DISH TV INDIA LIMITED

4Q FY18 EARNINGS TELECONFERENCE
May 29, 2018, 05:30 P.M. INDIA TIME

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dish TV Limited Q4 FY 2018 Earnings Conference Call. 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 an operator by pressing "*" then "0" on your touchtone telephone.

I would hand the conference over to Tarun Nanda. Thank you and over to you, Sir!

Tarun Nanda: Good Evening, Ladies and Gentlemen and thank you for joining us today for the Fourth Quarter FY 2018 Earnings Conference Call of the new, merged Dish TV India Limited.

To discuss the results and performance, joining me today as always, is Mr. Jawahar Goel -- the Chairman and Managing Director of Dish TV India Limited; we also have Mr. Anil Dua -- the Group Chief Executive Officer of the company; and Mr. Rajeev Dalmia -- the Chief Financial Officer.

We will start with a brief statement from Mr. Anil Dua and will then open the discussion for Questions-and-Answers.

Just quickly, 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. Dua to address the participants.

Anil Dua: Thank you, Tarun. Good Evening, Ladies and Gentlemen and thank you for joining us today. It is my pleasure to report the first set of merged financials of Dish TV India Limited. I am happy to share that merger integration across functions has been successfully completed, and new roles, responsibilities and key deliverables have been well received by our teams. I see a new sense of passion and urgency all around in the company and believe that we have everything we need to surge ahead.

Revival in rural demand, prospects of a good monsoon, and an increase in infrastructure spending is likely to drive a broad growth recovery going forward. The merged company subscriber base is a fair mix of urban, semi-urban and rural subscribers that would enable it to benefit from increased discretionary spending across categories. A healthier urban mix would be beneficial to the revenue pool while at the same time a stable, paying rural base would help buffer the platform from alternate technologies. There is a significant growth potential both in the short-term and the long-term when it comes to acquiring new subscribers.

While in the short-term, digitization will continue to feed subscriber additions, government schemes focused on bridging the urban / rural divide will create demand for new televisions and Pay TV connections in the years to come.

Three well recognized and powerful brands Dish TV, d2h and Zing are now being marketed under the Dish TV India Limited umbrella with each being favorably positioned in its key target markets. Identifying the strengths of each brand, the company has been targeting profitable growth while maintaining healthy competition and encouraging synergy in back-end operations. Separate sales teams with uniform structures are both complementing as well as productively competing with each other in the market.

On the customer service front, the company aims to build a faster, better, and efficient service model that no other DTH player can match.

On the regulatory front, the recent ruling by the Honorable Madras High Court, on the TRAI Tariff and Interconnection Orders, 2017 should go a long way in ensuring a level playing field in the television distribution space in India.

Now coming to the financials.

The fourth quarter fiscal 2018 consolidated subscription revenues and operating revenues stood at Rs. 13,771 million and Rs. 15,324 million, respectively. Adjusted EBITDA for the quarter stood at Rs. 4,606 million resulting in an adjusted EBITDA margin of 30.1%. Presuming that the financials for fiscal 2018 had represented 12 months each of Dish TV India Limited and Videocon D2H Limited operating revenues of the company would have been Rs. 62,377 million and corresponding adjusted EBITDA would have been Rs. 19,690 million with an adjusted EBITDA margin of 31.6%.

We are confident that fiscal 2019 would be a year of exceptional growth for Dish TV India Limited. A fresh campaign and brand tagline is only the beginning of what will be a transformative year for the company.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, thanks for the opportunity. My first question is on the sales team. You mentioned separate sales teams with uniform structures both complementing as well as competing with each other. So if you could elaborate on how you are able to get the full efficiency from this, if they are competing and also complementing? And how both are possible, if you could take us through that? And do you see this kind of a sales structure still remaining after one year?

