

GTPL Hathway Limited

(Former Name: GTPL Hathway Private Limited)

CIN : L64204GJ2006PLC048908

Registered Office : C-202, 2nd Floor, Sahajanand Shopping Centre,

Opp. Swaminarayan Temple, Shahibaug, Ahmedabad - 380 004.

Phone : 079-25626470/78, 079-30280340/41 Fax : 079-25626477, 30280335



Date: June 02, 2018

To:

The Manager, Listing Compliance Department, National Stock Exchange of India Limited, Exchange Plaza, BandraKurla Complex Bandra (East), Mumbai - 400051 NSE Trading Symbol: GTPL	Department of Corporate Services, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001 Scrip Code: 540602
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Subject: Transcript of the conference call with the investors and analysts to discuss the financial results for the quarter and year ended March 31, 2018 of the Company scheduled on Monday, 28th day of May, 2018.

Dear Sir/Madam,

In furtherance to our letter, dated May 23, 2018, intimated about the schedule of conference call with the investors and analysts to discuss the financial results for the quarter and year ended March 31, 2018 of the Company scheduled on Monday, 28th day of May, 2018, please find enclosed herewith the transcript of said conference call held on Monday, on Monday, 28th day of May, 2018.

This is for your information and record.

FOR, GTPL HATHWAY LIMITED

Tarun Kumar
TARUN KUMAR 02/06/2018
COMPANY SECRETARY
MEMBERSHIP NUMBER: F9256

ENCLOSED: As aforesaid



“GTPL Hathway Limited FY-18 & Q4 FY-18 Earnings Conference Call”

May 28, 2018



MANAGEMENT: **MR. ANIRUDDHASINHJI JADEJA – PROMOTER &
MANAGING DIRECTOR, GTPL HATHWAY LIMITED
MR. PIYUSH PANKAJ – CHIEF CORPORATE AFFAIRS
OFFICER, GTPL HATHWAY LIMITED**

MODERATOR: **MR. VIKRAM RAMALINGAM – MAYBANK KIM ENG
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Good day, ladies and gentlemen and welcome to the Q4 FY18 Earnings Conference Call of GTPPL Hathway Limited hosted by Maybank Kim Eng Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Ramalingam from Maybank Kim Eng Securities. Thank you and over to you, sir.

Vikram Ramalingam: Thank you, Margaret. Good afternoon, ladies and gentlemen. Maybank Kim Eng Securities is pleased to host the management team of GTPPL Hathway to discuss the fourth quarter & FY18 results.

We have with us from the management Mr. Aniruddhasinhji Jadeja – Promoter & MD and Mr. Piyush Pankaj – Chief Corporate Affairs Officer.

Mr. Jadeja will give us a brief overview of the results and the business. Thank you and over to you, sir.

Aniruddhasinhji Jadeja: Thank you, Vikram. Good evening everyone. On behalf of the board of directors and management of the company we extend very warm welcome to all of you to the earnings call of GTPPL Hathway Limited to discuss Fourth Quarter & Full Year Results of financial 2017-18.

As per TV industry report TV industry stands at Rs. 660 billion in FY17, a growth of 11.5% over FY16. It expected to grow healthy rate over next 5 years TV viewership impression for FY17 has grown by 21% it was grown across all age group.

India is moving leaps and bounds in terms of internet penetration. Internet user in India has increased to 462 million which is only next to China in the world. This number expected to grow up to 830 million in next four years benefits all internet service providers.

Coming to GTPPL performance during FY17 we seeded 1.8 million set top box and added 2 million digital paying subscriber and broadband side we added 240,000 Home Pass and 40,000 subscribers in FY18. Increase in ARPU across the phases, addition in subscriber and reduction in finance cost helped us improve our profitability significantly.

GTPPL’s commitment to provide superior customer experience, investment in the latest technology and focus on profitability has worked well for the company. As a result of this revenue and profit have been growing at CAGR 15% and 49% respectively for the past 3 years. Our focus for the coming year we will be to launch affordable unlimited data plans for the high-speed broadband even as we grow our CATV business in our geography.

Now Mr. Piyush Pankaj can take you through the business and financial aspect.

Piyush Pankaj:

Thank you, Mr. Jadeja. Good evening everyone. I will be taking you through financial and business-related highlights. Let me begin with Cable TV business. GTPL seeded 240,000 STBs during the Quarter 4 and 1.8 million during FY18 taking total seeded boxes as on March 31st to 8.7 million and taking total active digital subscriber as on March 31st to Rs. 7.4 million. We have increased our digital paying subscribers by 250,000 in Q4, and 2.07 million during the FY18. Primarily the additions have been more in Phase-3 and Phase-4 markets. During the year ARPU increased by 3% in Phase-1, 7.4% in Phase-2, 14.83% in Phase-3 and 26.8% in Phase-4. Average CATV ARPU for March quarter was at Rs. 103, Rs. 102, Rs. 62, Rs. 52 from Phase-1 to Phase-4.

Moving on to Broadband business:

During the year the company added 40,000 broadband subscribers and created 220,000 Home Passes. Total Home Pass and subscribers as on March 31st, 2018 stands at 1.3 million and 0.28 million. On February 20 2018, GTPL launched GPON FTTH High-speed Broadband Services of 40 MBPS at Rs. 388 to Rs. 500 net of taxes and 100 MBPS at Rs. 706 to Rs. 762 net of taxes unlimited data plans in Ahmedabad. The company progressively plans to launch this service to other cities in Gujarat.

