



Ortel Communications Ltd.

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Bringing Convergence to India

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Dear Sir/Madam;

Sub.: Conference Call Transcript.

We are enclosing herewith Conference Call Transcript on the un-audited financial result of the Company for the quarter and nine month ended 31st December, 2016.

This is for your information and record.

Thanking You
For Ortel Communications Ltd

Lalit Kumar Mohanty
(Company Secretary and Compliance Officer)





Ortel Communications

Q3 & 9M FY17 Conference Call Transcript

11.00am IST on Tuesday, February 14, 2017

Moderator: Ladies and gentlemen, good day and welcome to Ortel Communications Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an 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. Nishid Solanki from CDR India. Thank you and over to you, sir

Nishid Solanki: Thank you. Good morning everyone and welcome to Ortel Communications Q3 & 9M FY17 Earnings Conference Call. Today, we are joined by senior members of the management team including Mr. Bibhu Prasad Rath – President & CEO, Mr. Chitta Ranjan Nayak – Chief Operations Officer, Mr. Jiji John – Vice President, Broadband Business and Mr. Manoj Kumar Patra – Chief Financial Officer. We will begin the call with opening remarks from the management following which we will have an interactive question and answer session.

Before we begin, I would like to highlight that certain statements made or discussed on the conference call today, may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now, like to invite Mr. Bibhu Prasad Rath to share his initial remarks. Thank you and over to you, sir.

Bibhu Prasad Rath: Thank you. Good morning and a warm welcome to everyone. I will briefly take you through the operational performance and financial highlights during the quarter.

Our performance during the quarter was subdued on account of several challenges faced by us with respect to some of the key operating parameters. Notwithstanding this, we demonstrated healthy growth in revenues from both cable TV and broadband business on a year-on-year basis both in Q3 and 9M FY17. Additionally, we continue to remain EBITDA positive in non-Odisha markets of Chhattisgarh, Andhra Pradesh, Telangana, West Bengal and Madhya Pradesh which turned positive in the previous quarter.

Now, I would like to upfront share my views on some of the key parameters which impacted our operational performance in Q3. Firstly, our bad debts provisioning increased significantly to a level of close to Rs. 8 crore during the quarter. In addition, our receivables days have also increased. We witnessed slower collections in newer markets primarily due to inadequate infrastructure on ground to control and implement the full collections from the customers. We believe, we should have the required infrastructure in place for new markets shortly and the collections would thereby improve. More importantly, collections across the older subscriber base also suffered to an extent due to transition issues from analog to digital. We believe that full digitization will assist us to control our bad debts as well as receivable days. I would like to assure all of you that the management is fully

focused on taking corrective measures in order to improve the receivable days and simultaneously reduce the bad debts.

Secondly, our cable TV ARPUs declined moderately to Rs. 150 in Q3 mainly because the newer subscriber acquisitions came in at a much lower ARPU. Moreover, as you integrate new subscribers to our last mile network, we have to initially absorb all the taxes, resulting in a lower ARPU. I would like to add here that the ARPUs across our old subscriber base stood largely stable. Given the strength of our last mile model, I believe that we will be able to pass on the taxes and increase the ARPUs for the new subscribers as we consolidate our position in the new markets. I am glad to share, that we registered growth in our subscriber base through organic route. Our endeavor is also to further improve the penetration in the older markets through organic route.

The third factor which affected our performance was lower than expected subscriber additions due to delay in closure of debt funding. I expect the tie up for the remaining debt soon and hence remain committed to achieve the stated target of 1 million subscriber base soon. In addition to this, demonization as well as increased competitive environment impacted the broadband subscriber base. I would like to share with you that after one quarter of negative growth due to the factors I just mentioned, in the month of January 2017 which will be part of our Q4, the broadband net growth has already turned positive and we expect it to grow from here on which will reflect in the 4th quarter performance.

Let me now briefly take you through our financial performance during the quarter and nine-months ended December 31, 2016. During 9M FY17, we reported 12% growth in total revenues driven by healthy growth of 35% in cable TV and 18% in broadband business. EBITDA stood at Rs. 428 million, while EBITDA margin came in at 26.9%. Profit after tax for the nine months period stood at Rs. 6 million against Rs. 92 million in a corresponding period of last year.

For Q3 FY17, total revenues stood at Rs. 518 million higher by 3% year-on-year, while EBITDA came in at Rs. 118 million with EBITDA margin of 22.8%. Net loss for the quarter stood at Rs. 28 million compared to net profit of Rs. 39 million in the same period last year.

Apart from some of the operational factors which impacted our performance, this was further hampered by lower carriage revenue during the quarter, which weakened by 23%. Revenues from cable TV segment, stood at Rs. 1,232 million in 9M FY17, higher by 35% year-on-year. While the broadband revenues came in at Rs. 282 million, an increase of 18% year-on-year. Our cable TV ARPUs stood at Rs. 150 whereas the broadband ARPUs came in at Rs. 394.

Turning to our regional performance, revenues from Odisha stood at Rs. 1,217 million in 9M FY17, while EBITDA came in at Rs. 482 million. EBITDA margins stood 39.6% in Odisha. Total subscribers in Odisha were at 539,229 and more than 5,000 subscribers are in the pipeline.

Total revenues from non-Odisha markets i.e. Chhattisgarh, Andhra Pradesh, Telangana, West Bengal and Madhya Pradesh came in at Rs. 342 million against Rs. 106 million in 9M of last year, which is almost 3 times year-on-year that is higher by 223%. As you would recall, non-Odisha markets turned EBITDA positive in Q2 and this trend has continued in Q3. I expect this trend to sustain as we increase the subscriber base in the newer markets. Total subscribers in the non-Odisha markets stood at 272,237 and a total of 30,994 subscribers are in the pipeline.

To conclude, I would like to add that, we have demonstrated a strong B2C focus last mile business model in our core market which is profitable and we remain confident of replicating the same across newer markets. We continue to believe that this is a sustainable business model as we can capture the entire revenue stream across the value chain.

Thank you for your time and we will now be glad to take your suggestions and answer any questions that you have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Hashish Kampani from JM Financial. Please go ahead.

Hashish Kampani: I had a couple of questions. First is, what is the total RGUs that you were expecting for the entire year?

