



**Telecom Regulatory Authority of India**

**Consultation Paper**

**On**

**Entry Level Net worth requirement of Multi-system Operators  
in Cable TV services**

9<sup>th</sup> April 2019

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New Delhi- 110 002

**Written comments on the consultation paper are invited from the stakeholders by 08.05.2019.**

**Counter comments, if any, may be submitted by 15.05.2019.**

**Comments and counter comments will be posted on TRAI's website [www.trai.gov.in](http://www.trai.gov.in).**

**The comments and counter comments may be sent, preferably in electronic form to, Shri Anil Kumar Bhardwaj, Advisor (B&CS), Telecom Regulatory Authority of India, on the e-mail [advbcs-2@traigov.in](mailto:advbcs-2@traigov.in) or [srobcs1@traigov.in](mailto:srobcs1@traigov.in)**

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## **CHAPTER 1**

### **INTRODUCTION**

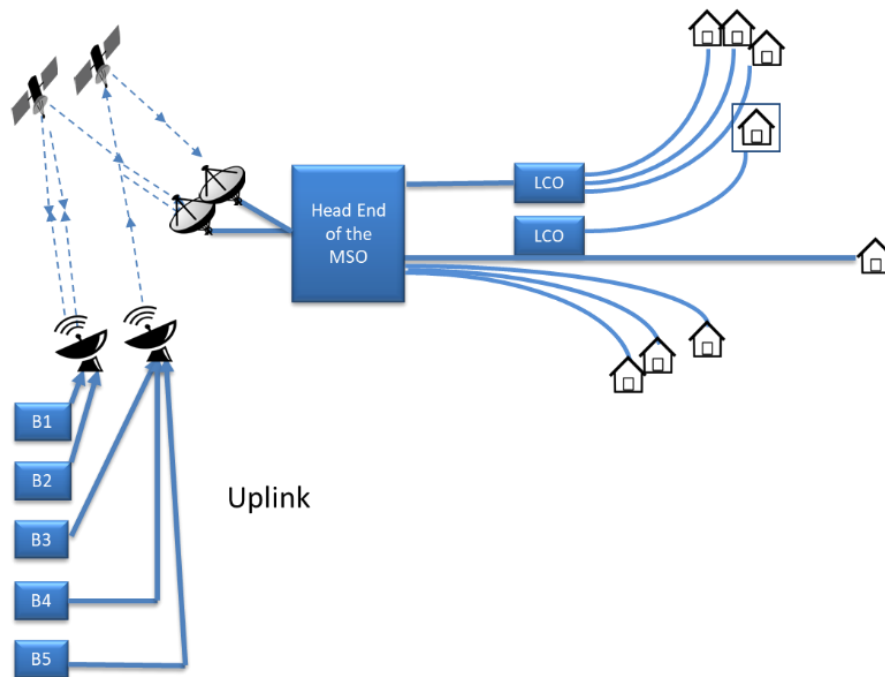
- 1.1 Cable television came into existence in India in 1983 when Doordarshan started its services on cable networks in rural areas of Rajasthan. In 1989 few entrepreneur's setup small Cable TV Networks and started local video channels showing movies & music videos after obtaining rights from film & music distributors. The international satellite television was introduced in India during 1991 with the live coverage of the Gulf War by CNN. The spread of Cable TV received a boost during 1992, with the launch of TV channels beaming India specific content. From just 410,000 Cable TV subscriber households in early 1992, the number of Cable TV homes has soared to 98.5 million<sup>1</sup>. Total number of households in India is 286 million out of which 183 million are TV households.
- 1.2 During 1990s, the cable and satellite TV broadcast business was largely driven by small Cable TV operators, each catering to the needs of local subscribers in a small area ranging from approximately 50 -1000 consumers. These local Cable TV Operators (LCO) used dedicated dish antenna to receive the satellite signals from broadcasters. LCOs processed these signals locally before sending it through cable Network to the subscriber premises.
- 1.3 As is evident that the cable industry developed as an unregulated ecosystem to cater to the needs of the consumers. The Government enacted the Cable Television Networks (Regulation) Ordinance, 1994 on September 29, 1994 that set down rules for registration of Cable TV Operators and introduced the Programming Code & the Advertisement Code. Subsequently this ordinance was converted into the Cable Television Networks (Regulation) Act 1995 (hereinafter "Cable TV Act"), on March 25, 1995. Under sub-section (1) of section 4 of the Cable TV

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<sup>1</sup> As per FICCI - EY Report 2018.

