DISH TV INDIA LIMITED

2Q FY19 EARNINGS TELECONFERENCE
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Moderator: Ladies and gentlemen, good day and welcome to the Dish TV India Limited 2Q FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tarun Nanda. Thank you and over to you sir.

Tarun Nanda: Good evening ladies and gentlemen. Thank you for joining us today for the second quarter FY19 earnings conference call of Dish TV India Limited. To discuss the results and the performance, we have with us Mr. Jawahar Goel – the Chairman and Managing Director of the company. We also have Mr. Anil Dua – the Group CEO and Mr. Rajeev Dalmia – the Chief Financial Officer.

We will start with a brief statement from Mr. Anil Dua and we will then open the discussion for questions and answers. I would like to remind everybody that anything that we say during this call that refers to our outlook for the future is a forward looking statement that must be taken in the context of the risks that we face. I would now request Mr. Anil Dua to address the participants.

Anil Dua: Good evening, ladies and gentlemen and thank you for joining us today for the second quarter FY19 earnings call. I am sure you would have had the opportunity to go through the results and the earnings release, both of which have been uploaded on the company's website. As you know, we had a good start to this fiscal in quarter one. I am glad that despite second quarter generally being seasonally weak, this time it has further built on a first quarter performance thus keeping us on track for growth. Financial numbers for second quarter FY19 are not comparable with the corresponding period last year, so I would just read out the key numbers for this quarter alone.

Consolidated subscription revenue for the second quarter was Rs. 14,536 million and operating revenue was Rs. 15,943 million. H1 FY19 subscription and operating revenues were Rs. 29,429 million and Rs. 32,499 million respectively. I am glad that we have achieved 48% of our revenue guidance for the year. We reiterate our guidance was 8% Y-on-Y growth in topline for FY19. EBITDA for the quarter stood at Rs. 5,406 million. EBITDA margins rose to an almost all time high of 33.9%. Our guidance for FY19 as the EBITDA margin remains at 35%.

H1 FY19 EBITDA added up to Rs. 10,974 million giving us confidence to achieve our targeted EBITDA number and synergies at EBITDA level for the full year. PAT for the quarter was Rs. 197 million. We continued investing in the business. Simultaneously debt repayments have remained on schedule making us confident about turning debt free in about 2 years' time. The company added 200,000 new subscribers during the quarter and churn was maintained at 1%, ARPU was Rs. 207. The 197 million TV owning household in the country are expected to grow to 220 million in the next 3 years, thus providing solid unrestricted organic growth for the TV industry. Majority of these additions will come in from non-urban markets. Dish TV with its widespread reach is therefore ideally positioned DTH players to continue enjoying excellent growth in the years ahead. We have seen positive steps towards the highly fragmented cable industry getting organized. This may pave way for industry ARPU growth in the long run.

The TV customer is certainly getting exposed to new choices; therefore we will be shortly offering both an OTT service and Hybrid box. Customer will be able to therefore watch both our traditional content and content for streaming medium. Unlike most competitors, our OTT offering will be a fair mix of linear TV channels, catch up content as well as original content. The consumer will have the best of both the worlds getting connected with the Hybrid box and the DTH platform at the same time keeping the cost low and giving excellent value for money. This festive season Dish TV brand has entered a new phase. Our new campaign firmly positions Dish TV as the preferred entertainment brand in the country. We have introduced Ranveer Singh as the face of the brand Dish TV. Ranveer's vivacious and energetic personality resonates well with our new brand positioning and we are confident that his infectious energy will energize our audiences and invigorate our brand. We remain extremely confident about the business and its strong financials. We will continue to focus on growth with profitability keeping in mind our objective of maximizing shareholder returns while aggressively investing in the business.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand: Can you please help us with the split of the revenue and the subscriber acquisition cost, then secondly I wanted to understand the movement in the cost of revenue, how much of this was content cost and which way did content cost move? That would be helpful to understand to predict second half for your company and thoughts on the operating synergies that would be helpful. Last quarter you had mentioned that you will start disclosing the quantum of synergy that you have delivered, so any color on that would be appreciated?