Anil Dua: Okay. I think, yes, that is what we are attempting. Right from day one, we have been saying that it is our intention to see that in this merger 1 plus 1 becomes 3 because if we are not careful there is always a possibility of 1 plus 1 going less than 2 and one of the key things we thought towards that is that we should maintain two brands and two sales teams to healthily compete and to further increase our share of the dealer space as well the customer space. So, they will compete with each other in the sense that they will continue going as two different brands as they have always gone. And they will compete for funds and dealer shelf-space and the channel share and customer share as they have been competing. They will complement each other because they will pick-up the best practices from both the platforms and we will ensure that they are equally empowered, equally enabled in terms of MIS available to them, in terms of resources available to them, and in terms of all the policy uniformity that can be implemented across the 2 platforms. We feel that this will give the best combination of back-end complementarity as well as front-end healthy competition that we have spoken about. Also, because there are different regions of the strength of the 2 brands, what this will also imply that we will be able to regionally offer a better kind of sales mix in the marketplace. Wherever d2h is strong, we will be able to ensure that we take that strength further and vice versa for Dish TV. So, that is what we mean in terms of competing and complementarity. In terms of whether it will continue even after 1 year, we see that in foreseeable future the two brands will continue. Eventually, there may be possibilities which certainly is not within 1 year or within foreseeable future. But, yes, we cannot rule out eventual merger after a few years.

Abneesh Roy: Sir, one follow-up here: because in the foreseeable future both will coexist, and in a lot of markets, both brands do compete. How do you ensure there is no price cutting? Because I think, in terms of pricing, in terms of most other parameters, I think you will maintain similar. So then in the same market, when they compete do not you see some irrational behavior by the team on the ground?

Abneesh Roy: No, sufficient checks and balances will be put in place to see that such irrational behavior can be controlled. But to see at some level these two systems converge. So while at the front-end, sales people level and the first supervisory level these two systems will operate independently but above the first supervisory level, we will have a convergence. So, let us say, each circle has a circle head who has a cluster head for Dish TV along with the sales team of Dish TV as 1 leg and cluster head of D2H along with the sales team of D2H as the other leg. So, the circle head will bring in the necessary sanity to the whole system to ensure that there is no price cutting or incorrect practices that come into the system.

Abneesh Roy: Sir, my second and last question is on à la carte. You have mentioned 2 million people have taken à la carte and this has led to incremental revenue. I thought, because an à la carte customer will choose, and he watches a very select number of channels, the revenue could have come down. So, if you could explain that bit how incremental revenues have come? Second, on the Chennai Court ruling for fresh developments but Tariff Order, we have seen a lot of false starts and delays. What is your take on it, post the Chennai ruling?

Anil Dua: So I will take the first one, which is on à la carte or Mera Apna Pack on Dish TV platform and Mera Wala Pack on D2H platform. Yes, we have aggressively acquired new channel sales under this and there is certainly a risk as you said of revenue coming down. But this turns it on its head as revenue in any case, is coming down. As you know, there is a wide-scale down trading which has been happening in the market over last 2 years. Now, people who have come down, we want to recover some revenue from them because let us say if they were paying Rs. 99 earlier and some of them are paying Rs. 199 Mera Apna Pack or Mera Wala Pack or à la carte pack is an opportunity for us to get back Rs. 20, Rs. 30, Rs. 50 from them. So that is what this initiative has been trying to do. On the Chennai Court Tariff Order, I will ask Jawahar Ji to respond, please.

Jawahar Goel: I think it is only 10 days now. The court has granted 2 weeks' time to put it in under suspension that is if anybody is aggrieved they can go to Supreme Court. So far TRAI has only filed a caveat and we have not seen any party going in the Supreme Court. So, let us see by Monday, what happens.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: Hi. Couple of questions. one, can you please get the housekeeping questions out of the way, the revenue split, gross debt levels, net debt levels, regulatory dues and also a commentary on the accounting policy with respect to lease rental, license fee provisions, regulatory dues, that is question one? And secondly, on revenue growth. You mentioned that you intend to grow faster than the industry. What is your turnaround plan here? Because we have seen that, in the last 3, 4 years, our revenue market share has dipped because of our presence in, say, the rural markets and also Free Dish impacting us a lot more than other players. What gives you the confidence that now after the merger you will be able to grow faster grow revenue faster than the industry? And if you could, extend your revenue argument to the long-term plan because if I look at Airtel DTH and Tata Sky both of them have broadband operations. Tata Sky is piloting it and Airtel has a home broadband business already. So, you have outlined that you are going to launch integrated OTT services. But do customers really need one more app to watch content? Or is there any thought process with respect to investing in broadband? I will stop here. Thanks.