Act, for operating a cable television network, a person is required to register as a cable operator with the registering authority. The Head Post Master of the Head Post Office of the local area has been notified as the registering authority for local cable operator.

- 1.4 The model worked well as long as total number of TV channels received by Cable TV Operators were limited. A phenomenal increase in number of TV channels between 2000 until 2010 resulted in operational issues for LCOs. LCOs neither had the sophisticated equipment nor enough resources to receive broadcast signals from large number of satellites requiring a number of satellite dishes, before sending it to their subscribers. There were other issues like capacity to invest, advent of digital technologies and improvements in transmission technology enabling carriage of signal over longer distances. This is where Multi System Operators (MSOs) came into existence as a middle point in the hierarchy of cable services sector. The MSOs established head-ends in metros and major towns to receive TV signals from different TV broadcasters, aggregate and distribute these signals further to LCOs. MSOs either developed through organic growth whereby large cable operators developed themselves in the eco-system and became MSO's or through direct entry of new player. MSOs downlink the signals of various broadcasters from the Satellite and provide a bundled and encrypted feed comprising of multiple channels to the LCO who further retransmit it to subscribers through cables. MSOs may also choose to provide the services directly to their consumers.

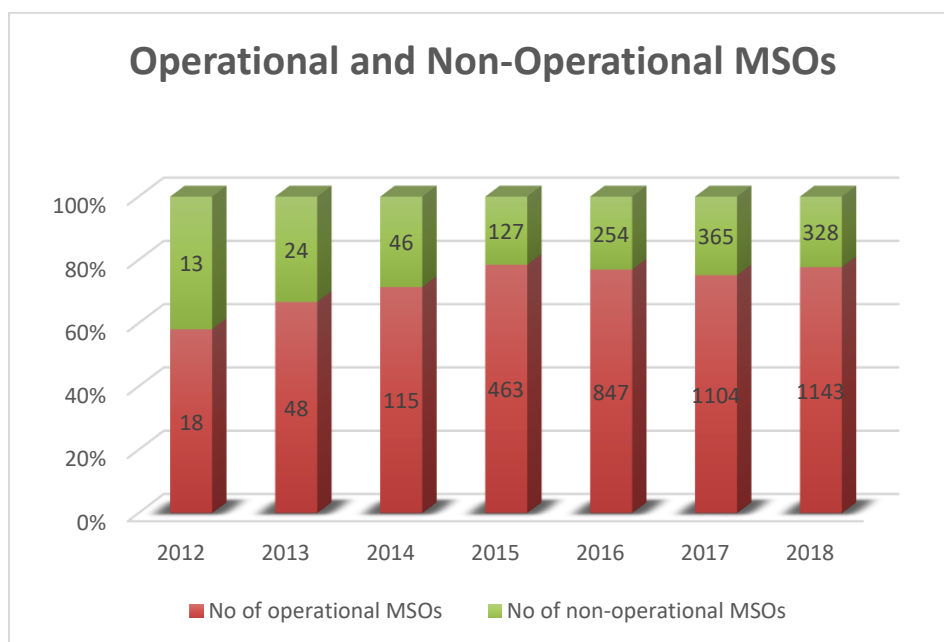


**Figure -1: MSO in the centre of Distribution<sup>2</sup> Chain**

- 1.5 With the introduction of Digital Addressable system (DAS), Government has amended the Cable Television Networks Rules, 1994 by issuing Cable Television Networks (Amendment) Rules, 2012 on 28<sup>th</sup> April 2012, according to which an MSO operating in DAS areas is also required to take necessary permission from MIB in addition to registration as a cable operator. Subsequently, TV industry witnessed the entry of organised Multi System Operators (MSOs). These MSOs have established their Headend in metros and major towns for receiving signals from broadcasters and distributing these signals to cable TV operators who had commercial agreements with MSOs
- 1.6 The exponential growth in the number of TV channels, combined with the inherent limitations of the analog cable TV systems, posed several challenges in the cable TV sector, mainly due to capacity constraints and non-addressable nature of the analog cable TV network. The evolution of technology paved way for bringing digitization in the cable

<sup>2</sup>Figure depicts MSO as a distributor. Obtaining TV channel signals from the broadcaster and further extending the same to LCOs or the end consumer.

TV sector. The cable TV digitisation with addressability was taken up in a phased manner. The migration from analogue Cable TV distribution system began in 2012 and got completed in March 2017. At present, there are 1471 registered<sup>3</sup> MSOs and more than 60000 local cable operators. Not all registered MSOs are operational at present. Based on MIB data, at present, there are 1143 operational<sup>4</sup> MSOs. The number of operational MSOs out of the total registrations has also increased from 2012 to 2018. However, there has also been an increase in the number of non-operational MSOs over these years. Further, Percentage of non-operational MSO remained more than 20 % for this period and it is stood at 22.3% in 2018, indicating the fact that a sizeable number of registered MSOs may not have sustained in the industry owing to stiff competition or other external factors.