Rajeev Dalmia: First let us discuss about the split of the revenue. Subscription revenue 14,530 million; lease rental 2200 million; teleport 567 million; bandwidth charges 373 million; sale of customer-premises equipment 358 million, advertisement income 225 million, other operating income 174 million, the total is 15,942 million and the SAC for the quarter was 1575 and the content cost was 35% of the subscription revenue. About the synergies which is reflected in the EBITDA which is 32.9%, we have started achieving synergies in almost all the expenses majorly in call center, administrative services, salaries, warehousing, logistics, transport and content. May be that number about the synergies is not possible because it is a mix of both the brand and both the merged companies but as we have guided that it will be reflected in the EBITDA, so the number of EBITDA which is 33.9% is representative of synergies as well as the original cost estimate which we have guided at the beginning of the year.

Vivekanand: Sir just a couple of small follow-ups. One on the cash interest cost that we have and the leverage position, gross and net debt?

Rajeev Dalmia: The debt is 2150, gross debt is 2550 and the average cost of funding around 8% because we have a mix of both dollar as well as the rupee loan and for the remaining 6 months, we will pay around 500 crores. So the debt at the end of the year will be in the vicinity of 1600 to 1650 crores.

Vivekanand: What about the CAPEX incurred in the first half and your guidance for the remaining part of the year?

Rajeev Dalmia: CAPEX for the quarter was 230 crores and as you know for the first quarter it was 192 crores. We continued to maintain our guidance of around 850 to 900 crores for the full year as far as the CAPEX is concerned.

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

Yogesh Kirve: Sir if we look at the subscriber additions during the quarter of about 2 lakhs, it seems a little softer than the first quarter and also what the guidance we have for the full year, so I just wanted to understand what is happening in the market, is it the subscriber growth is more tapered or are we more conscious in terms of adding new subscriber in the interest of quality of subscriber. So could you share some color on this?

Anil Dua: Yes sure Yogesh. You see normally festival quarter is when we get 40% of our net ads and typically second quarter is seasonally weak. So this is in line with our anticipation and faced split of our net adds target, so our guidance of 13 lakhs sales in terms of net adds for the year and this is linked to the situation that post first quarter you get lots of people on to the platform with sports, second quarter also is the monsoon quarter. There has been flood in one part of the country and draught in other part of the country. That makes the difference but it is all factored in because it happens every year.

Yogesh Kirve: Sir my question is more from a broader perspective, if you see prior to merge Videocon and Dish TV each is to add about 0.2 million to 0.2 to 0.3 million, so together about 5 lakhs subscriber per quarter and right now we are at about 2 to 3 lakhs, so what has changed? So that is why I was asking, are we little more conscious in terms of adding new subscribers?

Anil Dua: You know this is something which we have been speaking for last 6 months. We had given guidance 6 months back of 30 lakh keeping in mind all the facts that we are saying because we had said in the past that through a combination of net adds and ARPU we are looking at an optimal combination that give us the revenue guidance that we have mentioned which is 8% growth. You will appreciate that this is the combination of how our estimates is growing, how our subscriber base is growing and at what ARPU they are coming in. So we look at this strategy of combination of ARPU and net debts dynamically the way the situation evolves from month to month, quarter to quarter, but pretty much in line with what you said 6 months back that 13 lakhs is what we are looking at as part of our overall strategy to get to 8% revenue growth and 35% as the EBITDA margin and we are pretty much moving in line with that. There is no deviation.

Yogesh Kirve: So what has been the churn rate during the quarter?

Anil Dua: 1%.

Yogesh Kirve: 1% per month, right?

Anil Dua: Yeah.

Yogesh Kirve: So if my understanding is right so when we talk about 1.3 million, 13 lakh net addition for full year so we are essentially referring to about 41 lakh sort of in gross additions for the year?

Anil Dua: Yeah, 4 million.

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

Sanjay Chawla: I got two questions. First one is how many of your customers would be outside 1100 towns that were being referred to by Jio with regard to the FTTH offering and that is first question and related question is you mentioned some vulnerability assessment, 1% of the base, what kind of an ARPU cut off have you used in assessing that? That is the first question and second question is you mentioned about OTT service and Hybrid box, but would you also be looking at offering your customers particularly in the areas where you mentioned there could be vulnerability, bundled offerings in terms of DTH plus broadband access product?

Jawahar Goel: This is Jawahar Goel. Look, we had made the vulnerability assessment of the subscriber base in the month of July, August when there was the announcement. So now we see that the real impact will start after 4 to 6 quarters, by that time this combination happens, the formalities are done and the work forced by the last mile operator are also in line. So we don't see as the management of Dish TV that there will be real impact coming in the near future.

Sanjay Chawla: And what is the ARPU cut off that you have used in the vulnerability assessment that you did in July?

