

Hinduja TMT

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We met up with Hinduja TMT on Tuesday to know more about the company's plans regards implementation of conditional access system (CAS) through its subsidiary, IndusInd Media & Communication (IndusInd). We sought to understand the cost and economics of deployment. Hinduja TMT operates as a multi-system operator (MSO) through a 61.5% holding in IndusInd. It operates under the brand name, *InCableNet* and has direct/indirect operations in 12 cities covering 4.5 million subscribers.

Major operations are in Mumbai, Delhi, Bangalore, Hyderabad, Ahmedabad and Belgaum. Other cities include Agra, Indore, Nashik, Mysore, Baroda and Nagpur. The company has a financial and technology tie-up with Nagravision for CAS and set-top boxes.

Key takeaways of the meeting:

- InCableNet has deployed HFC (hybrid fibre co-axial) cable network in major areas of its operations over the last two years. This enables it to reduce the number of headends to just one from which it can control the entire city.
- The company is implementing the CAS-plan in two phases. In phase-I the company would focus on controlling Mumbai and Delhi operations from a single digital headend in Mumbai. CAS and network management too would happen from Mumbai. There would be back-up headend in Delhi, though. Currently, Delhi has 3-4 headends. Both Mumbai and Delhi headends would have leased line connectivity.
- In phase-II, the company is looking at setting up a headend in the sky (HITS) system. This would provide signals to all headends in the remaining areas of its operations. CAS, billing and network management, however would happen from Mumbai, which would be interconnected with all the other cities.
- The company would be using proprietary technology for both CAS software and set-top boxes. Nagravision would be supplying a turnkey system for encryption of pay-TV services, including CAS and smart cards for deployment of digital set-top boxes. It would also integrate the CAS with third party compression system/digital head-end, the subscriber management system (SMS) and billing system, enabling IndusInd to have a fully operational digital pay TV system before July this year.
- IndusInd would start marketing digital set-top boxes in Mumbai at a price of around Rs5000 in the next one month.
- The company plans to spend about Rs500-600mn in the next one year or so to have a fully operational digital head-end and CAS set-up. Capex for HITS would be incremental largely on the teleport and transponder capacity. This, because by then a centralised network management, SMS and billing system would be operational in Mumbai.
- IndusInd, which reported a loss of Rs111.04mn in FY02 (and is estimated to report a loss in FY03 too), would report much lower losses in FY04 as pay-TV cost becomes a pass through expense and declaration from local cable operators improves sharply.

Conclusion

Our objective of meeting IndusInd was to get a fair idea of CAS implementation, its cost and economics. Given IndusInd's vast presence in metropolitan cities (along with Hathway Datacom), it would spearhead CAS deployment. Also, clearly the top-three MSOs in the country (Siticable, Hathway and IndusInd) would be using proprietary CAS and digital set-top boxes. This would be due the following two reasons:

- The three MSOs have their own networks, now more or less clearly demarcated areas. A proprietary system ensures better monitoring and control.
- Broadcasters want security and that can come best through deployment of digital set-top boxes.

As is apparent, no MSO would fund set-top boxes or even maintain a large inventory. It would be more like just-in-time inventory management with a bank financing option made available if required. Also, the presence of a Government deadline, however unrealistic for a full rollout, has pushed the three warring participants in the business, namely broadcasters, MSOs and local cable operators, to come together for a CAS solution.

Our View

- CAS would soon be a reality and this would result in a surge in the valuation of MSOs in FY04. Apart from Siticable and IndusInd, no large MSO is listed on the stock exchange. We expect their values to be reflected in the share prices of Zee Telefilms and Hinduja TMT, respectively. Valuations of broadcasters who derive pay-TV revenues would also improve.
- The local cable operator (LCO) would become a mere collection agent of the MSO retaining 10-15% of the collections unlike over 80% at present. The balance of power in the media value chain would shift dramatically in favour of the MSO. This far, the MSOs were strategically subsidising their networks. The LCO pocketed bulk of the subscription revenues while the broadcaster earned advertising revenues as a result of their reach. From FY04, we feel that revenue would be more or less equally shared between the MSO and the broadcaster after deduction of the collection charges.
- The key success variable would however, be acceptance of the set-top boxes. Customer reluctance to buy set-top boxes could result in channels preferring to be a part of the free-to-air bouquet so as to not lose viewership.
- Alternatively, pay-TV channels may drop their pricing to accommodate an average household spend of Rs225-275 per month. The latter, in our opinion, is a more realistic possibility.
- The top-three broadcasters have announced their intention to setup HITS. However, we believe HITS is more important to Siticable's success as a MSO, than it is immediately for Hathway or IndusInd. It is important to note that Siticable does not have an overwhelming presence in metros, apart from some in Delhi, Hyderabad and Bangalore. Nevertheless, Siticable does have a large share of direct/indirect presence in North and in states like Andhra Pradesh. Thus, if it could smoothly commercialise HITS by June this year, the development would positively impact Zee Telefilms' valuation (*rated Market Performer*).
- We reiterate, successful deployment of CAS in Mumbai by IndusInd could positively impact valuations of its listed parent namely Hinduja TMT (currently we do not have a rating on the stock).

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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