Rajeev Dalmia: Yes. First housekeeping questions so in terms of a split for the quarter: the subscription revenue is Rs. 1,377 crores; Teleport service is Rs. 6 crores; bandwidth is Rs. 51 crores; sale of customer premises equipment which is a special item Rs. 42 crores; the advertisement is Rs. 20 crores; and lease rental is Rs. 35 crore and the total is Rs. 1,532 crores. In terms of gross debt, as on date, it is around Rs. 2,750 crores; and net debt is Rs. 2,200 crores. So Rs. 550 crores is the cash that is in the books of the company. In terms of regulatory dues, it is Rs. 1,950 crores without interest plus we need to add interest also to make it the number which is published in the one pager. What were the other questions after that?

Anil Dua: I will take that. Your second question, Vivekanand, was on how the revenue growth will come? And I think, couple of points here. One, I have already said that we do expect the economy to accelerate. We expect infrastructure spending and all other measures to translate into more consumer spending also and that should give us and of course, the DTH industries a boost. But secondly, on our platform with these 2 platforms coming together Dish and D2h coming together we definitely see possibilities in terms of riding on each other's strengths to create some revenue synergies which will help and thirdly, if you look at the combination. For example, you spoke about rural market, etc. we have spoken in the past that 75% of Dish numbers come from rural. If you look at the combined platform, we are talking about not 75-25 split now, we are talking about 65-35 split. So, we have a good profile in urban as well as a good concentration in rural and we think that puts us ideally in a position to harvest both the ends of the spectrum. And, along with several other initiatives that we have in mind including strengthening our brand, further building on the initiatives we have taken in terms of high definition, in terms of our day-term sales, in terms of Mera Apna Pack that we spoke about. We hope all these will help us build revenue. Your third question was on comparison with Airtel, Tata Sky, our integrated OTT service. Yes, we definitely have plans to be in OTT space. You said, does the market need yet another app. Well, the point is that space may be small today, but it is a growing space. It is a space where at least the upper end of the market is moving. So that needs to be de-risked by all the platforms, that needs to be an area where we need to play in because ultimately, it is the content consumption which we do through our distribution and therefore, it is not an area we can ignore. And that is why we have definitive plans to enter this space and make sure that when the segment becomes big enough we are already there to take advantage of that.

Vivekanand Subbaraman: Right. Thanks for this. Just one follow-up on the OTT side. Do you also intend to invest in wired broadband to connect boxes? Or what are your thoughts on the two-way connectivity of Set-Top Boxes and on-demand content in Set-Top Boxes because you have written a bit on the Set-Top Boxes and how you are becoming more efficient due to the merger. Any thoughts on this?

Jawahar Goel: This is Jawahar here. Mostly, we will be targeting homes which already have Wi-Fi connections. So we will not be wiring and creating infrastructure at all. We may tie-up with the local service provider as well because in each vicinity there is a local service provider to facility the sales.

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

Yogesh Kirve: Sir, my first question is regarding the subscriber additions. So first of all, what has been the additions for the quarter? And what has been the trend which is seen in the recent months? And also, if you could give some guidance or expectations pertaining to FY 2019 in terms of gross or net additions?

Anil Dua: Well, I think, we are talking about the financial year. We will talk to you on the first quarter results and on the subscriber, what is happening in the current month and also keep in mind that there is a 30 days window of the tariff implementation from the TRAI. So the industry has to work together to see the tariff order in place. Dish TV as we have said that we have 2.2 million subscribers on Mera Apna Pack this is a precursor of the implementation of the Tariff Order. Yet I think we are the only one I guess in any of the DPO including cable or the DTH industry who are geared up to sell the pay channel based on the Tariff Order and the customer demand.

Yogesh Kirve: Right. Sir, can you state what has been the subscriber additions during the quarter in the fourth quarter?

Rajeev Dalmia: It is 0.2 million in the fourth quarter.

Yogesh Kirve: So this is across both Videocon and Dish TV brands?

Anil Dua: these our net adds.

Rajeev Dalmia: Yes, these are net adds.

Yogesh Kirve: Yes, net adds across both the brands, right?

Rajeev Dalmia: Yes.

Yogesh Kirve: Okay, sir. And secondly, regarding just a clarification. So there was differences in the accounting as per the license fees was concerned between Videocon and Dish TV. So our P&L for the 4Q is as per the Dish TVs accounting in terms of the provisioning for the contested amount of license fees?

Rajeev Dalmia: We have done based on Dish TV practice.

Yogesh Kirve: Right. If I get my understanding right, so Videocon will also have a similar arrangement regarding the passive Infra. So, there would be further benefits that would flow in from the first quarter of FY 2019?