Jawahar Goel: That has become irrelevant now, so we will talk to….

Sanjay Chawla: And on the second question, would you be looking at offering the DTH and broadband access through partnerships or tie ups, joint go-to-market arrangements maybe in specific micro market for combined DTH?

Jawahar Goel: We are looking at that. We had actually mentioned it last time also, so that is certainly on the cards looking at partnership with different broadband players that will happen as required.

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

Vikash Mantri: Sir, wanted to understand on the balance sheet clearly our other current liabilities have jumped up by some 1100 crores and also there is an increase on the other financial assets and other current assets, can you help us with that?

Rajeev Dalmia: It will be knocked up in the next quarter. The net is around 350 crores which is advance to the supplier, mainly for OTT, set-top boxes and the new networking equipment.

Vikash Mantri: But what is the nature of this number sir?

Rajeev Dalmia: Otherwise, if it is a final balance in the audited balance sheet, the amount would have been 350 only, but because it is a provisional balance sheet that is why both the items are appearing as current assets as well as the current liability. The net is 350 crores which is advance to supplier of equipment.

Vikash Mantri: What is our current inventory of set-top boxes?

Rajeev Dalmia: The current CWIP is around 650 crores and both the brand together will be around 8.5 lakhs.

Vikash Mantri: And why is our property plant and equipment down from 6 monthly basis by around 200, 170 crores?

Rajeev Dalmia: No, this is because of the FOREX adjustment plus in D2H we had lot of adjustments done while the merger was done. So some of the effect of the merger was there in the last two quarter, so now it is at par with how we account for the set-top boxes in our accounting system.

Vikash Mantri: On the content cost side, now ideally a) we did not have sports in this quarter so your cost would have been lower because that is the explanation for ARPU as well but the synergy is that we talked about those don't seem to show up at all in terms of the programming costs?

Rajeev Dalmia: Programming cost separately is flat as compared to the last quarter that is primarily because of some of the increased number of subscriber and some guys who had opted for a la carte, so they have moved out but for that there is no other change.

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

Avinash Kumar: A couple of question. First would be I like to understand management view on the threat on Jio and to break it down, how do you actually intend to fight out when Jio comes to a customer home offering a bundle services, you know cable plus internet and VOIP. So I can see two threats here, one given the offering will be at a very competitive price given the telecom market history and secondly as a customer, as a subscriber I will be more than happy to pay consolidated bill for all the three services combined so it is a win-win situation for the customer. That is point one. Secondly the pricing will also be very competitive given the history, so given both the win-win situation for the customer, how do you see this threat and your strategies to fight it out?

Anil Dua: I think it is a question that has been around our new developments which happened which we have actually welcomed, as I said a while back that this consolidation in the industry which is happening is something which is good because the ARPUs have been very low in that industry, cable industry and this may be an opportunity for the ARPUs to go up eventually and that will be good for the entire pay TV space. That is the first thing that overall as a development all this action in the industry is good overall I think from a customer point of view from our business point of view.

Secondly you have to look at Dish TV strategic advantage in terms of geographically where it is in terms of the cost it means for the customers, the convenience that a satellite platform brings. I think very clearly the dice loaded in our favor in terms of our technology vis-à-vis something which has to be brought to your home and wired. There are lots of entry barriers which are difficult to overcome and sticky. So it is also very clear if you look at the experience world over that the DTH industry had continued to thrive in phase of broadband expansion and similar moves. Also, we found that the penetration of broadband has been not more than 15% despite the presence of years and years as we have seen in our country itself. So this is something which is actually indicative of the fact that this is something which does not happen in a hurry and more importantly from Dish TV’s point of view, we are focused on our brand, our offering, what our customer wants, we have relaunched our brand. We are connected with the customers, we are seeing that our customers want us, the innovations we have been pipelined whether in terms of our OTT or connected box. It is something which is certainly going to ensure that our customers are not looking beyond us. In terms of the competitive price offering etc., that you spoke about, in short term, there could be prices which are lower but I think this company has been observed to match that but in long term the prices have to rise even the tariff order which is around the corner is the positive favorable development from this point of view. I think net-net it is something which is pretty much from Dish TV point of view loaded in our favor.

Avinash Kumar: Just to follow up, you see the last mile hassle that was there, it is pretty much taken care of by the recent acquisition done by Jio. That is one part, secondly in terms of price offering, let us see if the price is at Rs. 500, 600 per month for our combined service, as a customer it gives me more value addition given to a peer play DTH to my home. So this two combine together I feel is a big risk to the DTH industry and Dish TV going forward?