Let us move to financial performance:

We will talk about consolidated results first. In FY18 GTPL consolidated revenue increased by 18% to Rs. 11,134 million. EBITDA up by 31% to Rs. 3,144 million and PAT up by 53% to Rs. 614 million. EBITDA margin stood at 28.2% which was increased by 270 basis points. Improvement in EBITDA margin was driven by mainly increase in subscription revenue by 29%, operational efficiency, decline in pay channel cost as percentage of revenue by 100 basis points to 40% from earlier 41%. During the year finance cost declined by 32% to Rs. 353 million.

On standalone business:

Our GTPL Hathway Limited Quarter 4 revenue has increased by 5% YOY to Rs. 1,985 million and FY18 revenue up by 18% YOY to Rs. 7,557 million which was mainly driven by growth in CATV subscription revenue by 26%. Quarter 4 EBITDA was at Rs. 555 million and EBITDA margin stood at 28%. Our full year EBITDA stood at Rs. 2,345 million up by 17% YOY and full year EBITDA margin was at 31%. The Quarter 4 and FY18 Profit After Tax was at Rs. 83 million and Rs. 588 million respectively. Finance cost for the year declined by 38%.

Talking about financial performance of our broadband business, Quarter 4 revenue stood at Rs. 344 million, up by 2% YOY and FY18 revenue was at Rs. 1,337 million up by 11%. Quarter 4 EBITDA was at Rs. 117 million, up 9% YOY. EBITDA margin was at 33.9%, a YOY increase of 220 basis points and FY18 EBITDA at Rs. 393 million up 25% YOY. FY18 EBITDA margin stands at 29.4%, a YOY increase of 330 basis points. Quarter 4 Profit After Tax at Rs. 56 million and FY18 Profit After Tax at Rs. 171 million up by 13%.

Coming to the GTPL Kolkata Cable & Broadband Pariseva Limited which is 51% subsidiary of GTPL and it is operating in the West Bengal market. The Quarter 4 revenues at Rs. 410 million up 32% YOY and FY18 revenue at Rs. 1,581 million up by 37%. Growth in revenue primarily driven by subscription revenue which was increased by 72% and 52% in Quarter 4 FY18 and FY18 versus corresponding period in FY17. Quarter 4 EBITDA at Rs. 72 million which is up 24% YOY, EBDITA margin was at 17.6% and FY18 EBITDA was at Rs. 415 million up 113% YOY. The FY18 EBITDA margin stood at 26.2% up by 930 basis points. FY18 Profit After Tax stands at Rs. 12 million versus loss of Rs. 58 million in FY17.

Margaret, over to you we are ready for the question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just a bookkeeping question to begin with. Your activation revenue in the KCBPL subsidiary seems to be negative for this quarter. What is going on there?

Piyush Pankaj: This is because there is a change in policy over there. Actually the negotiations were going on with the operators to take the activation income as a security and part of the security which happened in Quarter 4 where around 50% of the activation revenue has been considered as a security. The security is in such a way that if operators returns the boxes within a quarter he will get full money back, if he returns in 6 months' time, he will get 75% of the money back, if he returns in 9 months he will get 50% back and in 12 months' time it is 25%.

After 25% it comes back to the profit side. So this policy has been getting negotiated with the operators from Quarter 1 and now it has got implemented in Quarter 4. And that is why you have seen that in the Quarter 4 we have reversed half of the activation income and make it as a security deposit.

Amit Kumar: Actually, that reversal is for full year basically?

Piyush Pankaj: That is right. It is a reversal for full year which has happened in Quarter 4.

Amit Kumar: And on the broadband business I am just a little bit surprised by the trends, because you have launched the GPON Technology in the city of Ahmedabad in this particular quarter. So if anything you would have thought that subscriber addition would accelerate but at just 8,000 subscribers for this quarter, it is actually even lower than the average for the first three quarters which I think around 10,000 or 11,000 kind of number is there.

So if you can just sort of highlight that and in fact if you look at the home passes done by the company, they have actually accelerated in the last two quarters but that has not translated into subscriber additions. Third quarter there was not much which we were expecting but fourth quarter definitely I would have expected things to get accelerated a bit instead they have slowed

down. So if you can give us some color what are the key drivers behind this, is it competition what is going on here?

Piyush Pankaj:

Amit, if you see we have earlier given that we have launched in part of Ahmedabad, on 15th of February the whole thing has happened, and we have got half of the February and whole of March. So in this one-and-a-half month we operated in 5 square kilo meter in Ahmedabad where we had launched the high-speed broadband. Last two quarters if I talk about, we have started upgrading our entire network and already by now around our 75% of the network has been upgraded GPON FTTH.

We are not showing it in our home pass right now as the increase in the home pass as we have not launched the services everywhere. Now in April and May, we have launched in whole of Ahmedabad. As the figures till 31st March where you will not find lot of help coming out from GPON FTTH as we were only present at 5 square kilo meters of Ahmedabad only.

So that is the case, that is why you are showing that there is no benefit which is coming out of launch of GPON FTTH which we are looking forward for Quarter 1 and Quarter 2 of this year. Hope I answered to your question.

Amit Kumar:

Yes, sir. Just one other question this home pass that we have added over the last two quarters, I think last quarter was 60,000; the quarter before I do not sort of have the figures in front of me, but all put together just about 100,000 plus home pass. Exactly which market this essentially? Is this Gujarat?