Rajeev Dalmia: Yes, it will flow from 1st April, 2018. So it will be visible in the first quarter of this year.

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

Rajiv Sharma: So, just couple of questions from my side. What are your thoughts on the CAPEX guidance? How much you plan to spend over the next few quarters? And second, if you look at the new Tariff Order and given that content costs go out the EBITDA per subscriber improves significantly for DTH. So, there will be some increased cost around consumer branding. So just want your thoughts and some color on this as to how do you see this playing. Will it be completely a 2x increase or it will be increased by 1.3 times - 1.4 times?

Rajeev Dalmia: The consumer spent is well within the budget of the company both the brands and we do not expect extra spend on this. Number two, your question is on the CAPEX, we estimate that the CAPEX will be around Rs. 1,200 crores in the year.

Rajiv Sharma: Just a follow-up, so you think when the content costs go out as per the new Tariff Order, so whatever increase in EBITDA per se of that entirely flows through? Or you do not anticipate any kind of increase there, means lesser EBITDA?

Jawahar Goel: No, we have never said so. We had never said so that the content costs will go away because of the new Tariff Order. I said a new order will come. But we do not know how the industry will sit together and pan it out. The industry has been working in a certain fashion like might is right kind of environment for last 25 years. So it has to gel. We will keep you informed what is happening at that front.

Rajiv Sharma: But overall, you see this Tariff Order as positive for DTH?

Jawahar Goel: Yes. Because we will be allowed to charge for the pipe and for providing certain Free-To-Air channels and plus for the pay channels, we will get margins there. Plus, most of the thing is that it will be non-discriminatory. So the prices given to a cable operator in Chennai like Arasu Cable, the same price will be applicable to us.

Rajiv Sharma: Okay. And 1 just a separate question, what are your plans to drive ARPU the next year apart from HD? And what is your HD base now in the combined entity?

Anil Dua: So this will be one major focus area for us in terms of driving ARPU. First of all, we have started that last year and we continue to persist with focusing on quality over quantity. So we are looking at the better quality of customers. We are looking at better channels, which bring better quality customers. In the traditional channels, we are looking at better controls, which bring quality, which lower churn and we are looking at incentivizing our teams on quality. So that is one thing you know which should certainly help get more revenue from the same base. Secondly, while you said other than HD, I think HD is going to be one major area that we will drive because it started giving us good dividends and we will like to build further on it for both the brands for Dish as well as D2H. The numbers on HD, since you asked the numbers are in the region of about 3.5 million both the platforms put together the net base, which is about 15% of our overall net base.

Moderator: Thank you. We move to the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Most of the questions have been answered. Just on this HD subscriber base that we mentioned the 2.2 million à la carte based the customer who are opting for à la carte channels, does that include HD as well? And is there a count including 3.5 million?

Anil Dua: Yes. That is a small percentage. Majority of them are standard definition customers but there are some who are high definition also. Majority of this 3.5 million are customers who are taking our full-fledged HD offering and not just 1 or 2 HD channels.

Ankur Periwal: Sure. That is helpful. Secondly, on the subscriber base, we did mention net subscribers are 23 million versus the earlier cumulative number of around 29, 30. So all the clean-up in terms of the revision of the life that we calculate is all done? And what numbers are we looking at over there?

Anil Dua: So we have gone in line with the industry practice. Earlier we used to take 120 days, now have looked at 60 days. So we feel that this is (a) in line with industry practice and (b) a more rational way of accounting for the number of subscribers.

Rajeev Dalmia: Plus, we have also removed complimentary subscribers, demo subscribers, and lifetime subscribers.

Ankur Periwal: Complimentary, demo and lifetime, okay. That is helpful. Sir, lastly, on the content cost, if you can share either the H1 numbers for us, after the merger that is?

Rajeev Dalmia: I think we can discuss this one-on-one.

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

Dipesh Mehta: Yes. Sir, most of the questions have been answered just 2 questions. Just want to get a sense about what kind of FCF we might have generated during the year, if you can help us with that number? And how you expect, considering the Rs. 1,200 crores CAPEX which you indicated for the next year as well, how one should look at gross debt and FCF kind of number entering into 2019? And the second question is similar about content. Can you help us understand, because one of the synergy benefits which we anticipate was related to content negotiation also? So if you can provide some color about synergy benefits, how we expect it to play out in next couple of years?