Source: MIB

1.7 As mentioned earlier, the Operation of the Cable TV Networks is governed by the Cable Television (Networks) Regulation Act 1995 and the Cable TV Rules, as amended from time to time. As per rule 11A and

<sup>3</sup>Ministry of Information and Broadcasting data dated 27<sup>th</sup> Aug 2018 and 21.1.2019, which includes 2 provisional registered MSOs

<sup>4</sup>Ministry of Information and Broadcasting data dated 21.1.2019

11B of the Cable Television Networks rule <sup>5</sup>, any individual/firm/company/association of persons/body of individuals can register itself with the Ministry of Information and Broadcasting, as MSO, before providing cable TV services. Also, as per the MIB procedure, registrations of MSOs are granted on a Pan India basis. Thus, any registered MSO is entitled to operate in any part of the country.

1.8 The Authority had suo-moto initiated a consultation process in 2008 to seek the views of all the stakeholders in order to develop a regulatory framework that will allow the Cable TV industry to grow in an organised manner and to address the issues of technological advancement, convergence, and increasing competition. The cable TV sector was highly fragmented and the existing regulatory policy framework for the cable TV industry seemed to be inadequate in certain aspects such as proper maintenance of records, which could be easily accessed as and when required, lack of effective control mechanism and provisions for penalties for defaulters. In view of these regulatory challenges in the Cable TV sector, TRAI had given its recommendations on Restructuring of Cable TV Services on 25th July 2008.

1.9 TRAI in its recommendations on Restructuring of Cable TV Services dated 25th July 2008, had prescribed entry fee inter-alia a minimum net worth criterion for the registration of entrant MSOs so as to restrain the non-serious players from entering in the business. Further, the minimum net worth depended on proposed area of operation for the MSOs, as detailed below;

Sl. No.	Area of operation	Recommended Net-Worth
1	District level	Rs. 5 lakhs
2	State level	Rs. 10 lakhs
3	Country Level	Rs. 25 lakhs

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<sup>5</sup>The cable TV Network Rules 1994 as amended in 2012 vide SO 940 (E), dated 28-04-2012



Also, no annual license fee was recommended.

- 1.10 Subsequently, Ministry of Information and Broadcasting upon accepting some of the recommendations, prescribed entry fee of Rupees one lakh only (Rs. 1,00,000/-) for MSO registration. However, no amount was fixed for net-worth. As Digitisation of Cable TV network was being implemented in phased manner, the MSO registrations were given for specific city, Town, State or PAN India in DAS notified areas as requested by the applicant. Later MIB decided and conveyed in a circular dated 27<sup>th</sup> Jan 2017 that all registered MSOs are free to operate in any parts of the country, irrespective of registration for specified DAS notified areas granted by the Ministry.

### **Context of present consultation**

- 1.11 Ministry of Information and Broadcasting vide its letter no. 2/31/2016-DAS Dated 16<sup>th</sup> May 2018 has requested TRAI to give its considered recommendations on the appropriate levels of entry level net worth of the multi system operators (MSOs) for operationalizing digital cable services across the country. They have cited the reason stating that the current framework is governed as per Rule 11(3) of CTN Rules, 1994 which speaks only of the financial strength of the applicant for grant of MSO registration without explicitly defining or quantifying it. A copy of the MIB letter dated 16<sup>th</sup> May 2018 is enclosed at **Annexure-I**.
- 1.12 Clause 11 of CTN Rules, 1994 (as amended) describe grant of permission to MSOs to provide cable services with addressable systems in the notified areas, whereas Rule 11(3) of CTN Rules, 1994 states that *‘The Ministry of Information & Broadcasting in the Government of India shall, within thirty days of the receipt of the application, grant, or refuse, permission to the applicant to provide addressable systems in the notified areas after considering its suitability or otherwise on the basis of information given in respect of its existing operational area, actual number*

*of subscribers and addresses of its local cable operators in each of the notified areas, commercial arrangements with the broadcasters and local cable operators, if any, financial strength, management capability, security clearance and preparedness to supply and maintain adequate number of set top boxes for its subscribers, installation of its subscriber management system and compliance with all other quality of service standards as may be specified by the Authority’*

1.13 TRAI vide its letter no. 21-2/2018-B&CS Dated 25<sup>th</sup> July 2018 and 3<sup>rd</sup> October 2018 requested Ministry of Information and Broadcasting to provide information with respect to the net-worth of the already registered MSOs. TRAI also sought reasons for MIB decision to prescribe net worth requirements at this stage. However, MIB has not provided any specific comments for the same. It has also been observed from the information provided by MIB that no relation is found between the net-worth declared by the MSO and it being non-operational.