Piyush Pankaj:

This is mainly in the Gujarat, where we are expanding.

Aniruddhasinhji Jadeja:

Amit, this is mainly in Gujarat, mainly in Ahmedabad, Baroda, Rajkot and Surat.

Moderator:

Thank you. The next question is from the line of Sanjay Chawla from J M Financial. Please go ahead.

Sanjay Chawla:

I have a few housekeeping questions first. My first question is there is some prior period tax related to tax on activation revenue is reflecting in FY18 which you said is pertains to FY17 I think. So what is the amount of that prior period tax, current tax as well as deferred tax asset together?

Piyush Pankaj:

Sanjay, I will just take you through the current tax, deferred tax and the previous year tax. On console basis, our current tax is coming at 41% right now, the normalized tax rate has to be around 35%. The increase of current tax, I am talking first is due to the following. For the tax purpose now, the activation income has to be calculated based on I-GAAP, that was calculated as, Ind-AS as per the Income Tax Department. In 2017, we did the tax calculation and tax submission as per the Ind-AS. So that is why you are seeing the prior period tax. I will come to that.

If you see in FY18, I am talking about the current tax currently. In FY18 we have seeded around 1.8 million boxes out of which around half a million seeded boxes were just in the standalone. Rest got seeded in joint ventures and subsidiary companies. Due to this the tax component increases in the subsidiaries and joint ventures and ultimately it increases the overall tax rate to 41% in consolidated financial statement. For the coming year, that is next 2 to 3 years as the Ind-GAAP activation revenue is going to be less than the Ind-AS activation revenue in our books which will reduce the tax rate also you can say effective rate for the company will be in the range of 32% to 34%. This is our expectation on that.

And coming to the previous year tax because that there is a change in the tax rate of activation revenue, the previous year tax adjustment of Rs. 23.2 crores has been affected. And the tax liability of reversal of around Rs. 6 crores has been affected in deferred tax. So originally if you see the deferred tax there the Rs. 6 crores tax has been reduced and there is a previous year tax adjustments of Rs. 23.2 crores has happened. In this case also, on this Rs. 23.2 crores there is a interest of around Rs. 4 crores which is appearing in the interest cost in the Quarter 4 in the standalone if you see.

Sanjay Chawla: Rs. 23.2 crores you reported is the additional tax which pertains to prior period as far as current tax is concerned, right?

Piyush Pankaj: Yes.

Sanjay Chawla: What is the net impact if I add current tax as well as deferred tax? Should I assume that the extra tax rate is just roughly 6% points? Is that pertain to the prior period amount?

Piyush Pankaj: Yes, that is the 6% which is coming to the prior period which is affecting our overall tax, which will not appear in the next year. And the overall tax which is coming to around 35% that will get reduced a bit also, because our activation revenue of IGAAP is going to be lower than the activation revenue as per Ind-AS.

Sanjay Chawla: So you are saying effective tax rates like current plus deferred everything tax rate would be 32% to 34% from FY19?

Piyush Pankaj: That is right.

Sanjay Chawla : Second question is would you start reporting consolidated financials now on a quarterly basis starting first quarter or you think that is still some time away?

Piyush Pankaj: No, we are going to start. I wanted to announce that but we are going to start the consolidated financials from Quarter 1 onwards and for this whole year we are going to give the consolidated results.

Sanjay Chawla: Okay, how many STBs you expect to add in FY19? And how much of that is in the inventory already available?

- Piyush Pankaj:** We have inventories of 272,000 set top boxes, which is lying there. We are looking forward that we are going to have between 0.8 million to 1 million more STBs seeded in FY19 and so more around 1 million has to be procured in this year.
- Sanjay Chawla:** Okay, and how many HD boxes or HD customers you had at the end of FY18?
- Piyush Pankaj:** We have 650,000 HD services going on in the current year.
- Sanjay Chawla:** So that number is the same as what you reported for 3rd quarter end?
- Piyush Pankaj:** That is right. In Quarter 4, we have not seeded the HD boxes, it is hardly 20,000 HD boxes which has gone in Quarter 2 and quarter 4. Quarter 1 and Quarter 2, we have planned for HD boxes to be procured and seed it.
- Sanjay Chawla:** So I think what we are trying to struggling with that is you have a sizeable base of HD boxes installed and that number is only going to go up, so when do we start seeing this removal of HD promotions which are there and HD starting to contribute to revenues in a meaningful way?
- Piyush Pankaj:** See right now we are monetizing around 200,000 HD boxes, 450,000 boxes are still under the scheme. We have to see the market factors and then start monetizing. We are looking forward that by Quarter 2 or Quarter 3 of this year we will start fully monetizing as it will be end of the one year of the scheme on those quarters.
- Sanjay Chawla:** So these promotions are valid for almost a year?
- Piyush Pankaj:** Yes, it is almost a year.
- Sanjay Chawla:** Okay, we have not seen any material increase in our Phase-1 ARPUs and Phase-2 has increased which is almost caught up now with Phase-1? So why is that the case that Phase-1 ARPUs you are finding it difficult to increase?
- Aniruddhasinhji Jadeja:** So, Phase-2 ARPUs has increased almost 7% to 8%. Actually, if you see this seeded, lot of great scheme for new markets also, two or three markets we entered like we entered in Mumbai, like we entered in some part of Phase-2 markets also, where we have given a scheme this box. So if you see actually the number in Phase-2 is coming 10% but effectively include all these scheme put together it is showing 7% to 8% in Phase-2 markets. And Phase-1 yes, we increased only 5% market. So, our major Phase-1 will plan in Quarter 1 and Quarter 2.
- Sanjay Chawla:** So just let me know if I picked it up correctly. You actually had a 10% increase in Phase-2 areas but because of the scheme and new areas it got diluted to 7%, 8% is that?
- Piyush Pankaj:** Absolutely.