Bibhu Prasad Rath: Entire year in the sense?

Hashish Kampani: Closing?

Bibhu Prasad Rath: We have 811,000 subscribers now.

Hashish Kampani: What will you close for by the end of this year?

Bibhu Prasad Rath: Well. I do not think I will be in a position to give a specific number because as I mentioned in the call, now the cable TV is primarily growing on acquisitions and the broadband is growing primarily on organic and the acquisitions were slowed down largely in the last quarter and little bit in the previous quarter due to some delays in the debt funding we had. So, I am waiting for that to be close in, since I have not been able to close in last 3 months because the same thing I spoke in the last call also and I do not want to commit a time line but as soon as if it gets closed, we are very confident that we will go back to our earlier quarter level performance. If you remember the earlier quarters were the growth was happening around 50,000 to 75,000 per quarter. But now that I am talking in mid of February, I do not think the subscriber addition will be very significantly higher this quarter but my attempt will be to take it my earlier levels in the Q1 and in a meantime, I just want to add. So, I just want to mention here that while the acquisitions have slowed down in last quarter and it could be a possibility that it will be slower this quarter also. The fact that today we were talking in mid-February, almost half the quarter gone and my key bottlenecks not yet removed. So, I am utilizing this time to work on the other parameters of the efficiency.

So, there are couples of operational efficiencies parameter, so which we have already achieved. And one of the big thing which we have achieved in last few quarters in the content cost per subscriber, which was earlier upward of Rs. 60 per subscriber which has now come down to around Rs. 40 - 41 per subscriber and that is a big benefit and if you see the cost structure also more or less, in the previous year the cost were going up every quarter now it is stable almost every quarter and the only thing which is the concern and I am sure it is your concern and I take it with all the genuineness that this is a major concern for us also is the bad debt level and I would like to utilize this time, while I am not growing for one or two quarter, last quarter and this quarter, would like to put all our energy in controlling that aspect of the business and the time will not be wasted. In any case if the business goes through cycle of growth and consolidation. So, if I have a one quarter break in the growth, will use this for efficiency improvement and data subscriber growth will of course will happen and it would come back to the normal level from this quarter.

Hashish Kampani: So, on the bad debts front, do you think that sequentially fourth quarter could see a decline in the bad debt expense?

Bibhu Prasad Rath: I would see that, at this level of bad debt, which is an Rs. 8 crore last quarter and Rs. 6.5 crore was in the previous quarter. If you see the last 3 to 4 quarters trend it was actually quarter-on-quarter it was increasing and bad debt in this business is not a one off thing, once it happens it happens on a continues basis and once it goes down it goes down on a continues basis, because it is not a B2B business where you decide to provision something today and one account and then once that account is clean. This is like adding up Rs. 200 each. So, what I would expect is that it will not dramatically reduce in Q4 in terms of amount. It would remain at the same level or little bit lower or may be little bit higher at around Rs. 8 crore level for next 1 or 2 quarters after which, because this is a bad debt of the lag effect of the collection performance in the previous quarters. So, I expect that the bad debt will remain more or less at this level for next 1 or 2 quarters after which it will steadily reduce and I think will get normalized. And one of the things I want to share on this bad debt, I am sure those who have not asked question till end, they are still listening is that there are markets where my bad debt level is very minimal. For example, Bhubaneswar, which is a market which was fully digitized long ago, more than a year ago. It is not a recently digitized market. There the bad debt level is very nominal, because the root cause of the bad debt as I have explained I think in the last call there are 2 factors. The one is, the new acquisitions where we have not been able to put everything in place. The manpower, the systems, the procedures, the equipment's and the office and everything to immediately go and do door collections from every customer. So, that has added a little bit and the other thing while your transitioning from analog to digital. Some customers try to take advantage of that and you switch off analog to get digital and things like that. So, but once you are fully digital and stabilized for a 1 or 2 quarters then it goes to very low levels of bad debt which we have experience in many markets. So to summarize, I think the current level of Rs. 8 crore bad debt, will remain, it will not increase henceforth, it will remain at more or less same level plus minus 5%-10% type for next 1 or 2 quarters, after which it will start falling.

Hashish Kampani: Another thing is what would your full year guidance for CAPEX be, I think you have already done close to Rs. 1,226 million of CAPEX for the year or for the next quarter what would you be what would your guidance be?

Bibhu Prasad Rath: My 2 years' guidance for CAPEX was Rs. 300 crore over the last year and current year and whatever has been done and the balance should be done but that may not happen in this fiscal since my tie-up is not yet completed. So, that is my part of that may spill next year also.

Hashish Kampani: So, it would probably reduce from this level?

Bibhu Prasad Rath: Yes. So, overall let me say, that FY15 was half a million customer and whenever I do one million for going from a half a million to one million my CAPEX guidance was Rs. 300 crore and that remains there. It may not get used, may not have got deployed last quarter or may not get deployed this quarter but starting from a half a million going to one million is Rs. 300 crore CAPEX and half a million to one million plus complete digitization. These two would entail a Rs. 300 crore CAPEX.

Hashish Kampani: Another last question from my side, we have seen that your cash profits have fallen but your net debt has not increased, so any comment on that, I mean where are you funding your business from?

Bibhu Prasad Rath: I think, this a little bit detailing which we can take offline with our CFO but gut feel could be that we had capital work in progress that is the materials which were purchased and been deployed on ground now.

Moderator: Thank you. We have the next question from the line of Rajiv Berlia from Edelweiss. Please go ahead

Abneesh Roy: This is Abneesh here. My question is, you have said in the new areas still the collection team is not there, so my question is why is it still not there, there has been fair amount of time which is there, so should not you be planning the collection team as early as once you enter sometime after that you have collection infrastructure in place?

Bibhu Prasad Rath: Yes, you are right actually, we have planned, we have placed and Abneesh is just not about the collection team recruiting and positioning them. This door-to-door work including, the network replacement, the service delivery and the CAF and then the collection knocking every door and then the activation of the signal through the subscriber management system. It is a time consuming thing and in a new market with the new collection team, doing door collection it takes a time to develop. So, we have the ones which were acquired say 1.5 years ago in the first quarter, second quarter of last year are doing okay, but the once which were in the Q2, so there are some places we are to be honest and I do not want to camouflage these and there are certain places which we are struggling to streamline and collect and when I say collect, collect to go to that level of full last mile collection from every home. We have failed in some places and we are in the process of streamlining that.