Rajeev Dalmia: I think, I have already mentioned about the gross debt which is Rs. 2,750 crores and we have Rs. 550 crores in the books as cash. So the debt is around Rs. 2,200 crores. In terms of free cash flow, because it was a very heavy year in terms of exceptional expenses like one-time merger expenses and the development of infra. So it was restricted to around Rs. 250 crores. But we have been able to reduce our debt from Rs. 2,950 to Rs. 2,750 that means we have paid Rs. 200 crores in the last 90 days.

Dipesh Mehta: Okay. And, if you can address the second question?

Rajeev Dalmia: In terms of content, as we have said that we are not willing, or we are not discussing the content over this call. And the synergy, we still stick to the figure of Rs. 510 crores and out of which we can give some kind of split on the call, which will be around Rs. 70 crore - Rs. 75 crores interest around Rs. 110 crore - Rs. 120 crores of CAPEX. And the balance will be a combination of content to the back-end services, administrative expenses, and call center expenses.

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

Jai Doshi: I just want to understand how will you continue with revenue recognition? I believe lease rental revenue recognition was different from Videocon DTH. So are you intending it to align with Dish TV in FY 2019?

Rajeev Dalmia: No, we will have to follow IndAS 115, which is different than whatever we have been following so far both the companies this is under progress and our first quarter results will be as per Ind-AS 115. We will try to maintain the revenue closer to whatever it is by adjusting or restating the revenue of the past 3 years - 4 years. We are in discussion with the auditor. Otherwise, we have to slightly postpone the activation revenue to the extent of the customer's life.

Jai Doshi: Sorry, so you mean there must be some amount on balance sheet that you amortize on a quarterly basis pertaining to Videocon DTH, so will that be fully amortized in FY 2019? And going forward, the entire activation fee will be recognized upfront the way it is done for Dish TV?

Rajeev Dalmia: No, as far as D2H is concerned whatever was previously collected as activation revenue which needs to be amortized as per the plan of that year that will continue to follow that. The new revenue which has accrued from 1st April, 2018, will be same for Dish TV as well as D2H and which will be in line with Ind-AS 115. Now there will be some impact of Ind-AS 115. We need to postpone some of the revenue which is not forming part of the upfront costs. That needs to be apportion over a period of say 2 years or 3 years which will we can give you more color maybe in the call of the first quarter this year.

Jai Doshi: Understood. Second question is this Rs. 132 crores interest cost in this quarter, how much of that is actually interest outgo and what component is pertaining to provisioning related to prior period liabilities and license fee?

Rajeev Dalmia: No, license fees, we are doing like any other quarter. In terms of Rs. 132 crores, we have paid some of the interest costs pertaining to D2H because it was 22nd of March. So as on 31st of March, we have paid some amount of interest on behalf of D2H also. And as far as license fee provisioning is concerned, I think it is much bigger than whatever we are discussing. For the quarter, I think it was around Rs. 55 crores to Rs. 60 crores.

Jai Doshi: Right. So Rs. 55 crores is just provisioning and the balance is actual outgo? Have you already refinanced some of the Videocon DTH debt? Or in the synergies that you are talking about is already captured here or there is something we will see in FY 2019?

Rajeev Dalmia: Around 75% of the loan we already replaced with the low-cost loan and balance 25% will be done before 30th of June.

Jai Doshi: Now have you had a proper look at the depreciation accounting of Videocon DTH and for the full year FY 2018 and for Q4? So Dish TV is to follow accelerated depreciation, which used to happen. So has that also been taken care of for Videocon DTH? Or can the depreciation run rate go up next year, if there is any?

Rajeev Dalmia: Now both the brands are in a 5 years period. That is the change that we have done in the fourth quarter and it will continue for the next 5 years.

Jai Doshi: Okay. Both the brands are on 5 years now and the accelerated write-off that you used to do is also done for Videocon DTH?

Rajeev Dalmia: Accelerated depreciation is a test, which is conducted by the auditor on a case-to-case basis. So we do not need an accelerated depreciation every quarter.

Jai Doshi: Right. Final one, what should we build as effect tax rate going forward?

Rajeev Dalmia: You see, as far as tax is concerned, we will have a long period of tax holiday because of the goodwill generated out of the transaction. So at least for the next 4 years or 5 years, we do not see any tax payout because we will have goodwill amortization at least over a period of next 5 years.