- Sanjay Chawla:** So how long is this scheme going to continue? When do these areas come out of this discount scheme or promotion scheme?
- Aniruddhasinhji Jadeja:** This scheme is going for one year, wherever we are going for new market in Phase-2 we are providing scheme for subscription plus STB because now all markets is digital markets. So wherever we are giving offer to this existing digital market, it is a set top box plus subscription put together. So we are offering this scheme to that market for one year.
- Sanjay Chawla:** What kind of range once it expects for content cost growth in FY19?
- Aniruddhasinhji Jadeja:** As we said earlier between 12% to 15% content cost will be there. It was like the last year. And in future too, we have closed deals with all broadcasters. And we are getting 12% to 15% as expected.
- Moderator:** Thank you. The next question is from the line of Rajeev Sharma from HSBC. Please go ahead.
- Rajeev Sharma:** Just couple of questions from my side. This new tariff order and the recent High Court ruling so what are your thoughts on that? Will we see any on ground implementation of packaging at the consumer level or it will be more new packages based on your cable operator, DTH operator and broadcast understanding of the market? And is there any upside for you guys?
- Piyush Pankaj:** Rajeev, as we maintained throughout that the tariff order is very good for the industry and for the customers, we still maintain that because it is bringing the transparency in the whole industry. And pay channel is going to be pass through and customers can choose their choice of channels and all and you can say the whole industry is getting streamlined due to this tariff. So we still maintain that this is very good for the industry and very good for us also overall.
- We are looking forward for it to be implemented. It is a welcome news and the High Court has given that. And we are looking forward that how it is going to get implemented by TRAI now once the legal hassles will go away. So we can comment on that still the legal things are going on in different places in different High Courts. So we cannot comment more than that in the call right now.
- Moderator:** Thank you. The next question is from the line of Aashish Kacholia from Lucky Investment Managers. Please go ahead.
- Aashish Kacholia:** Can you a say little bit about what kind of broadband connections you are planning to add this year?
- Aniruddhasinhji Jadeja:** This year we are planning to add close to around more than half a million home passes in broadband side and our plan is close to around if you see the gross number will be around 150,000 will be a gross number.
- Aashish Kacholia:** We have ended the year with how many broadband connections?

- Piyush Pankaj:** We ended at 280,000 customers.
- Aashish Kacholia:** 280,000 customers?
- Piyush Pankaj:** Yes.
- Aashish Kacholia:** So this year how much this year will be done at the end of this financial year?
- Aniruddhasinhji Jadeja:** Our gross adding 1.50 lakhs this year
- Aashish Kacholia:** Gross addition 150,000?
- Aniruddhasinhji Jadeja:** Yes, churn will be between 20% to 25%.
- Aashish Kacholia:** 20% to 25% of the existing base?
- Aniruddhasinhji Jadeja:** Yes, 20% is the industry standard.
- Aashish Kacholia:** 280,000 will become 230,000?
- Aniruddhasinhji Jadeja:** You can take net addition 100,000.
- Moderator:** Thank you. The next question is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** Just wanted to understand from the management side, by when can we see some tangible change happening on ground due to this TRAI ruling? I mean the smaller packs coming in and content cost going down. So, by when can we see some tangible thing happening which will ultimately reflect on your EBITDA side? And can you throw some light on your STB cost? So what was this during FY18 compared to last year?
- Aniruddhasinhji Jadeja:** STB cost last year was Rs. 1,200 now it has come down almost 20%.
- Avinash Kumar:** So this Rs. 1,200, you mean for FY18 or FY17?
- Aniruddhasinhji Jadeja:** FY18, Rs. 1,200 now it has come down almost 20%.
- Piyush Pankaj:** The current rates are lower by 20% which we are ordering right now.
- Avinash Kumar:** So this 20% reduction in STB will reflect in your FY19 CAPEX calculation?
- Piyush Pankaj:** That is right.
- Avinash Kumar:** If you can just quickly give me the FY19 CAPEX guidance that you have in mind?

Piyush Pankaj: FY19 CAPEX if you talk about as I said that, we are going to seed around 1 million boxes, so that is our CAPEX on the boxes side. And plus there is going to be around Rs. 50 crores to Rs. 55 crores in the broadband side. So if you see the total CAPEX which we did this year, I am talking about the CAPEX not the net CAPEX, the CAPEX which we did here is Rs. 287 crores, out of that around Rs. 80 crores is in the broadband and around Rs. 207 crores is in the CATV side.

Next year we are expecting that CATV will be somewhere around between Rs. 80 crores to Rs. 90 crores and broadband will be Rs. 50 crores to Rs. 55 crores plus some extra CAPEX of Rs. 10 crores. So we will be around Rs. 150 crores of CAPEX.

Avinash Kumar: If you can now answer the first part of the question?

Piyush Pankaj: Coming to the first question on the TRAI implementation, see few things which TRAI has given that one is your pay channel is the pass through. Right now it is not pass through the pay channel cost is bearded by the MSOs which they collect it and then they pay to the pay channel.