Abneesh Roy: Could you give the break up between new market and old market for Q3 & 9M FY17 bad debts?

Bibhu Prasad Rath: I do not have that readymade, can I give that offline to you.

Abneesh Roy: Which is the bigger one?

Bibhu Prasad Rath: No, I think in terms of bad debts the bigger one will be the old markets because obviously the subscriber base is old, receivable is higher, the bigger one will be the older markets and the smaller one could be the newer markets. Manoj is that fairly correct?

Manoj Kumar Patra: Yes, that is fairly correct.

Bibhu Prasad Rath: Fairly correct and I will give you the details separately.

Abneesh Roy: So, in slide 6 when you compare yourself to peers you say Ortel owns the last mile then you have return, control on billing, on subscribers collection, that is my point sir. Even in old areas if there is collection issue then how owning the last mile really is making too much of a difference. I understand there is some difference, why still you are not able to change the box properly in the old area that is what you have written. So, I am taking from your comment only.

Bibhu Prasad Rath: Yes, I put that slide, so that it clarifies upfront. So, I think, our business is going through a transition, okay. It is all over new business now. In the old areas it is going from analog to digital. In the new areas, it is going from LCO to our network. In both the places it is going through a transition. Now if you compare me last mile to non-last mile to be honest and fair, for non-last mile player nothing has changed. The LCO was doing everything and LCO were doing everything, they were

collecting some money from the LCO, so I do not want to comment on that. I am very strongly convinced that this is a temporary and temporary does not mean one quarter like I answered to the previous question. But this is temporary and I have experience in many markets, I can even give you the breakup market wise, where the collections are completely up to date, the bad debt is in the range of 2% to 3% and there are many such markets and wherever is going through the transition I expect the next one or two quarters it should be done

Abneesh Roy: Sir, my next question is on broadband, you said competition has gone up, so could you talk about that?

Bibhu Prasad Rath: Broadband if you see Abneesh, in the first 2 quarters of the year, I think we had grown by around 8,000 of churn everything. The net growth, what we add and what will lose. It is only the last quarter, I think in last quarter, only one quarter in previous 3 years or so, we have delivered a negative growth and during this quarter two things happen simultaneously. One was demonetization which had little bit of impact. Not I will not say that that was the sole reason. The other reason was the change in the competitive environment suddenly one of the service provider providing free services and things like that.

Abneesh Roy: So, it is Jio right?

Bibhu Prasad Rath: Yes. So, what happened actually, the students segment and the floating segments the sales went down in the last quarter. But that has now stabilized in the markets and as I mention in my opening remark the month of January which is part of the Q4 the results come in the month of April. The month of January who have turned the table and from a negative growth in Q3 we have in a month of January has been positive growth and then February and March now I think it has been normalized whatever has been accepted in the market, whatever has been not accepted in the market, but right now currently post Q3 I am positive and the growth is positive. We have adjusted our schemes, we have taken at Rs. 10 to Rs. 12 hit on the ARPU, launched new plans, done more aggressive sales and I am very happy to inform that after one quarter negative we are back to positive now.

Abneesh Roy: Sir, that positive number in January is also because demonetization impact is now much lower, so Rs. 10 to Rs. 12 cut versus Jio is it enough? Because Jio is still free till March.

Bibhu Prasad Rath: See, if you see the reports and compare the Q3 to Q2 and I am giving you some information about the Q4. We have got the Rs. 10 cut on ARPU and it is not the Rs. 10 across the board. So, there are some new schemes which are launched to counter Jio and the new schemes could be much lower ARPU and it is not only about ARPU, the other thing is it is your download. If you see the Q3, my Q3 download has gone up by around 25% as compared to Q2, it was 4GB something. In Q3 it has gone to 5GB something and then you push yourself, stream and do other stuff, the net result of all these factors is that the month of January has been positive. So, we do not see any current impact of Jio currently on our performance but yes, we did see a significant impact in our sales in Q3 and demonetization was to be honest it was not a big impact. The real, the sales fell because of the competition in Q3 but after doing all that what you have done currently we see back to normal. Now if you want to try to understand that what kind of scheme and plans and all that may Jiji can answer or you can take it offline. But currently we are back to normal.

Abneesh Roy: No, I want to understand, so will your internet ARPU will it be continuing to get impacted in Q4 / Q1 because Jio is here to stay and Jio is a structural worry for not just you, for everyone. So, my question is I am not worried only from Q3, I am

worried from a structural perspective how can you really, if you could take me, I do not really know whether how you, what is the plus point of yours versus Jio in your areas, if you could take us through, apart from pricing is there anything else which will help you to win over Jio?

Bibhu Prasad Rath: Let Jiji answer that but that I just want to maintain one thing, I think it is not so much about pricing. Yes, some new schemes required to immediately counter but it has to do a lot of about the speed. The feedback which we get from Jio customer, we also have there are people on this call who are Jio customers in the sense that the huge Jio phones. I do not use but my COO has a Jio phone and he uses that. The experience currently is not good in terms of continuity, speed, etc. So, we have worked on the speed, download and pricing, all fronts and net impact is over here. Jiji you want to add something.

Jiji John: See, the point is what we did is we added more data into the existing plans and also at the same time we had schemes to retain the customers, right. So, these two plus and additional ground activity in the locations where we had our network and which were not very student dominated areas have given the results in January. So, at the same time if you see competition reduce their SUP levels on a daily basis that has also given us an advantage because we do not have that kind of a restriction and those who were used to higher SUP in the competitive scenario started coming back to our network after the changes, so that is the current scenario.

Moderator: Thank you. We have the next question from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Actually in your Odisha market, I am still not clear that why the margins have reduced so much in that market. So, if you can just take me through

Bibhu Prasad Rath: One of the reasons Odisha market was down this year, the 9 months period is because of our infrastructure leasing, there was a steep fall in our infrastructure leasing, which as compared to the last year and if you see the, there is a steep fall in the overall infrastructure leasing and the entire fall was attributed to Odisha because this business was in the Odisha. That was one big thing for the 9 months period.