Anil Dua: We believe that is a bigger threat to broadband rather than to TV because TV is something which you may keep on for 24 hours, 30 days, you don’t want to look at your meter, whereas if you are consuming it for data at some point of time you are going to look at whether I am consuming more data than I am supposed to. Whereas the satellite space ensures that you are absolutely, you have peace of mind once you pay, you can watch TV for any amount of time so we believe that while broadband substitutions may happen, TVs will continue to be watched in the traditional way through DTH route or cable route as it is watched now. Shifting to IPTV 100% is highly alike.

Avinash Kumar: And just one last follow-up. Do you see any merging opportunity that could give you more teeth to fight it out with JV and may be if you can think of a merger with cable company business itself, you do have listed MSOs as part of SL group, so do you think any merger opportunity that should help you fight this out?

Anil Dua: Yeah, if anything like that we will be able to come back but we cannot discuss those things over the call. We are always open to good opportunities.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Can you provide FCF generated during the quarter in H1? Second question is can you help us understand progress made on Tamil Nadu digitalization because that is the market which is not yet digitized and can give some decent number in terms of subscriber addition?

Anil Dua: Free cash flow was 225 for this quarter.

Jawahar Goel: And your second question on Tamil Nadu, I think it is continued to be in analog mode and whatever we have to do we cannot discuss this thing and this is a strategic thing which we cannot discuss on the conference call, but I was told that from 20th of this month, the BARC rating on analog cable network has been shut down. This is what has been agreed by BARC management of the governing council.

Dipesh Mehta: FCF number which you give 225 crores, what was that number for Q1 also, if you can say?

Rajeev Dalmia: It was around 100.

Dipesh Mehta: Sir, we have strong FCF generation in last 2 quarters, but if I look the cash position and overall debt position, can you give me because it seems to be your net debt has increased from March to now?

Rajeev Dalmia: No. In March, our gross debt was around 3150, 2250 was the debt we acquired from the merging company and we had around 952,000 crores. Today as I said we have 2550 and the net debt is 2150, so we had improved that and we will further pay 500 in the next 6 quarter as per the plan 500, so the total gross will be around 2050 or 2000 by the end of this fiscal.

Dipesh Mehta: Sir in H1, how much we have reduced our debt position?

Rajeev Dalmia: In H1, we have reduced around 400 to 450.

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

Darpan Thakkar: In the initial comments mentioned that you will be offering OTT and Hybrid box to the customers who would provide linear TV, catch-up TV, original content and all. So how much progress is made on this front and have you already talked with some OTT players, tied up with them, some color on those thing?

Anil Dua: So we have made substantial progress, we plan to launch it in this quarter. Our Beta phase is starting and we will be also getting into quick national launch soon after, so it is pretty much at the launch stage at the moment.

Darpan Thakkar: You already tied up with OTT players for this launch?

Anil Dua: This is our OTT; we are not an aggregator. Of course we may build app-in-app integration but as I said we will provide several live TV channel, we will provide catch-up TV and we will provide some exclusive content.

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

Rohit Dokania: Just two questions from my side. One is if I look at your ARPU, there has been a sequential fall and you also sort of elaborated the reason but if I look at the competition ARPU which also reported today under the telecom company, they have seen 1.3% sequential growth in ARPU, so what in your sense would be the difference between the subscriber base because of which this is happening?

Anil Dua: Different companies have different strategies and different context, you know we are pretty much pleased with our performance because we had 201 ARPU last year and our ARPU had been fairly sticky. So in first quarter it has gone up to 214, we did not want to say much about it. If you recall, there were some questions and we said what we have focused on delivering is 8% revenue growth. It could come out of any combination of ARPU and net ads. We are committed to increasing both our subscriber base as well as our ARPU, but we don’t want to get married to any one figure on them so that we remain committed to our 8% revenue growth because the situation changes every month, every quarter, new opportunities are presented and we do not want to be blocked in by any such assumed numbers and exploit the opportunities to the fullest to stay in line with our 8% revenue growth. So we are pretty much happy with our 2 lakh net ads and our ARPU of 207 against our last year ARPU of 201 and the festival quarter goes well for further increase.

Rohit Dokania: The other thing was can Mr. Dalmia highlight if there was any FOREX impact as far as the P&L is concerned?

Rajeev Dalmia: Yeah, we had a loss of 21 crores in Forex because of the rupee depreciation.