As it is going to be pass through like the customer is directly going to pay to the pay channel through MSOs only but it is going to be directly as they will chose the channels and all. So that is one main thing. The second, TRAI has given a definitive revenues to the MSOs which was not there, which was like up to Rs. 130 as a network fee for 100 FTA channels in the beginning and every 25 more channels will attract Rs. 20 cost to customer. So this is the second thing which is giving us definite revenue source.

Aniruddhasinhji Jadeja: Plus, broadcaster side margin is 20% to 35%. It is not the carriage revenue part. It is a part of subscription revenue. Broadcaster must pass MSO 20% to 35% for distribution.

Piyush Pankaj: As a distribution cost for the broadcaster. The third is they have come with the mechanism that if there is any dispute between MSOs and LCOs so that can be sorted out which is very good. So overall if I see, these three things are giving the impetus to MSO and our industry and we are looking forward for TRAI to implement that.

Avinash Kumar: Just want to understand by when can the management sees some tangible benefits coming in to your financial statements? For you and overall for the MSO industry can we take it as by FY19 end because there will be lot of renegotiations your content deals renegotiations, then there will be lot of LCO adequation coming in, you need to impart the same LCOs. So there will be lot of smaller fine prints that needs to be added together before this TRAI ruling sees the light of the day in truer sense. So going by that, by when can we expect somewhere in Quarter 4 of FY19 or before, if you can help me with that?

Aniruddhasinhji Jadeja: It is not possible before, but I can say it is fourth quarter of FY19, you can say implementation will start but monetization will take time, another one year.

- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** I just wanted to check with you these broadcaster deals that you have done, what is the time period of these contracts?
- Aniruddhasinhji Jadeja:** Up to FY19.
- Amit Kumar:** Generally what we are seeing is that DTH industry, they have been open to signing 2 or 3 year contracts also, that sort of gives them also little bit of visibility in terms of their cost structure over a slightly long time period. Is there any reason why we are sort of not doing that or otherwise when can we sort of expect to see slightly more longer term contracts between broadcasters and cable companies?
- Aniruddhasinhji Jadeja:** We also did two-year deals. So, lot of the deals is for 2 or 3 years. We did the deal with broadcasters in 2017-18 or 2018-19. The same year, with 2 - 3 broadcasters we did deal for 2018-19 or 2019-20.
- Amit Kumar:** Okay, so two years deals are there?
- Aniruddhasinhji Jadeja:** Yes.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.
- Dipesh Mehta:** Just want to get a sense about the high-speed broadband which we launched in Ahmedabad in February. I think we have two kinds of plans, 40 mbps unlimited and 100 mbps unlimited. Can you help us understand customer acceptance? What will be the mix generally customers opt for?
- Piyush Pankaj:** We have launched 40 mbps and 100 mbps both. The response is very good. And as I already explained we have launched in 5 kilometers in Ahmedabad in February and there our subscribers was around 15,000 in those areas only and we have got very good response on that. Already out of 15,000, around half, 50% has been converted either to 40 mbps or 100 mbps. The demand for 100 mbps is more rather than 40 mbps.
- I will say that around 65% of our current subscribers on high-speed is on 100 mbps and 35% is on 40 mbps within this 5 square kilometer area. We have launched in all of Ahmedabad in May right now and still in the start of May and still the responses are very good in all over Ahmedabad. But still it is early days to give the number on that.
- Aniruddhasinhji Jadeja:** In Quarter 2, we will launch it entire in Gujarat.
- Dipesh Mehta:** And just to get slightly longer-term kind of time period. What would you expect optimal ARPU let us say two years down the line or three year down the line where things are stabilizing? In

your opinion what should be the ARPU which gives decent return on capital employed on that business?

Piyush Pankaj: If you see the comparisons of different players and all we are already at the very low ARPU. We are at Rs. 480 ARPU. And if you see our 40 mbps, the range is between Rs. 388 to Rs. 500 on which we have launched and our 100 mbps is from Rs. 700 to Rs. 762 on which we have launched right now. We are expecting that the ARPU will remain at the same level as we are at the same level at Rs. 480. The ARPU will be remains at the same level. We are trying to say that, we will get growth in the revenue through the new additions and renewals but ARPU will remain same.

Dipesh Mehta: Broadly you are saying Rs. 500 ARPU is reasonable to expect even though we start providing 100 mbps but by that time because of competition that should likely to be?

Piyush Pankaj: Yes, that should be ARPU and in our plans and we are not taking any increase in the ARPU.

Dipesh Mehta: Any cost increase because of GPON because earlier our cost structure if I look at and now with GPON this 5 square kilo meter area, will there be a difference in cost structure?

Piyush Pankaj: No, the cost structure will go down actually.

Aniruddhasinhji Jadeja: Because GPON is completely a passive network. Earlier we were in Metro Ethernet Network which had more operating cost. As more GPON happens, operating costs will come down.

Dipesh Mehta: As of now let's say 29% is our EBITDA margin and EXIT is 34%. Where do you think it will stabilize? Because some of your competitors operate around 40% EBITDA margin?

Piyush Pankaj: Yes, that is the operating margin on which we also want to reach. We are expecting that this year we will be at 35% to 36% EBITDA margin and slowly we will progress towards 40% EBITDA margin in next two years' time.

Dipesh Mehta: If I look at cost structure, our ARPU is lower. Despite that we intend to have similar kind of margin because some of the competitors who operate at 40%, their ARPUs are much higher than us. So can you help us understand where the cost has been incurring?