The other thing whatever little softening of carriage fee happen this year and it is going to stay here and is also on account of Odisha because our Odisha carriage income was very high and then there was a little bit impact of the bad debts. Bad debts had impacted both Odisha and outside Odisha but the specific to Odisha I think, I lost infrastructural leasing and I lost little bit of carriage income and there is a saying that when people start beating, the tallest guy get the beating first. Odisha EBITDA was very high.

Gautami Desai: But Bibhu, is it that in the change from analogue to digital did we lose some customers and that resulted in the bad debt?

Bibhu Prasad Rath: No, actually to be honest the change from analog to digital, we did not lose much customers because of this process. We might have lost some customers to competitor not necessarily because of analog to digital and whatever I lost to the competitors those where again mostly the LCO customers because to whatever extend I had LCOs in Odisha some of them have shifted and I am not lost customers because of analog to digital and the report has something called organic growth, net of churn. So, organic growth, net of churn is minus 1%, which essentially means your net churn is 1%. So, even if have lost, I have gained back and it is very difficult to identify that whether I lost because of this or that. But what

is happening actually when you convert from analog to digital, it is not a good thing and then again somebody will tell me that how can this happen in last mile but cable is cable. So, the customer adoption to digital is not encouraging that is a fact, okay. So, it is a push model. Now when you use to push model, we actually switch off analog, neighborhood by neighborhood and push digital and we tried not to compromise on the pricing too much. Now in this process certain bad debts get built, okay and customer is suppose a customer has not paid the last 2 months dues, now he gets into digital he has a choice to exercise get it as a new customer your old customer goes. Now in digital you have stricter KYC norms. So, suppose there was a customer in my name and the sales is guy is landed up in my house when I am not at home and my Aadhaar card is not available, so it goes to my wife's name then I lose that analog bad debt. So, to answer to your question I have not lost customer during the process of analog to digital but I have lost certain receivables in the process of analog to digital.

Gautami Desai: So, then this should, I mean these reasons sound more like temporary, right?

Bibhu Prasad Rath: That is exactly what I said. But when I say temporary there are so many markets, so certain level is going to continue, I think it will be in another 1 to 2 quarter it should come down and now it should stabilize at this level, it is purely temporary and if I take you through my numbers in Bhubaneswar, Cuttack, Rourkela which were fully digitized one year ago. The bad debts levels are 2% to 3%.

Gautami Desai: But Bibhu did you experience whatever you experienced now, did you experience like that one year back in those market?

Bibhu Prasad Rath: Yes, we experienced all these, but at that point of time when I did say Bhubaneswar digitization almost 2 years ago. That point of time the scale of so many things happening together. I was doing digitization at one place then that bad debt as compared to your overall proportion was lower and on top of that the other bad debt which is coming in my new markets. So, today the scale has become larger and amount has become larger.

Gautami Desai: And may another question is that you content cost coming in down or has it anything to with your carriage coming down

Bibhu Prasad Rath: No, it has almost nothing to do with carriage because as I have been maintaining and that still stand good is that the intersection between the broadcasters paying and getting paid at very limited may be 10%. So the most broadcaster who pay me they are a different set of guys and the broadcaster who take money from major different set of guys, the content cost has come down primarily on two accounts. The one is, all the acquisitions as and when we do and we have done quite a bit of acquisition in last 7 quarters is the old MSO agreements get transferred to us and typically their cost are lower as compared to my earlier cost which was Rs. 60, that is one of the reason, the second reason is during last 9 to 12 months, we have taken many significant steps in our broadcaster's management, so moving one or two of the broadcasters to A-La-Carte and then settling it back, so we have effectively done better implementation, negotiations and settlements where the cost is genuinely come down. So, these are the 2 reasons.

Gautami Desai: So, but then why our carriage come down then in that case.

Bibhu Prasad Rath: Carriage has come down because there are couples of Odia channels which have moved on and Odia channels, local language channels where and this example which I gave on the content cost those relate to channels like Star and others and acquisitions in star and south and other channels. The carriage has come down because there were around I do not remember exactly 7-8 Odia channels who

were paying good amount of carriage fee, I think now two of them have stopped their carriage and about to close down. And they used to pay large sum of money and it impacts.

Gautami Desai: So, basically you do not have much of bad debts from your carriage side, right? All this is has come from your retail customers?

Bibhu Prasad Rath: Bad debts is mostly from retail customers but if you go to the receivable debts days carriage and infrastructure leasing at very high receivables. But those are not bad debts. Carriage normally gets settled.

Gautami Desai: So, this time your increase in the receivable days has also been due to your retail customer's right?

Bibhu Prasad Rath: Yes.

Moderator: Thank you. We have the next question from the line of Manjeet Buvaria from Solidarity Advisors. Please go ahead.

Manjeet Buvaria: Sir, just wanted probe a bit more under bad debts side, I understand the technicalities like people, having a change of vendor, shift from analog to digital, etc. when you have to categorize the older name customers as bad debts, etc. But what is very counterintuitive to me is suppose a person analog is continued with you own on the digital platform as well. I mean why would they want to default on the earlier views. I mean it is the same cable provider they are paying end of the day. So I do not get the logic, why do tend to not pay you guys.

Bibhu Prasad Rath: No, what I said actually see Manjeet, there are two kinds of environment which I explained. One is the new markets, new acquisitions so are my collection efficiency is not yet up to the mark, it is not yet streamline, that is one set of bad debt. The other set of bad debt which is we just to do it the older markets which I explained because of what you are saying. So, now the question is that there is an analog customer, there around 90% of the customer who pay in the same months. 80% to 90% of the customers pay in the same month, they don't delay. Now there are 10%-15% customers who typically delay their payments, okay. That is the behavior we have seen in the market. Now when you are on a digital service or you are on broadband service, you have an addressability if the customer is not paying you switch it off from control room. So, that means today we are visiting in the month of February, so may be in 2-3 days from now the guy is who did not pay in January and have not paid this month, they will get switched off. So, in a digital and data environment the maximum receivable a customer can build is 60 days. Because I stop the service in 45 days or 50 days but by then the billing has happened for 60 days, billing and revenue recognition has happened for 60 days. Now what happens in analogue and which has been happening for long time that you do not have that handle to stop the service. To stop the service, you have to move your truck roll, you have to move your truck roll is an industry term but it is actually in our contest auto roll, so you have to move your auto rickshaw, with ladder, with technician, with the tools to go to the customer premises and physically cut it. Now when you do that process it expensive and also it has a risk that it may not be 100% fool proof in analog. A customer can himself reconnect and can manipulate with piece of cable. So, what we normally do, in analog we let receivables be beat to an extent and before we call it a day that okay it is not going to happen. So, we are little bit liberal in disconnecting the service on analog, whereas we are little bit ruthless in disconnecting the service on digital and broadband because disconnecting the service in analog can lead to higher illegal leakages. So, that is why we are very careful. So, typically there is a set of customers where the receivables get built for two months, three months, four months over a period of