Jai Doshi: But on the P&L also that effective tax rate will be nil or P&L will still show some tax rate?

Rajeev Dalmia: P&L will show some tax rate because of MAT provision but that will also is very small, because goodwill amortization will also take place as per the company’s books also which is a huge sum.

Jai Doshi: No, but if you are mentioning MAT then it will be like 20% effective tax rate of PBT?

Rajeev Dalmia: Maybe 20%, but the amount or the quantum will be very small because the amount which is subject to MAT will be very small. So there is a huge flow of goodwill which needs to be amortized over a period of 5 years or maybe longer.

Jai Doshi: Right, one more if I may. The synergies that you are mentioning should we expect some benefit in terms of lower content cost starting the first quarter or it will be back-ended?

Rajeev Dalmia: It will flow throughout the year, may not be the entire flow in the first quarter. But yes, a major part of it will be resembled in third quarter and fourth quarter.

Jawahar Goel: This is Jawahar here. I can say the broadcaster has recognized the combined entity and then earlier we used to give 7%, 8%, 5% increase. This is no longer the case rather in some of the cases, we have reduced the content costs while some agreements are still pending.

Jai Doshi: So are the agreements closure also a function of this Tariff Order? So do you think if the Tariff Order things get resolved and if there is no further litigation then do you expect to close the agreements a little bit sooner?

Jawahar Goel: Well, that is why we have contracts which are for 3 months - 4 months.

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

Rohit Dokania: Just 2 quick questions from my side. One is, can you talk about the reason for the sequential fall in subscription revenue? And second, if you can give some indication of how the full year sort of revenue and EBITDA should look like in FY 2019 for the combined entity? Thank you.

Anil Dua: Yes, last quarter has seen some fall in subscription revenue and I think there are a couple of reasons for it. One, we spoke about our focus on quality versus quantity, which we have started in full earnest last quarter. Second is the fact that this quarter is 2 days shorter than the previous quarter that both the platforms put together is about Rs. 40 crores lower if you see the difference of the 2 quarters is about Rs. 95 crores and about Rs. 40 crores can be accounted for because of what is lower. And thirdly, I will say that the merger ran into some amount of uncertainty in the last quarter and that has taken a bit of toll on that. But going forward, which is your second question we do feel that we should be able to pick our revenue growth from here while last year our combined platform growth is about 3% we are looking at about a 7% to 8% kind of revenue growth in the coming fiscal.

Rohit Dokania: Okay. And sir, any sort of guidance on the EBITDA side, please?

Anil Dua: On EBITDA, last year, it is 31.5%. We are looking at taking that up to 34% to 35% in this fiscal.

Rohit Dokania: For the full year FY 2019?

Anil Dua: That is right.

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

Avinash Kumar: Just one question from my side. I mean, earlier you said on the call that post the Tariff Order, the content costs will not become a complete pass-through. So can you provide a bit more color on it? I mean, content cost saving was one of the major benefits we expected from the TRAI Order. And a similar follow-up question would be, do you see any execution challenges in the implementation of the Tariff Order I mean, on the ground implementation. I know there is some further legal window open. So the case can go to Supreme Court but apart from the legal hassles, do you see any other execution challenges for the on-ground implementation of this TRAI order?

Rajeev Dalmia: Yes, the order as stands today, we can keep 35% commission 20% plus 15% from the price which is charged by the broadcaster. Now it depends on us how much of that 35% is passed on to the consumer that is a discretion available to the DPO. Now like when MD was detailing about the modus operandi of content cost, we were skipping this commission factor into the mind.

Avinash Kumar: Okay. That is fair enough. And the second part of the question was, do you see any further execution challenges for this Tariff Order to see the light of the day because there is a window open for the case to go to Supreme Court. Keeping aside the legal hassles, do you see any execution challenges for the DPO industry to completely come in terms with this new Tariff Order?

Rajeev Dalmia: No, like I said, we have already done a replica or a trial run for the Tariff Order, like Mera Wala Pack or Mera Apna Pack. It is in operation since last 3 months to 6 months. So we already had a flavor of how it is going to takes place and how to handle the call center, SMS services, and consumer-related grievances. So we can have a firm start the moment it is implemented.

Avinash Kumar: Okay. So you feel I mean, you are completely prepared in the back-end to take this up as the legal hassles get cleared?

Rajeev Dalmia: Yes. More or less, we are ready.