Piyush Pankaj: Yes, this is because we are operating in just one market which is Gujarat mainly. So our sub base is very concentrated over here. We do not need different offices in different cities. We can operate from the same offices, first. Second, our operating costs are bit lower because there is a, our CATV business is also running. We are running CATV and Broadband businesses together, so there is a synergy in the operating cost because of that.

Dipesh Mehta: Can you share the statistics of Ahmedabad wired broadband?

- Aniruddhasinhji Jadeja:** Ahmedabad wired broadband, entire Gujarat, our digital cable TV penetration is somewhere near 70%. Including the small and big towns, almost 280 towns have our digital cable TV penetration. Out of these 80 to 85 cities we are in Broadband right now. So our major focus in Gujarat, another 100 cities and same cities where we have cable TV penetration we will strengthen our position. In Ahmedabad we have now 100% market for home pass. We are completing in Baroda, Surat, Rajkot in this quarter itself.
- Dipesh Mehta:** What is the cost per home pass? When expanding the market what is the average cost?
- Piyush Pankaj:** If you talk about the creating of home pass, it is Rs. 550 to Rs. 600 per home pass.
- Dipesh Mehta:** And how much penetration you assume when you do the calculation?
- Aniruddhasinhji Jadeja:** 20% is the standard.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Just two questions. One is in related to with tariff order case. So there is some confusion obviously the Madras High Court has passed a favorable judgment but is it there that they have sort of removed that 15% cap on discounting which was one of the core sort of principles of the TRAI tariff order or they have not commented anything on that 15% cap?
- Aniruddhasinhji Jadeja:** With 15% there is not be much impact. What is the bundle price it has to be there. If they compare bundling price and MRP price, whatever be the bundle price in that 50% will not have that much impact. So, if you see there they have not removed any 15%. They have just kept the dissemination that there was dissemination by the Chief Justice on this 15%. Nothing has been passed no order has been given. Now it all depends that how TARI or the other side who has put the case they responded on that.
- Rohit Dokania:** The other question was obviously everybody is aware about Jio as a competition launching at some point in time we have been hearing for a long time. But can you at least talk about in your markets are you seeing any activity from Jio side in terms of putting the network sort of talking to LMOs if at all or any update that you can give in terms of Jio's launch in your markets of operation?
- Aniruddhasinhji Jadeja:** Nobody has talked with LMOs. But like Ahmedabad, like in Surat city new expansion is happening where the new greenfield is there they are approaching. But not in any other places in Gujarat we are seeing anything strong for now.
- Moderator:** Thank you. The next question is from the line of Vivekanand S. from Ambit Capital. Please go ahead.

Vivekanand S: I have two questions on the tariff order. So one basic question that I had with respect to the A-La-Carte packaging was what are the systemic issues that one needs to overcome to provide A-la-carte offerings to consumers? And a related question to this is what are your thoughts on the proportion of customers who are likely to opt for A-la-carte content as opposed to packaging? That is one. Second is with respect to the content inflation guidance that you have given 14% to 15% pay cost inflation.

So if I understand correctly the new tariff order one needs to look at content inflation in a very different light. Do you expect any major changes in your content cost guidance if the new tariff order gets implemented? And a related question is what is your thought process on the net content cost because I see clearly that you are the only MSO where placement income has actually grown and that is quite encouraging. Any thoughts on that?

And lastly, currently we have seen that your net debt has declined substantially, thanks largely to the IPO funds. Any thoughts on the capital structure that you are comfortable with would you like to become debt free or would you want to assume more debt in your balance sheet?

Piyush Pankaj: So I am taking the first question, Vivek. We are talking about the system. As you know that A-la-carte are still available to the customers to choose that and really when we have made our subscriber management systems in 2012, 2013, 2014 that all those system integration has been done.

Aniruddhasinhji Jadeja: So technical side we can still completely ready to offer our customer a-la-carte deal bundling price or MRP side so we are completely equipped in technical side. So that is not an issue. Now you are saying that whether customer will choose bundle or a-la-carte.

Piyush Pankaj: On that if you see currently there is a trend which we are seeing in a-la-carte side because a-la-carte is readily available to the customer. Yes, hardly 1% to 1.5% customers are choosing the a-la-carte. They are all going for the bundling because there is you can say price benefits to the customers.

Aniruddhasinhji Jadeja: But you have seen new tariffs may be customer will choose a-la-carte because there is push from many like broadcaster side, MSO side, LCO side for pricing as per the QSS we may have to declare the consumer on screen MRP price and everything. So that scenario will be there at that time, I cannot predict it. But we are completely equipped both the sides whether it is a bundling or whether it is an a-la-carte.

Piyush Pankaj: The third question you are talking about the pay channel cost. Right now, the pay channel cost is in our books and it is showing whatever increase we are giving the guidance and all. As in the new tariff the pay channel cost is going to be pass through means whatever customer is going to choose from the broadcaster's side of the bouquet and all it will be based on those customers, the pay channel is going to be based on those.

So it is going to be a transparent system where we will collect the pay channel through cost from the customers keep our margin on that which is the 20% or between 20% to 35% which is our margin and pay back to the pay channels. So there the increase in pay channel and all depends on customer choice.

So it is very hard to give any that how much pay channel cost will increase and all as it is not going to affect our books as it is going to be pass through. Yes, if the pay channel cost is more we are going to get more revenues of 20% to 25%. If it is less then we are going to get less revenue of 20% to 25% to 35%. So that is the effect on which our books will happen on pay channels.