time and if those set of customers are moving on to digital in a new name or you have pushed a digital there is a risk that you may have to write-off that. In any case in a retail business Manjeet, if somebody has not paid for 3 months-4 months then not going to pay. It would have been written-off in any case over a period of time. But now that is moved and the services stop, so it gets reflected immediately. That is the point of making that it should get normalized in one or two quarters.

Manjeet Buvaria: So, again just a small query on this again. The way you are putting is essentially the people who are not paid when they converted from analog to digital there is almost no probability of them paying you and you writing-back those provisions as per your earlier experiences?

Bibhu Prasad Rath: See, we have a separate mechanism to try and collect money from the customers after making provisions and to the extent it is gets collected and gets written-back automatically but the success is not very high. The success is in that area is around 10% type but most of this does not come back actually. That is why it is very prudent that you take the provision.

Moderator: Thank you. We have the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Question on broadband. If I heard it right your average consumer is using only 5 gigs of data month, like do you see a risk of consumers moving to wireless broadband especially because that level 4, 5 or 6 GB the wireless operators have become extremely aggressive with likes in Rs. 350 4 to 6 gigs of data and unlimited calling and should not you be pushing a lot more data about what are doing the promoter much higher data usage more sure customers because strength of the cable broadband has to be much higher capacity which you can provide compare to what wireless can provide.

Bibhu Prasad Rath: Yes, so I will let Jiji our Broadband Head answer this but before that I just want to say one sentence that 5 gigs is average and we have schemes up to 100 GB. 5 is just an average so you have a pricing which is start from the double digit to Rs. 2,000 and at different price levels the downloads are there. I fully agree that our strength is to give higher speed, our strength is to give more download and 5 GB is just average, so Jiji can you throw some light on this. What Kunal is asking that 5 GB is something which a telecom guy can provide, though I do not generally agree because I have Airtel broadband and I think every some MB I get alert message but nevertheless you should answer that.

Jiji John: So, Kunal this data limitation in the wireless if you see there are operators who limit it on daily basis, right? Which we do not do in cable segment. It is on a monthly basis and at the same time like I mentioned earlier, we have started adding more data into the existing packages, so what you said is actually being actioned on the ground and also there are lot of unlimited packages which are being revamped. Packages which had earlier got a 50 GB data FUP limit are being given more than double at a little price increase. So, that is all being actioned parallelly so that customers enjoy seamless data usage and they do not have a worry on the FUP limit on a daily basis. Speeds are also being changed, customers are now more into 1, 2 or 5 Mbps plans rather than the earlier case where most of the people where hatching on to the 512 kbps now it is moving to 2 and 5 Mbps and also in the DOCSIS 3.0, we have plans from 10 Mbps to 100 Mbps which is also being now currently adopted by customers in Bhubaneswar and Vizag.

Kunal Vora: Because daily limits if you are referring to that is may be 1GB for Jio otherwise most of the plans are even incumbents have come up with 4 to 6 gigs Rs. 350 with

unlimited calling. So, I was concerned that 5 GB is just like too less and your customer should be using a lot more, so you are taking steps on that.

Jiji John: In fact we have already actioned that by giving more data into the existing package.

Bibhu Prasad Rath: And Kunal like I mention we have even up to 100 GB, 5 GB just average the low end and high end together. The idea putting that number there that as you mention that the strength of cable network is to give more speed and hence more downloads and we wanted to track that either downloads are increasing on our network or not and downloads will automatically increase when you give more speed and better plans, so idea was there to track that and so that we work towards that and yes in today's context 5 GB is not a big number but it is the average of all the customers.

Kunal Vora: Second question is on the broadband cost structure like what is the CAPEX which you incur and what are the variable costs and our operating cost and the broadband business, if you can just brief insight on this.

Bibhu Prasad Rath: See, it is very difficult, it has always been difficult for me to give a broadband CAPEX because we generally 95%-98% of the cases we work on a cable plus broadband network. We have hardly any pure broadband network unlike other MSOs where they have a separate network for cable and separate network for broadband. But a typical cost is when I do a homes passed which is on a pure TV it costs me around Rs. 800 per homes passed and if I do a TV plus broadband it costs around Rs. 1,600 for a homes passed. So, one can assume that you incur a CAPEX of Rs. 800 per homes passed for the purpose of broadband and then depending on the penetration if you get say, 20% then Rs. 800 is converts to per customer at Rs. 4,000. If you get 10% then it goes Rs. 8,000 and then plus you have the modem subsidy, CP subsidy of around Rs. 1,000 or little less than that, that is the kind of CAPEX and in terms of OPEX it is the bandwidth cost which is the biggest, so bandwidth cost is around less than 20% of the revenue and rest all is margin. If you see actually the latest numbers are slightly different because we have been pushing more bandwidth latest number the bandwidth cost is around 25%-26% of the revenue

Kunal Vora: And in your more mature markets, where you have been present for couple years. What is the kind of adoption which you are seeing as it like much more than 20% or it saturates around that level?

Bibhu Prasad Rath: Like if you see our oldest market which is Bhubaneswar, Jiji what will be the broadband customer to broadband reversed homes passed in Bhubaneswar for example which is the mature market.

Jiji John: It is around 20%

Bibhu Prasad Rath: I think it has the potential to go up also because the broadband adoption has happened rapidly in last one or two years and to that extent we must give credit to Jio that now everybody is a broadband user and when DTH was launched it helped cable in terms of marketing and other things, consumer awareness. So, I am sure the Reliance Jio publicity and other things will help us improve penetration ratio.