Rohit Dokania: Which line item was it booked?

Rajeev Dalmia: It will be in administrative expenses.

Rohit Dokania: Sorry, can you repeat the amount again, how much, 21 crores?

Rajeev Dalmia: 21 crores, so our EBITDA would have been higher by 21 crores if this loss was not there and this was there because of the sharp rupee depreciation in the last 3 months.

Rohit Dokania: Any impact, what would have been the impact on the balance sheet?

Rajeev Dalmia: Balance sheet, some of it is reflected in the net block. The net block is realigned with the new exchange rate and some of it is in the transponder cost also because all the transponders of both the brand are in dollar denominated terms plus we also pay for conditional access system, middleware charges and some of the software purchase. So overall it was in profit and loss account, apart from 21 crores, there was an impact of around 11 crores in the other 3 items.

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

Jay Doshi: Just one question. What is your sense of at what basis DTH industry sort of adding subscribers because the first half numbers look very weak at a combined level?

Anil Dua: This is something which in short term numbers will go up and down but in long term, it is pretty exciting because out of almost 290 million households in the country, only 197 million are TV households, so there is almost 10 crores or 100 million households which in course of time as GDP of the country keeps going will join the main stream and will be available. Secondly within the space of 197 million households, there are almost 70 to 80 million who are either not digital or not pay, so they are either on Free Dish or their own analog cable and these will continue to be an opportunity for DTH industry to exploit. Digitization phase 4 is yet to get completed as we discussed in the previous question and that will continue to add subscribers for DTH. Currently, they are growing in the range of about a million a month and you know we expect that this may accelerate as we go forward.

Jay Doshi: Second question is accounting of set-top boxes, so post-merger the disclosure, at least the net subscriber numbers you have reduced from maybe 28 million to 23.5 million, so does it at some point of time will there be associated accelerated depreciation of set-top boxes of one time right-offs?

Rajeev Dalmia: No, depreciation policy remains the same. We continue to provide depreciation at the rate of 20% on a regular basis. Plus those subscribers who have not paid for 500 days, they have been charged off. They are provided on an accelerated depreciation basis.

Jay Doshi: So that 500 still remain as far as depreciation accounting policy is concerned, so it has not been reduced and churn period has been reduced for MIS report?

Rajeev Dalmia: From 120 days to 60 days.

Jay Doshi: Now any thoughts that you may have on how do you see TRAI tariff order being implemented and the question comes from the fact that both the cable companies that have been acquired, their net content cost is much lower than what DTH industry is paying and which allows sort of company that has acquired Jio to offer more in a more competitive basis if they were to inherit those contracts, how should one think about disparity in content cost and nondiscrimination in context of what TRAI tariff order propose to do, but what we hear generally from the industry is that it may not be implemented in principle?

Jawahar Goel: This is Jawahar here. I think let us wait for the court order, Supreme Court judgment and thereafter if required we will issue a statement and this for the whole of the industry it will be news for everybody, the content provider for everybody, so let us wait.

Jay Doshi: And finally where are you in terms of cost synergy numbers that you had indicated, 510 crores of which operating level was about I think 330 crores above EBITDA, so we are finding a little difficult to map the current cost structure versus with respect to the guidance indication that was given, given that there are some one-offs including other Forex losses which were not anticipated, but if you were to sort of put a number, how much of that 330 crores above EBITDA cost savings that you had indicated is already visible in this quarter's number and how much more?

Rajeev Dalmia: See the numbers are mixed because of the merger of both the companies. We also foresee that this 510 will be reflected by way of higher EBITDA margin. If you see the EBITDA for the whole of last year, it was around 28.6% whereas today we are 34% which is higher by say 6%. 6% is a sizable number and in terms of interest cost, we are already having saving of 75 crores because of the reduced cost of interest of the loan that we acquired and in set-top boxes also, the average cost, if you see why we are so low in terms of CAPEX, otherwise last year's CAPEX was around 1150 but this year we are targeting, say 900 to 950. Of course, the numbers will be slightly less, but still the average cost of the box through which we had anticipated and which we had guided continue to be based on our guidance, so these two items are intact. If you talk of call center, salaries, warehouses, rent rates, taxes and some of the contracts which are AMC type, it has also increased because of the inflation but because of the merger or because of the volume, the real increase is very negligible or in some cases it is minor and that minor was quite prevalent administrative cost or other cost this quarter versus last quarter. There is a fair amount of saving which will continue in the coming two quarters also. So it is very difficult to quantify because it is a mix of various items. If this to be alone was guiding for the synergy, we would have done it but we have borrowed lot of cost from them which was accounted for in a different manner and which was contracted in a different manner. So now with contract being won, we are both, some of the cost have increased because of the inflationary effect, but overall it is down and it is touching the line which we had guided which is reflected in the EBITDA margin of 34%.