Moderator: Thank you. Next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir, firstly, you highlighted down trading has been happening for the past couple of years and now with Phase-IV this trend can perhaps intensify going forward. And on the other hand, you also mentioned about improving quality of subs as well as increasing high definition penetration. So keeping these 2 factors in mind, how should we look at this ARPU of Rs. 201 going forward?

Anil Dua: Yes. So both are realities. You know in terms of downtrading, which has been happening over the last 2 years and we are trying to salvage something out of that through our various initiatives like high definition and other things I spoke about, focusing on quality, selling more add-on packs and so on. So this ARPU of Rs. 201, I will say that in last quarter while you are seeing revenue and we discussed its Rs. 95 crores less than the previous quarter and we discussed the reasons thereof. But clearly, we have had a slight lift up in our

ARPU in this quarter because if you were to look at the ARPU's of the 2 platforms earlier on as shared by them in the first 3 quarters you can see that there is some underlying improvement in ARPU, which, as Mr. Dalmia said some time back, we are not getting into right now platform-wise ARPUs. But certainly, going forward with the revenue guidance that we spoke about 7% to 8%, with the EBITDA guidance that we spoke about 34% to 35% we definitely hope this ARPU could be moving up unlike last year where we saw that for a good part of the year on both the platforms it had been fairly static. Our plans are building an increase in ARPU as we go forward.

Alankar Garude: Understood, sir. Sir, and secondly, on the net subscriber base, now adjusted for the other factors which Dalmia Ji mentioned. So how much of this drop from Rs. 30 million to Rs. 23 million is purely because of the change in the churn policy?

Rajeev Dalmia: Yes, it was less than Rs. 6.5 million because of the churn policy and around Rs. 0.5 million was because of complimentary demo and first-time-acquired lifetime customers.

Alankar Garude: Understood, sir. And maybe a small follow-up to that. In the overall business, now that the merger has been completed, have we seen any write-offs coming through at Videocon's end?

Rajeev Dalmia: It has already been factored into in the fourth quarter. That is the quarter which we are discussing.

Alankar Garude: And, can you quantify the amount, sir?

Rajeev Dalmia: No, it was not like that. They were petty expenses or maybe some distributor accounts but nothing substantially, that were very usual.

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

Vikash Mantri: Do we have any content deals which are on a per subscriber basis?

Jawahar Goel: I believe there is one broadcaster out of South.

Vikash Mantri: So sir, when we restate our subscribers from 29 odd million to 23 million, do we get a huge benefit of content because of that itself?

Jawahar Goel: That is based on the how many subscribers consume the content and that is counted on a monthly basis. So that will not have an impact.

Vikash Mantri: Okay. Fair enough. Also sir, these 6 million subscribers that were written off, were they largely from the Dish TV brand because the average ARPU was has trended closer towards Videocon, I am asking this question.

Rajeev Dalmia: Around (+3) million was from the D2H brand, 2.5 million was from Dish brand, and 0.5 million was from both the brands who have a complimentary demo and lifetime subscribers.

Vikash Mantri: Okay. On the license fee question, where we said we are going to use the same policies. Sir, my question here is, an effective license fee of Videocon comes to close to 5.5% to 6%, and ours also comes at the same range because we first have revenues in Dish Infra on which we do not pay. So next year, if we use the same policy it will not give us any benefit is what I wanted to say earlier question you said there will be some benefit.

Rajeev Dalmia: The treatment was totally different. We were not recognizing it and putting it in contingent liabilities. Now by virtue of the creation of Dish Infra, it will not be provided for. So there is a difference. And of course, there will be a change in the recognition because whatever is there in Dish TV will be provided for and paid for and whatever is there in the Infra will not be paid for.

Vikash Mantri: Okay. Fair enough, sir. On the depreciation, I see that you have said that you have moved both for 5 years, but if I look at your Q3 numbers of both the depreciation is actually the same. So Videocon reported close to Rs. 184 crores of depreciation.

Rajeev Dalmia: You are right. Like we said, we only added Rs. 0.2 million in the fourth quarter. So, the overall activation numbers were less in the fourth quarter. Plus, it is on a revolving basis, some of the depreciation has already been exhausted it has passed 5 years period.

Vikash Mantri: So it will be higher from the run rate that we are seeing right now?

Rajeev Dalmia: Yes, slightly higher.

Vikash Mantri: Okay. And sir, are we going to give a break-up of the cost of goods going forward to understand the synergy benefits better going forward? Or there will be just this line of reporting that we have shared in this quarter?