Kunal Vora: That will be subject to your like return on capital because if your cost per customer, what will be critical is cost of acquiring a customer and if that is very high would be a little conscious about investing?

Bibhu Prasad Rath: See look, like I said, if you invest Rs. 800 on homes passed and if you get a 25% penetration ratio, so you are become Rs. 3,200 and plus other CAPEX will be around Rs. 1,000 the box subsidiary and last drop cable and we do not do too much of inorganic in broadband. So your CAPEX per customer could be at in a range of around Rs. 5,000 and if you were doing it Rs. 400 ARPU with a 75% gross margin, so I think we can do that math offline but broadly it is like this Kunal that we are not doing anything new. We are doing exactly what has happened in other markets, USA and other things. So, cable is a best in terms of the CAPEX-OPEX parameter fundamental reason that it gives TV plus broadband and even if your broadband penetration is little bit lower now, it has offset because broadband penetration will only increase, TV penetration may not increase. In TV what we are trying today is acquire market share from other operators and broadband is growing actually.

Moderator: Thank you. We have the next question from the line of Sachit Khera from Smart Equities. Please go ahead.

Sachit Khera: What is your digitization percentage as of now?

Bibhu Prasad Rath: Well Sachit, I would like to take that offline with you because what happening in the regulatory front, the dates there is quite a bit of confusion in phase 3, phase 4 but broadly we are on track and can I take that offline with you.

Sachit Khera: And for the sake of repetition, what is the reason for your broadband subscribers reducing in this quarter?

Bibhu Prasad Rath: So, that is the one bit which we discussed in detail earlier. It will be repetition to others but let me just very briefly tell and then I can give details that are we had a long half an hour discussion on the call. So, the primary reason was the new schemes by the new competitor which reduced our sales specifically in the student segment in the quarter. So, what we have now done is we have readjusted our schemes, we have taken little bit of hit on ARPU we have given more download better speeds little bit more aggressive and refocusing the sales priorities and I am happy actually to inform that is we had one quarter negative growth but in a month of January which will be the part of Q4 we are back to positive growth and back to normal now.

Sachit Khera: And you said carriage will remain at these slightly lower levels because some of your customers going out.

Bibhu Prasad Rath: Yes that was my view for last couple of months but there are now indications that one or two newer are coming back but I would say that it would remain at this level now. But the big thing which is expected is the new regulation and that we just got into litigation in Chennai High Court and then Supreme court. If I do not factor the new regulation, then I think carriage will remain at this level now.

Sachit Khera: And if you will factor new regulation will be beneficial to you or?

Bibhu Prasad Rath: No actually in terms of pure carriage it will not be beneficial but the overall new regulation will be hugely beneficial to us because there are 2 regulations, one is on carriage and one is on the content cost and the subscription pricing. So, it will give us a huge benefit on our pricing power. It will give us huge benefit on the content cost and it will soften my carriage little bit. Overall, it will be a huge benefit for us and we are one of the guys who have been supporting the regulators that you should go ahead with this regulation and our big broadcaster friend has gone to Court and taken a stay order on that, so, let's see how it happens but overall it will be a big thing for us because the one of the fundamental difficulties in the cable

business is the content cost is not non-discriminatory. The same content is available to different people at different price points. So, what Tata Sky pays, what I pay, what Hathway pays are different and what small operators they pay are different. That is one and then there is a huge bundling discount which does not give choice to the consumers and you are not able to extract money from the off market consumers because you are giving the same content to everybody. So, the new regulation tries to address these core two issues – One is going to be completely non-discriminatory the price cannot be different for different operators and second is bundling discount. Today what the broadcasters put almost 80%-85% is being capped at 15%, so which means the A-La-Carte will be promoted to the consumers and different consumers should take different prices. So, the price will be properly tiered and every channel you sale to a consumer you get a 20% or something distributor margin. So, this will take our overall long-term to a very positive level but carriage per say may soften.

Sachit Khera: And Bibhu, as far as the bad debts are concerned, I know you answered this repeatedly I have a slightly different question. I was just looking at the total amount of bad debts versus the total revenue that you receive from Broadband as well as from TV, so the percentage looks to be a bit high it is almost nearing I think 20%.

Bibhu Prasad Rath: Which is very high, which is matter of serious concern and but I just want to assured that this temporary and little bit restricted to couple of quarters. I have already started seeing it in my old markets which were fully-digitalized a year ago or more than a year ago. It should come back to below 5% level.

Sachit Khera: Will that happen after complete digitalization or even before that?

Bibhu Prasad Rath: No, what we are doing actually it need not have complete digitalization of the entire company's network. It is the market wise we can do and that is exactly how we are working one-one market I can separately share with your data sheet of location wise bad debt percentage and the amounts and market-wise we keep cleaning and once the major part of the market is completed then the overall numbers will start coming down and then the percentage will come down.

Sachit Khera: Absolutely last question from my side. Bibhu, as far as Broadband is concerned I think we had this discussion quite a few times, Ortel as a network considering that you guys do complete CAPEX upfront you guys have huge advantage as far as the Broadband is concerned I think your marginal cost of adding subscribers is pretty low. So, what really stops you guys from targeting much higher penetration ratios and advertising and getting more and more customers on board?

Jiji John: Sachit, here actually I would like to add that we have already started doing that. The focus segments have been changed now, so, the guys who have moved out temporarily are basically the students segments and all. So, we have now started focusing on the households were most of the students are in-house and not the kind of hostel kind of inmates. So, that part we have already started doing and then the aggressive pricing on the packaging as well as the installation has already been implemented in the market which has started showing results in the month of January.

Sachit Khera: I really hope you guys focus more aggressively because I was on the Hathway Concall few days ago, the kind of growth those guys are seeing has been absolutely phenomenon even though they spend crazy amounts on CAPEX compared to Ortel. I think there is a lot of opportunity there for us to tap if I am not mistaken?

Jiji John: Yes.

Moderator: Thank you. We have the next question from the line of Raunak Shah from SGC Advisors. Please go ahead.

Raunak Shah: I just wanted to check what is the churn percentage for this quarter because I noticed that was not reported in the presentation this time?