Jay Doshi: Understood sir. Let me ask it the other way if from our modeling perspective, the cost structure that we are seeing in the current quarter can it go down further in absolute terms?

Rajeev Dalmia: It will go down in interest and it will also go down in the other operating cost.

Jay Doshi: And any color you can give on that will it be like another 5 to 10% or?

Rajeev Dalmia: You can assume 5%, but beyond that I am not, because lot of things we are doing on a new basis like OTT platform, new boxes, new networking equipment, some of the new machines have been purchased on each model, so it is difficult, we are a very big company now, it is 7500 crores received, but EBITDA which we have said 34%.

Jay Doshi: And final one last quarter had two one-offs in financing expenses, one of the prepayment of about 20 crore and another one was upfront payment for, so ideally the difference between the last quarter and this quarter is little less than 20 crores. So is there any one-off in finance expense this quarter as well or how should one think about it?

Rajeev Dalmia: Yeah, absolutely correct. Some of it will be written as a because of the rupee depreciation. So all the loan part which is not part of the expense part is accounted for in the finance cost that is why it is higher in terms of cost.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted to get your sense that given this year was more of consolidation year and hence we are looking at overall growth of around just 8%. Going into the next financial year when we look as a consolidated entity, how should one look at the overall growth in terms of the number of net adds as well as overall revenue growth going forward that is one and secondly where from are we looking at these growth coming in? Is it predominantly from the 80 million analog subscriber that we are talking about in tier 2 or tier 3 cities which will contribute your overall growth and what would that lead to ARPU?

Jawahar Goel : I think in the earlier question that the DTH industry on growth basis will acquire 10 to 11 million subscriber on the annual basis. I think that will continue for more years.

Sangam Iyer: So when we look at the overall growth perspective from a revenue perspective, the double digit growth coming back should be from the next financial year itself?

Jawahar Goel : No, I think we should wait for the tariff order if the content is a pass through item, we will be distributor for television channel whosoever is there on the distribution as a DPO, then probably the revenues will be pass through. It will not be coming as expense. So lot of things will change in the scenario. So we have to wait for a couple of weeks. By the time the order comes and TRAI will call everybody on the line, have meeting, we will make an assessment of timeline and then we will come back.

Sangam Iyer: On an overall basis, given that over there even though there is a pass through, there is a base rate and then a-la-carte rate would actually mean that there is a higher pass through that is coming through for distributers here?

Jawahar Goel : Yes. That is why the scenario will change. At this moment, we were buying the content and selling the content to the consumer. Our scenario will change that we will charge for the price and to charge distribution market. So let us wait for that, the whole paradigm of the construct of the industry may change.

Sangam Iyer: Got it. Just a hypothetical thing, in such a scenario predominantly our role would be only on the acquisition side, right? Subscriber growth which would be the key criteria for us to grow the business?

Anil Dua: Today also that is the main talk, maybe it is more pronounced in the new scenario and of course, broadcasters will also help in getting new subscribers by new programming and by involving us in the marketing program partnering us in the various stages of customer partnership and it will be very matured kind of situation going forward rather than a passive situation which exists today where we are just a taker of the content and we showcase the content in whichever manner it is received without knowing that whether the customer is happy or not happy, that line of thinking or that analysis of quality is not in hand, it comes very late and by the time it comes, the ball is already out of our hand.

Moderator: Thank you Mr. Iyer. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Two questions; one, will you subsidize your OTT/Hybrid boxes?

Anil Dua: We are looking at all opportunities that OTT present. We will definitely use it as a tool for our existing subscriber so that they don’t kind of look here and there, they have everything available with their Dish TV brand on their platform, but certainly we believe that we are making a good product and it can become an attraction tool as well.

Jawahar Goel: The box is already there and we have already done 4 million boxes in the market which are Hybrid ready.

Anil Dua: That is the point you know that there are almost 4 million boxes that we have which we can convert into connected boxes which we are planning to do in this quarter and that is the hybridization of our existing boxes which is going to be a further opportunity for this business which is a new subsidy which is getting added. To answer your question whether we are going to subsidize, we are going to leverage our existing boxes, already active in the market and provide them, enable them to watch internet content as well.

