of the factors individually and our attempt is actually to bring it to a sub-5 level.

Moderator: Thank you. The next question is from the line of Shayon Chatterjee from Moon Capital. Please go ahead.

Shayon Chatterjee: Just listening to all this and being a pretty active participant in this whole mobile, cable, satellite over the last three years, I have had my differing views on this when I was pretty negative on the mobile sector for couple of years. I just wanted to know because the lot of the things you have just mentioned, it just seems that one easy way to fix this, I know it is not easier on theory rather than practice, this distrust factor amongst the MSO, isn't one way to at least diminish this distrust factor at least you guys have a common interest and consolidation is one way, so just pick two large national MSOs, consolidation then all this sort of 200,000 subscribers being lost in Phase-1, Phase-2, at least the probability of that being repeated, it is going to be less and less and we have seen that with Dish and Videocon, and Videocon I would say was one of the weaker players coming in last 12 months and if that can happen there, why cannot it happen in the MSO industry, that was my question?

V. D. Wadhwa: Shayon, we totally agree. In fact, as we have been sharing with you as well as with couple of other investors and other business, which we have been actively looking for the opportunities. We have been in dialogue with the almost all the players at some point or the other and so we are not abandoned that, so we are still open for that, as and when the good opportunity comes in, we will definitely be open for the consolidation and some of our existing investors and even the promoters are also keen to support that.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Can you provide the setup box inventory at the end of the quarter and also your outlook for the broadband business in the sense the broadband additions have been running lower, can you share your outlook for the fiscal 18 in terms of home passes and broadband customer additions, that is the first question?

Anil Jain: Sanjay, we had inventory of 1.2 million setup boxes as we exited the fiscal year. We expect addition of 1.5-2 lakh subscriber base during the next fiscal year.

Sanjay Chawla: The home passes addition?

V. D. Wadhwa: Roughly about 1.5-2 million home passes we are targeting in the current year. Current home pass base is about 1.6 million and we are planning to add another 1.5-2 million and obviously we target roughly 20% extraction so that 20% extraction happen by the time you get into 24 months from the day 1.

Sanjay Chawla: Two million is the year-end target of home passes or addition?

V. D. Wadhwa: We are talking of incremental 2 million in the current year.

Sanjay Chawla: Second question is just on the operational side, the LCO collection can you just share the thoughts for what is actually happening on the ground, LCO collections are on a per customer base in the DAS areas, are they structured as ARPU plus entertainment tax plus service tax?

V. D. Wadhwa: Yes, that is right.

Sanjay Chawla: Okay, so my question is how do you then benefit from the GST related upside because LCO will simply pay you monetization plus the GST now, so we will just pocket the upside from the GST?

Anil Jain: Sanjay, on first part of your question, we said yes, transactions are structured in a way wherein we say basic price plus taxes, however, when it comes to actual collection on trade side, they just look at what net outflow they are giving to us. If the LCO is writing a cheque of Rs. 1 lakh for him it is Rs. 1 lakh payout to Siti Cable. He is least bothered how much is going in base price and how much is going towards taxes.

Sanjay Chawla: Your deals are structured as collection per customer plus taxes?

Anil Jain: Correct.

Sanjay Chawla: If, let us say in Delhi, you are collecting Rs. 40 as entertainment tax plus service taxes also there, so you are collecting Rs. 100 plus Rs. 40 plus service tax, now in the new environment he will simply give you Rs. 100 plus 18% which is Rs. 118 so the rest of the upside remains with LCO, that is my question?

Anil Jain: It will not be entirely with the LCO, even if we look at current regime, they are not making 100% payment towards the full invoice, so ultimately it will boil down to what is the amount for which he is writing cheque to us, so he will continue writing that Rs. 1 lakh to us till the time this 1 lakh is equal to my base price, so as you can see, there is increase in AR also that increase in AR is happening because we are getting lower payments.

Sanjay Chawla: That is the second problem which in fact you highlighted last time that there is always a short payment, underpayment from the LCO and you have to chase them up and obviously you are migrating to prepaid because of that, is that correct?

Anil Jain: Yes.

Sanjay Chawla: That is a separate problem of under collection, underpayment by LCOs, my question is more on should we really look forward to any GST related upside or it is going to be where ARPUs will not change post GST implementation?

Anil Jain: If we just factors into numbers, if we take the example of Delhi, that Rs. 40 per customer, this will not be a Rs. 40 per customer benefit being passed on to Siti, there would be marginal increase which could be 3% to 5%, which is sitting in AR as of now.

Sanjay Chawla: You are saying AR benefit will come because they will start paying full amount?

Anil Jain: Correct.

Sanjay Chawla: How will that be facilitated via GST implementation?

Anil Jain: Pre-GST, there were two taxes Rs. 40 towards ET and service tax of Rs. 15, in GST regime, tax outflow will be restricted to 18% only, so ultimately, he will have saving at his hand also apart from being passing it on to MSOs because when they go to ground they are not saying, okay, give me Rs. 40 separately for ET, give me Rs. 15 towards service tax, they are just picking Rs. 300 per month from the customer.

Sanjay Chawla: You are saying that because LCO ends up making more money, he will not have a problem in paying you the full amount that you charge?

Anil Jain: Yes, what we are saying, we will be able to control AR with these changes which will ultimately flow into our profitability.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Wadhwa for closing comments, over to you, Sir.

V. D. Wadhwa: Thanks Ladies and Gentlemen, thanks for the active participation. I think we have tried to answer most of the questions, and in case if there is any other doubt remaining or any follow up questions are there, please feel free to write to me directly or to Ankit Saint, who is our investor relation manager directly. Thanks once again.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Siti Networks Limited, that concludes today's Conference Call. Thank you all for joining us and you may now disconnect your lines.