Bibhu Prasad Rath: No, actually, yes it has been reported. If you have joined our calls in the earlier quarters there was always this debate of what is the real definition of the churn and why the churn was high. So, what I have explained in the past that we have given here churn as net of organic growth and let me explain it once again. That if I have 1,000 homes passed and I have 500 customers or 600 customers my penetration is 60% and out of this 600 if I am losing 10 and getting back either from the same home or the other homes within the same network without incurring CAPEX that is what we call organic growth and I have given a disclosure on the Page number 10 of the presentation where the organic growth net of churn is -1% during the quarter what it means the churn the net of organic growth is 1%.

Raunak Shah: Sorry, that is not very clear to me. If I look at your number for Q2 you reported 7.6% and 1Q was 9.3 assuming that you keep the same definition for churn what will that number be for Q3?

Bibhu Prasad Rath: No, sorry you are referring to the presentation format which is 2-3 quarters ago?

Raunak Shah: Yes, last quarter.

Bibhu Prasad Rath: Last quarter and this quarter the presentation format is same. The only last quarter since we changed for the first time, we had given to extra information and now I have just given the net number. So, the net churn is actually 1% during the quarter. The gross churn I do not have it with me right now if you can text me your mail ID or something or mobile number I will get back to you. The net churn is 1% this quarter.

Raunak Shah: Because last quarter you mentioned that your primary churn was?

Bibhu Prasad Rath: Last quarter I mentioned gross churn, organic growth then net. Here I am giving just a net number. So, net is 1%, so I will get back to you if you can, you have my mobile number.

Raunak Shah: I think email is fine.

Bibhu Prasad Rath: Mail me or I can give you the mobile number.

Moderator: Thank you. We have the next question from the line of Rajiv Sharma from HSBC Securities. Please go ahead.

Rajiv Sharma: Just one question from my side, Bibhu I am just trying to understand that you had some impact from Reliance Jio's free roll out of Broadband. What is the kind of homes pass through you are saying with Jio means what is the kind of coverage they have stated with and will it be at par with you or it is just half way just 10% and what looks like the plan and how are they entering the last mile like generally you have a primary model. So, how easy for them to enter the similar territories?

Bibhu Prasad Rath: Rajiv may I request my colleague CRN or Jiji. What Rajiv is asking that what is the Reliance Jio reach and homes pass in our markets and how are they reaching the customer, so that it is 100% or 50% or 10% and how smooth on transition.

Chitta Ranjan Nayak: See, in our markets, let me divide into Orissa and Emerging. Orissa where broadband market share is primarily our numbers are from Odisha, here they have their wired network will cover almost the main hubs or what there the PoPs, that will be around 1500 kilometer, they have laid fiber, which will be around 40%-50% of our main market passing's area.

Bibhu Prasad Rath: So, CRN what saying, whatever is our reverse homes passed wire we are able to give broadband service to consumers, Reliance Jio covers around half of that? And how do they reach last mile through wireless only. I do not think they have started building wire line last mile.

Chitta Ranjan Nayak: Last mile is wireless only.

Bibhu Prasad Rath: From their tower.

Rajiv Sharma: So, it is not a FTTH service so far?

Bibhu Prasad Rath: No, not yet

Rajiv Sharma: But do you see them digging up roads or asking you for last mile access in your primary markets?

Bibhu Prasad Rath: I definitely see them doing that but they have to obviously do in other places before they come here and it may take time but right now it is wireless.

Rajiv Sharma: So, the impact is all from the JioFi, the wi-fi router which they launched, it is not from the FTTH at all?

Bibhu Prasad Rath: No, there is no FTTH, it is from the wireless and that too on the student segment and in the certain segment which is comfortable with the free kind of thing.

Rajiv Sharma: And how have you ascertained this 50%, if it is wireless because what is the basis of your assessment because it is very difficult to assume that also.

Bibhu Prasad Rath: I think on a lighter note I can say I think he is CRN has a Jio phone and gets good signal while in the office and does not get good signal at home. So, may be that is why, that is how he say 50-50. Jiji you have anything specific on this? To be honest actually I am not very glued into their network Jiji.

Jiji John: Rajiv, what CRN meant was on the backbone which they have put up to wire up there base stations, okay.

Bibhu Prasad Rath: We have a fair idea about their fiber network because it is not there taken around 700-800 kilometer fiber from us and we know how much fiber they have laid and that is what CRN was mentioning. Now coming to the retail and access through wireless, Jiji if you have some answers.

Jiji John: Right, so what is now currently being planned is only on the wireless front as far they are concerned, the FTTH is more metro-oriented activity right now for them. So they will probably look at these markets after that is done or they may not look at it at all because of the diverse geography that we have.

Moderator: Thank you. We have a follow up question from the line of Raunak Shah from SGC Advisors. Please go ahead.

Raunak Shah: I have a broadly like a fairly general question on the cable business. As you would have seen I am sure increasingly consumption from consumer to moving into OTT platforms and people are viewing stuff more than non-media basis. Now, one of the tools I get that cable companies have is to make sure that lot other programming is available on smart phones, either through the form of an app that they have launched, is that something Ortel is considering doing and peers have started Hathway is announced their own platform is well.

Bibhu Prasad Rath: Yes, we are actively considering that and we have certain issues with the broadcaster so as the current copyright permission which we have got is only on the cable network, we do not have permissions for OTT but we are talking to them and we have plans and we will launch that soon but I have a slightly different view on the OTT platforms than the other cable guys in the country, having said that we will do it because everybody is doing, so we will do it. But I have a slight different view.

See you have to look at cable business as a distribution platform as a pipe which will carry somebody else content and Rajiv rightly said that the consumption mode will change but when the consumption mode change does not necessarily mean that I have to provide the content. Somebody can use actually a Tata Sky OTT using my broadband lines. So, I think one of our fundamental strength is that our distribution pipe should be content provider neutral. The customer can go to a hot start OTT customer can go to a Tata Sky OTT customer can go to a Zee TV OTT even my competitor Hathway's OTT if he is comfortable with that as long as he is using my pipe that is one approach. But there is no single approach works in the market, so having said that but we will do it, we are examining that.

Raunak Shah: So, what I was saying was I thought the strategy deployed by your comparators is that you can access Tata Sky's OTT only if you are an existing Tata Sky DTH subscriber and I was saying that, that was one of the ways to keep the subscriber base sticky because only if you are paying for the DTH subscription can you access their OTT.