What was the last question, Vivek?

Vivekanand S: Last question was on the financial leverage that you have you have seen I think in your company net debt has declined substantially due to the IPO funds and cash flow generation. What is your thought process on the leverage that you are comfortable with do you want to pay down all your debt or do you want to borrow so that you can invest aggressively in broadband, any thoughts on cash flow bridge linking with the operating cash flow generation for next year?

Piyush Pankaj: Yes, so right now we can just say that we are not going to increase our debt from the current levels. It all depends on the market opportunity going forward that if we get some opportunities where we have to invest then we might increase it but we are going to keep it at a very reasonable level as we see that we are at 0.6% of EBITDA our net debt and 0.3% of net worth. And it will be remained at the same level of between if I talk about EBITDA between 0.5% to 1% not more than that.

Vivekanand S: I have a couple of follow ups. So on the a-la-carte points that you made that more consumers may opt for a-la-carte given that it will become more lucrative for them. So on the system side should the customer come to you or is it something that you have provided to the LCO to give a-la-carte offerings or is it that the customer needs to come to your website?

Aniruddhasinhji Jadeja: We have both facilities. Customer can come to through LCO and customer can also come directly. The customer can connect through my LCO portal and they can do their selection and they can connect it to direct GTPL portal.

Piyush Pankaj: We have provided the app also to the customer and to the LCOs.

Vivekanand S: Right and lastly on the pay cost and carriage you mentioned that pay cost will be a pass through and what I am trying to understand from you is today your subscription revenue from CATV is Rs. 580 crores and pay cost is Rs. 440 crores. So a very high proportion of your subscription revenue is going to the broadcasters. How do you envisage this changing this equation between pay cost and subscription revenue because the other variable here is placement which you did not talk about. Any thoughts on that and how this should change with the new tariff order?

- Piyush Pankaj:** We can say that it all depends on the customer choice that which channel, which bouquet they will go for and based on the MRP the pay channel cost will be decided. But what we expect that the net off content cost will lower than what it is today for us and we will work towards to see that gives us the benefit.
- Vivekanand S:** Sir, that point is valid but over the last year or so what you have seen is that placement has not increased in tune with the pay cost. So if I look at the net content cost that has really increased by around 27%, 28% almost in line with subscription revenue even though we had a year where the Phase-3 ARPU saw a substantial bump up. So I mean the operating leverage on content per share we were not able to see. Any thoughts on that and how that could change?
- Piyush Pankaj:** I will say that as a percentage, if you see the net content cost of our last year and the net content cost for this year as a percentage of our subscription revenue you will find that it is coming down. Last year the net content cost was at Rs. 145 crores. This year it is at around Rs. 185 crores. If I talk about pay channel minus placement revenue and if you do the percentage basis on subscription revenue you will find that the percentage is coming down.
- So overall you can say pay channel cost and net content if you talk about in the case of tariff it is difficult to say right now but we are expecting on our calculations, it will come down a bit in the percentage terms. We are not talking about in the absolute terms we are talking about in the percentage terms.
- Vivekanand S:** Right and if I may slip in one last question. In terms of the content cost is it sensible to look at the net content cost or should one focus on the gross pay channel cost and look at carriage separately because some MSO seem to tell us that the pay cost is payable largely to pay broadcasters while carriage is earned from free to air broadcasters. So these are different line items per se. What is your take on this?
- Aniruddhasinhji Jadeja:** I think it is sensible if you look at the net. Because around 70% content / carriage fees is coming through pay channel.
- Moderator:** Thank you. The next question is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** Just a small follow up based on the discussion we had on the TRAI order and you did mention to one of the participants that the current Judge has mentioned in his ruling about that 15% cap. So if you can just be little more clear on that?
- Piyush Pankaj:** Yes, if you see in the order in the last it has given the dissemination. In the dissemination the Judge has mentioned that the Chief Justice of Madras High Court has given dissemination on 15% of this and that will continue in the order. So, they have not given any order for and against of that 15%. It is just that the dissemination has been mentioned by Chief Justice which is still maintained in the order.

- Avinash Kumar:** So in a layman's term is this 15% cap still legally applicable as per the new order?
- Piyush Pankaj:** Yes, it is still applicable, but it is open for anybody to challenge.
- Avinash Kumar:** And secondly like you said that the systems and the backend technologies are all in place to offer A-la-Carte to the subscriber. So where do you see the delay I mean you said that by Fourth Quarter FY19 you can see the implementation and another year for the monetization to happen or the savings to pass on to EBITDA. So where do you basically see this delay from, is that legal point of view or is it the on-ground implementation? How do you see that delay and from which source?
- Aniruddhasinhji Jadeja:** We expect all let us say for two or three months some small player would challenge to High Court or Supreme Court it will take 3-4 months then if it gets implemented I am not sure 100% but TRAI give another 3 months.
- Avinash Kumar:** So you feel that MSO as an industry is ready with as a backend technology for this to implement I mean A-la-Carte to be implemented?
- Aniruddhasinh Jadeja:** Yes, from our side, from all MSO side everything is ready. Today also we offer to our consumer à la carte. We can offer MRP price to our consumer and show it on screen, so we are completely equipped the backend side.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** I have got two follow up questions. First is on your broadband pricing you basically suggesting that one should not expect any increase in ARPU, you are basically pricing your product not at a premium it seems despite having a very superior product. So what is the thought process behind that, why you are not charging or unable to charge a premium and if you are giving such a huge value at the existing price points one should expect lower churn in the customer. But for the churn also you are indicating a 20% to 25% churn rate. So I am just not able to reconcile so can you just share the thought process behind it and why one should not expect a lower churn?
- Piyush Pankaj:** Yes, the first on the ARPU side Sanjay, in ARPU side see what we have seen this year that if we are operating between 1mbps to 10mbps we have the direct competition with the wireless in those areas. But you know wireless side the prices are coming down heavily in this year at least. All the players have cut down the price. So you have the competition with them. To shift or to move the customers you can say from the lower speed to higher speed and unlimited data and all you have to give the impetus on that.
- So, our strategy is to move all our lower speed business or the subscribers in to the higher side where the churn is going to be lesser and the retention of customer is going to be higher on that. And we are doing the proper services and all. So that is this all migration from lower side of customers to the higher side of the customers at least 70% to 75% of our customers to migrate