Rajeev Dalmia: No, beyond whatever we have reported this quarter it is difficult to give details.

Vikash Mantri: Okay. And sir, as per the new Ind-AS 115 you mentioned activation income has to be over 5 years the life of the subscriber? Like we used to do earlier in Dish?

Rajeev Dalmia: Yes, but the life of the subscriber will be determined by the auditor based on past data. So he is working on it but there will be one element of cost which is consumed instantly. That will be recognized as upfront revenue, balance will be apportioned over the life of the customer.

Vikash Mantri: What is the policy of Videocon as of now in terms of accounting for lease rental?

Rajeev Dalmia: One-third of lease rental they are providing for 7 years and one-third they are providing instantly, and one-third is passed through dealer distribution commission from the top itself.

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

Amit Kumar: Just wanted to understand, you have mentioned Rs. 60 crores of exceptional cost in this particular quarter on account of the merger but when I look at I mean, on a Y-o-Y basis we cannot compare because of the merger itself but when I look at it on a Q-o-Q basis your overall cost has gone up by only Rs. 10

crores. If you can just help me understand exactly where is this costs getting booked? And second, what is the nature of this cost as well?

Rajeev Dalmia: See, the total one-off for the year was Rs. 84 crores. Out of which, Rs. 24 crores were booked in the previous 2 quarters and Rs. 60 crores were provided in the fourth quarter and this is a stamp duty paid to the Maharashtra Government and fees paid to the consultant. There was no FOREX loss booked in the fourth quarter which was around Rs. 26 crores in the third quarter and also legal and professional expenses which are usual was less and relating to the merger was high.

Amit Kumar: And this stamp duty paid exactly which line item is this coming into?

Rajeev Dalmia: It will be in administration expenses.

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

Jai Doshi: So just trying to do some numbers, so you indicated as a guidance that you are expecting about 8% odd growth in revenues, which effectively means about Rs. 500 crores of additional revenues for the next year. And another number that you indicated was CAPEX guidance of Rs. 1,200 crores which I believe would be about 4.5 million Set-Top Boxes. So if I go ahead with a 10% churn rate ballpark you are targeting about 2 million net additions or maybe a little lower than that so roughly 10% subscriber growth and 8% revenue growth. So is my understanding correct that right now you are not assuming any growth in ARPU for FY 2019 as a base case?

Anil Dua: 8% growth is resultant of whatever we are able to visualize so far because previous year it was only 2.8% to 3%. Now because we have just changed the ARPU definition from 120 days to 60 days, so we really need to work that what will be the impact on ARPU. How much is it going to go up if the revenue is going to go up by 8%? Have we said that the subscribers will move by 10%?

Jai Doshi: Rs. 1,200 crores CAPEX I am just back calculating.

Anil Dua: No, CAPEX is on gross subs and we are talking of net subs. So we are only saying the net subs will go up by 1.3 million.

Jai Doshi: Right. okay. And the second question is 34% to 35% EBITDA margins if I go with 34.5% that means incremental EBITDA of Rs. 350 crores. Now your synergy guidance of Rs. 510 crores probably capture about Rs. 110 crores of CAPEX synergy; Rs. 75 crores of interest cost synergy. So EBITDA synergy that you are guiding is Rs. 325 crores and your EBITDA margin guidance ballpark indicates about Rs. 350 crores incremental. So does it mean that again on organic basis EBITDA growth will be very small or that synergy number that you indicated also captures the organic EBITDA growth?

Rajeev Dalmia: I think latter is the more appropriate phenomenon. If we have said 34% - 35% it includes the synergy benefit, but it also includes some of the organic benefits that we accrue because of the size of the company.

Moderator: Thank you. We take the last question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: Two questions. 1) any updates from the Government on our new license and the possible settlement of the regulatory dues? Secondly, what is the Government thinking on DD Free Dish, what are your discussions indicating there? Thanks.

Jawahar Goel: I think there was another satellite ABS platform which has been shut down that was a Free Dish kind of a platform. On Prasar Bharati Free Dish, I do not think there is a decision yet. We are expecting a new Secretary to join on 1st of June. Then he will take up all the issues and we have to wait. There is no news so far. License renewal is also one of the issues, which will be tackled by the person by the new Secretary.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today.

 # This transcript has been suitably edited for ease of reading