Bibhu Prasad Rath: To be honest I do not know if that is the restriction by TATA Sky but even if that is so, that could be temporary because see look we need to differentiate between the content and the distribution. There is no content which belongs to me, it is Star TV content, it is Zee TV content, I am only consolidating and providing so also TATA sky is consolidating and providing so also Tata Sky is consolidating and providing. Now, there will be multiple there will be 100's of OTT platforms available it could be Tata Sky, it could be Hot Star, it could be Netflix, it could be 100 others. Consumers will choose, yes nothing prevents me from launching my OTT platform where again I am doing another intermediary job that I take content from because I do not have content. I take content from somebody and presented in my local field. The point I was making is that the secondary part of the job, we will do it definitely. I am not saying that we should not do it but the point I was making there are good OTT platforms and there will be more and more good OTT platforms coming up and it need not be by distributors like Ortel or Tata Sky or Hathway. It can be by broadcasters themselves it can be by independent third-party guys like Netflix and others, so our idea is yes we will launch an OTT platform but more than that what is important is also that we penetrate more into broadband so my broadband customers let them use any OTT platform I am okay with that.

Raunak Shah: And you also mentioned that you are currently talking to the broadcasters that you can do something OTT side, so when you have these conversations, is the request or the demand from the broadcaster that you pay a separate content fee, if you show this on a smart phone as opposed to ..

Bibhu Prasad Rath: See, generally my experience is that for last couple of years they have been generally resisting because they are trying to promote their own OTT platforms, okay, like the Star has Hot Star and others are also trying to launch. So, there been kind of dillydallying and resisting, so that is why even on the cable guys have launched or are about launch OTT platforms including you were looking at a limited number of channels. And it is becoming little bit of a challenge to get the agreement sealed with the broad caster because they their own interest of OTT. So this is also one of the subjects which we raised as an industry with the regulator to do something for the most provider, etc. So, I expect this to be resolved but I am saying in the worst-case scenario, let my broadband consumers use Hot Star, no matter to me. But, if I have a platform then those who are not my broadband customers they can use my platform. Suppose if there is a Reliance Jio customer in my market he can use our OTT on a Reliance Jio broadband. So, it works both ways or my broadband guy can take Hot Star and use my pipe. So, both are required.

Raunak Shah: And just last question from me. Have you given any thought to bundling your services, so for example offering double play or triple play or is that something you do already?

Bibhu Prasad Rath: We do it already for a long time now.

Raunak Shah: And you offer a certain discount.

Bibhu Prasad Rath: Yes.

Raunak Shah: What is the ballpark range of that value you offer if someone does more than one service with you?

Chitta Ranjan Nayak: Discount is in the range of around 10% but normally what happens we launch products separately where one particular package of cable and another particular product of data is bundled and sold it a particular price.

Bibhu Prasad Rath: If you take both separate and combined it will be around 10%.

Raunak Shah: How many of your subscribers are currently on both your broadband and your cable platforms?

Chitta Ranjan Nayak: 20% of our broadband basis on combo.

Bibhu Prasad Rath: I think around 20%-25% of the broadband customers are combo and there are some customers, look customer has the right to take Tata Sky TV and Ortel broadband, okay or Ortel TV and Reliance Jio broadband. So all options are available to customer but around 20%-25% of the broadband customers are also combo. And bundle apart from the discount it helps in other things also, you get 1 bill, 1 service and bundling is one of the strengths in cable.

Moderator: We have the next question from the line of Sachit Khara from Smart Equities. Please go ahead.

Sachit Khara: Bibhu what is the CAPEX guidance for next year?

Bibhu Prasad Rath: I actually answered that in one of the questions, so currently I have not completed the earlier guidance which was given that to take from 0.5 million to 1 million and to complete the full digitization, I will put a CAPEX Rs. 300 crore so I think it is still underway. So and whatever is left over will be spend in next few quarters. So, only

then I will plan the next phase and if you are asking means that how much out of this plan yet to be executed can I get back to you on exact number later.

Sachit Khera: If I look at FY18, could you broadly give the outlook for the 3 main revenue lines which is broadband, cable and carriage.

Bibhu Prasad Rath: Yes. On the revenue outlook

Sachit Khera: I mean broad numbers are fine, I do not need exact guidance then, I am just how you perceive?

Bibhu Prasad Rath: I think only guidance I will be able to give you now that let me get to 1 million subscribers with around 900,000 TV and 100,000 broadband and in both the cases ARPU should marginally increase and rest all remaining same, I think you should be able to calculate.

Sachit Khera: You think that FY18 will allow you to get benefit of share operating leverage?

Bibhu Prasad Rath: Operating leverage, yes on the cost side if you take out the content cost and if check out the bandwidth cost. Bandwidth is, so let me just reiterate, the guidance I can give each who will get 1 million sometime during FY18 it will be over. Around 900,000 will be TV and 100,000 will be broadband, ARPUs will marginally increase, it will not increase dramatically but marginally increase and operating leverage the bandwidth cost is the one which will proportionately increase to subscriber base, the programming cost, the pay channel cost is the one which will be semi proportionate and rest all will be more or less same or which an inflationary increase of 7%-8%. So, that is how and the bad debts should improve. That is how I will get the leverage.

Sachit Khera: And when you bad debts improve Bibhu does here fix assets write downs that we normally take with the bad debts because I think ones you told me that when your bad debts happen your fixed assets would get written off because the setup box cannot be recovered early, stuff like that. Will that be a double benefit or it is not like that?

Bibhu Prasad Rath: No, that is a separate item which already there in the P&L.

Sachit Khera: Sorry what I mean says that when you call for a bad debt it is like that subscriber gets off your books. So, you normally write-off the fixed asset which is at the setup box which is attributed to that subscriber as well right?

Bibhu Prasad Rath: Yes, but both have not directly related because bad debts multiplies over a period of time. Bad debt can be a customer 1 month, 2 month, 6 months and makes a lot of difference, whereas irrespective of how many days his receivables is being write-up the box remains one.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing remarks. Thank you and over to you.

Bibhu Prasad Rath: Thank you for joining us on the call. Hope we were able to answer all your questions. In case you have any more questions or you need any further information on the company, please feel free to contact us or CDR India. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Ortel Communications Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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