into the higher broadband and unlimited data plans. So that will give us the stability in the market. So that is one of the reasons that is why.

Sanjay Chawla: You are not charging any premium relative to current pricing for low speed packs?

Piyush Pankaj: Lower speed pack you can say as the ARPU pressure has happened from the wireless side we have to reduce the prices in the lower speed packages to attract the customers. So if we got the customers on the higher side the plan is that once we get the customers at 40mbps and 100mbps we will increase the ARPU not the base ARPU we will increase the ARPU through different services where it is going to be financial services it is going to be the entertainment services. In future we are planning for somewhere in the security services also through that we are going to increase the incremental revenues on this which is possible on higher speed and unlimited data.

Sanjay Chawla: So 40mbps to 100 mbps pricing is at a premium to the low speed pricing, is that correct?

Piyush Pankaj: That is right. The premium to the lower one. So that is where because in the 40mbps as explained that we do not have to incur any extra CAPEX. So that is why we have kept the pricing in such a way to move all the customers from say 7 mbps to 10 mbps to 40 mbps straightaway first. 100 mbps is still a premium product where it is coming between Rs. 700 to Rs. 760. 40 mbps we want to make it a mass product where we can move all the customers in that and start giving extra services on 40mbps.

Aniruddhasinhji Jadeja: Plus Sanjay Ji, as many customers move from low speed to high speed in that our churn percentage ratio will be reduced, so in that base today we stand on 20% to 25% as customers move from lower speed to high speeds our churn ratio will go down from 20%.

Piyush Pankaj: So right now, that is why Mr Jadeja was giving the gross added numbers 150,000. We are trying to move the customers on higher speed and bring down the churn. But Yes, on conservative basis we are still keeping that at least 20% churn will happen this year.

Sanjay Chawla: And the second and last question from my side is we have seen a dividend per share of only Rs. 1 whereas your leverage ratio debt-to-EBITDA ratio, your debt is less than Rs. 200 crores your EBITDA is close to Rs. 300 crores on consolidation basis. So this is a very comfortable leverage ratio. So I am just trying to understand what is the thought process behind is there any thinking along the lines of increasing the payouts you want to come out with a formal policy on dividends because the leverage ratio seems to be quite comfortable and one of the lowest in the whole sector?

Piyush Pankaj: Yes, the discussion has gone long on this in the board meeting and it took us time to take the decision. But some of the board members are still thinking that as we have to invest in upgradation and in the broadband business still and we have to move the money for those. They are still comfortable in reinvesting into the business rather than right now distributing it to the shareholders.

So they have kept back Rs. 1 which we are giving it from last two years on the same policy. The reconsideration will happen next year again in the board meeting to give them more dividends but Yes, that is the case that as this is an investment phase for the company so that view has come out to reinvests into the company for the growth.

Sanjay Chawla: But that is not Piyush, sorry that is not reflecting in your CAPEX guidance Rs. 150 crores, Rs. 160 odd crores EBITDA continues to grow and your debt-to-EBITDA ratio will keep coming down. So even the debt may remain the same but they grow a little bit but your debt-to-EBITDA ratio will keep coming down. So why are we kind of differing this decision in the sense why we not comfortable with the EBITDA ratio which is even less than much below 1%?

Piyush Pankaj: Sanjay, this year one of the strategy which has been.

Aniruddhasinhji Jadeja: Sanjay Ji, in this, this year like our subsidiaries companies are there whom we convert them into 100% subsidiaries plus other small network acquisition opportunities we are seeing ahead. So because of that, we have kept a margin.....

Piyush Pankaj: So we have kept a corpus of the money which has to be reinvested in the business for acquisitions now. And we have kept that corpus and we have presented to the board. Board is on view that as the company is generating cash flow right now so reinvest and acquire as much as possible in the market to grow. We have not given back in our projections and all. That is going to be extra other than over and above that.

Sanjay Chawla: Sir, you are talking about acquisition of MSOs, right?

Piyush Pankaj: That is right, small, small MSOs. So those are the ideas which have been discussed in the board and all and board has agreed on that and that is why they say that as we should reinvest in the business as this is the growth phase of the business and this is the opportunity time. So that is why they have kept the dividend at Rs. 1 and they say that we will reconsider that in the next financial year.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Vikram Ramalingam for closing comments.

Vikram Ramalingam: Thank you, Margaret. And special thanks to the management team for giving us this opportunity and thanks everyone for attending the call.

Moderator: Thank you. On behalf of Maybank Kim Eng Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.