Naval Seth: And what will be the cost either to consumer or to you for this upgradation of 4 million boxes or per box basis?

Anil Dua: You know that slightly competitive information, it is work in process, it will be very affordable, very attractive but as we launch, we will be revealing those price points.

Naval Seth: And my second question is on dividend, has board stated particular policy of percentage payout of the PAT annually now or you can throw some light on this?

Anil Dua: Dividend distribution policy is already in place but I think being first time we declared the dividend this time, more detailed policy for the future will be available and may be discussed at the year end.

Moderator: Thank you. The next question is from the line of Kunal Shah from Enam Investments. Please go ahead.

Kunal Shah: My question is medium to long term, when do you think will the point come when we can start reducing the subsidy that you are offering on the boxes?

Anil Dua: This is something which I believe is the legacy of this industry and we have been trying over last one year and we will keep, I think taking initiatives to actually change the business model over medium to long term. This is something with which our every new initiative whether it is the enablement of our existing boxes to convert all CRT TVs into smart TVs and it is launch of Hybrid boxes or it is next generation boxes, it is our endeavor to keep reducing the subsidy and get customer alignment with higher ARPUs. This is something which we certainly believe in medium to long term, that is the only sustainable way.

Kunal Shah: Right but at least CPE now, there is significant seeding in phase 3 and phase 4 market as well, so at a point of time when seeding is complete, would that be a right time?

Anil Dua: It cannot be sudden I believe, it has to be gradual and I think we have been making our efforts to gradually keep on reducing it and that is something which, yes can get a boost with certain events in the market and certainly we are cognizant of that and will be leveraging those events.

Kunal Shah: And my second question is regarding the Free Dish, what is the update there in terms of thoughts and in terms of the growth there?

Anil Dua: There is no decision taken by the government yet about the option of this Free Dish so we have to wait for any announcement.

Kunal Shah: And how do you see the growth happening over there right now currently?

Jawahar Goel: There is very dull market, it is very dull, sale is not happening and probably one issue you must have noticed because of Free Dish, the market has grown, we normally lost subscriber. If you make an assessment, in India we have 76% TV household as they had picture tube televisions. So they have a limited tuner capacity and etc., so 5 year back it was 83% so in 5 years all the flat TV and so many brands in the TV segment, display device segment, they had mostly tuned into new addition of the television home but CRT TV population is not reflecting as fast it should have been happened and on coming to the free dish, the most popular channel is Hindi GEC and Hindi movies and the second line channel of the major broadcasters. They are pay channel on our platform and free-to-air there and TRAI has filed an affidavit in one of our mitigation that a channel can be either paid or it can be free-to-air. So it will force the broadcaster to think their strategy to remain on free-to-air, more altogether at Free Dish or to become a pay channel, so that I think they will declare after announcement of the Supreme Court judgment on going forward.

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

Mayur Gathani: Sir, your gross debt you mentioned March 18 was around 3100 net crores. So if I look at an interest of 8%, it comes at 250 crores. You have already paid a half yearly interest of 336. I understand there could be some regulatory dues that you are still providing for the P&L but there is no cash outgo so can you elaborate on that?

Rajeev Dalmia: It is 119 crores for the 6th month.

Mayur Gathani: So 240 includes 119 and balance is for the actual interest outgo.

Rajeev Dalmia: We pay LC charges; we pay LC confirmation charges, negotiation charges so everything is part of the finance cost.

Mayur Gathani: So that is why the interest cost is showing so high, I mean on the ground state of 3100?

Rajeev Dalmia: Yes.

Mayur Gathani: And the regulatory dues is approximately 1800, 1900 crores as on date?

Rajeev Dalmia: It was 2800.

Mayur Gathani: It is 2800 and there you calculate interest at what 10% or higher?

Rajeev Dalmia: 12%.

Mayur Gathani: 12% and the CAPEX you load your guidance from 1200 crores to 900 crores, is that the synergy benefit that you are getting because you have not reduced the number of gross additions?

Rajeev Dalmia: There is a synergy benefit also and there is reduction in the cost also in some variety of boxes which was negotiated better. So it is a combination of synergy as well as less price achieved buyers or I would say negotiated buyer.

Mayur Gathani: But isn't the rupee depreciation impacting you?

Rajeev Dalmia: Some of it is written as a by rupee depreciation but still we are gainer.

Mayur Gathani: On the OTT platform, any amount that you would want to quantify how much are you spending?

Rajeev Dalmia: So far it is around 35 crores on the CAPEX and networking equipment by startup cost and other cost still launched and thereafter it will be very marginal cost purchase of small content items which will be reflected in the content cost.

Mayur Gathani: So if the group company also having launched an OTT platform, will there be any synergies there or you will be having exclusive because you mentioned there will be some exclusive content for you as well?

Rajeev Dalmia: See, we are talking of different customers and different products there, so the group company has a typical OTT which is in the broadcasting space. Our OTT is meant for more from point of view for subscriber, so we are looking at typically short form kind of content which is different from what the other OTT players are looking at. So we feel that these are absolutely tailor made for our respective audiences.

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

Avinash Kumar: Just one data point. Can you help with the customers that are on a-la-carte now which was at 2.3 million last year?

Rajeev Dalmia: It is around 2.6 million this quarter up to 30th September.

Avinash Kumar: And how is the traction you are seeing there?

Rajeev Dalmia: It was very high in the last quarter because of the sports. Now it is consolidating but again it will have a surge in the ongoing India cricket series.

Anil Dua: So obviously it had got a fillip and we had advertising running. If you remember, we were running a film called *"Sadhe Aath Mein Jeeto, Sare Haath"* so that was obviously pushing it much faster and since then we moved on to this our current brand relaunched well, but the a-la-carte has continued to grow. So it is certainly doing well and certainly will continue to grow.

Rajeev Dalmia: And it has opened a new segment of revenue and we can advertise it separately and it has different class of takers which can be taken separately by the separate marketing team.

Avinash Kumar: Do you have any number in mind on how many subscribers will move to this or take this a-la-carte pack maybe by end of this year given the try or that gets pushed a little bit further?

Anil Dua: I think ideally it could be our entire subscriber base. We are not trying to put any limit to what we can do with this because the whole idea here is that you may be on any base pack but you may like to avail of something more. So except for the customers who are subscribed to all the full-on pack, every other customer can for a nominal charge, and start in joining additional HD or SD channels. So there is no limit, it is giving a clearly benefit to the customer.

Jawahar Goel: As the tariff order says, this is the model which has to be operated under which you have to operate on this model. The entire pay channel has to be made at level to the consumer on a-la-carte basis. So we had done in order to precursor the implementation of new tariff order number one. Number two is give us the opportunity that if a channel or with the broadcasters we are not on fix fee deal which is now in a different mode, so that channel is labeled to the subscriber on a-la-carte basis. So like you had seen currently there is some negotiation did not happen between the DTH Company and broadcaster. So they had begun a-la-carte or add-on kind of thing. So this gives us always ready reckoner for the company to move into the pay per subscriber basis.

Avinash Kumar So basically what we are trying to say is a very positive signal and as a good precursor to the implementation of TRAI orders.

Rajeev Dalmia: Yeah.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Firstly I wanted to check on the content cost, so you mentioned about content cost being flat sequentially in Q2. Now with synergy benefits likely or more synergy benefits likely in the second half versus the first half, so how should we expect content cost to move going forward both as a percentage of revenues as well as absolute numbers?

Rajeev Dalmia: As the percentage of revenue, it will be around 32 to 35% and in absolute number like we have said, it will be lower by 190 crores synergy in these items. So that we are really watching that and if we translate the value that has been arising in the last 6 months, how it is going to give us the number but let us put that way that let us assume that it will be around 30 to 33% of the revenue which is fairly okay and much better than last year.

Alankar Garude: And finally just wanted to check have you or any of the other DTH players ever tried to implement city specific or location specific pricing, either directly or through promotions and if not is this the possible option going forward?

Rajeev Dalmia: We have done it in the city of Calcutta, Bombay, Delhi, Madras at the time of implementation of the batch one, but beyond a point it has a limited advantage and this is talked about by the dealer and distributors that you have been charged more than the other customers and further guys are not doing like if we do and other DTH guys are not doing then it puts us in a disadvantageous position. So yes technically we can do pin code wise pricing also if required but for the sake of simplicity and for the sake of competition, all of us have put up one price for one channel for the whole country.

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

Tarun Nanda: Thank you once again for joining us ladies and gentlemen. We soon would be having the transcript of this call on our website, www.dishtv.in. We look forward to speak you again at the end of the third quarter or even earlier on a one-on-one basis. Thank you and have a great day.