1.14 Presently, MIB specifies minimum entry level net worth requirement for broadcasters and Head-end In The Sky (HITS) operators. In case of DTH operators though the guidelines do not specify a minimum net worth, there is an entry fee that every DTH service provider is required to pay. These requirements are incorporated in the relevant licensing guidelines issued by MIB. For MSO’s the guidelines do not specify any minimum net worth requirement or an entry fee at the time of award of registration. Only a processing fee of amount of one lakh rupees is the only fee that an MSO is required to pay. The entry level net worth/entry fees requirements for other types of service providers are as follows-

(i) Broadcasters-

- a. For Uplinking in case of non-news, a minimum net worth of Rs. **5 crores<sup>6</sup> for first channel and Rs. 2.5 crores for additional channels** and for news & current affairs channel, a minimum

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<sup>6</sup>One crore is equal to Ten million.

net worth Rs. **20 crores for first channel and Rs. 5 crores for additional channel.**

b. For downlinking, a minimum net worth of **Rs. 5 crores for first channel and Rs. 2.5 crores** for additional channels for both news and non-news category.

(ii) DTH operators- No net worth requirement. However, an entry fee of Rs. **10 crores** is prescribed.

(iii) HITS operators- Entry level minimum Net worth of Rs. **10 crores**

1.15 The objective of the consultation paper is to deliberate whether there is a need to fix entry level net worth for MSO? if yes, what should be the value of the net worth required at the time of registration for MSO? Further the paper seeks the comments regarding the documents and method to assess the net-worth of an applicant, if a minimum value is prescribed.

1.16 The second chapter discusses the relevant issues in detail and the third chapter summarizes the issues for consultation.

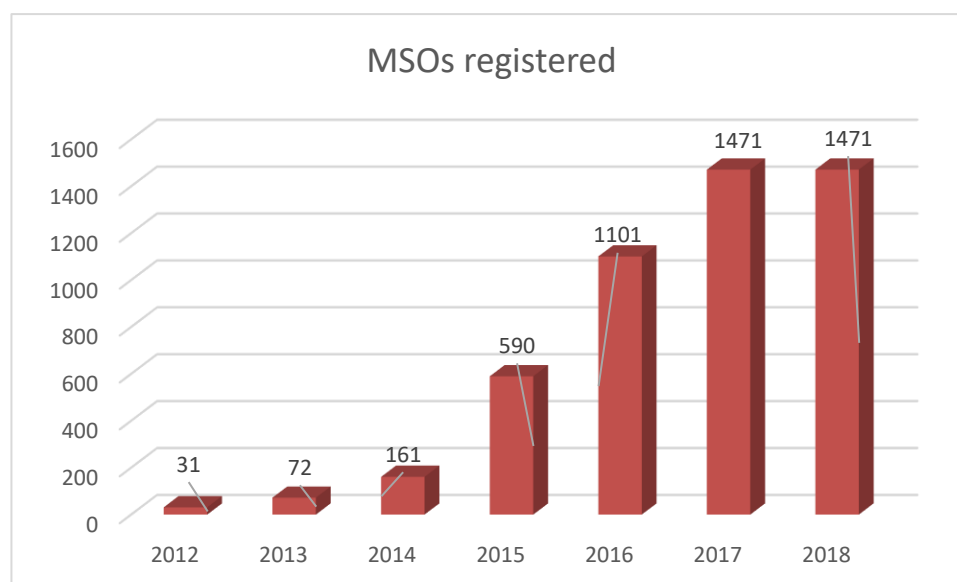
## **CHAPTER 2**

### **ISSUES RELATING TO FIXATION OF ENTRY LEVEL NET WORTH OF MSOs**

- 2.1 As per the Companies Act 2013, “net worth” means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation. Conceptually, Net worth is the value of all the non-financial and financial assets minus the value of all its outstanding liabilities owned by an individual or institutional unit.
- 2.2 An MSO has to make substantial investment for setting up the head-ends. Further additional investment is necessary for spreading the network. The equipment also requires continuous technology up-gradation. In addition, as a business entity, an MSO has to face competition from within and outside industry, thereby necessitating expenditure on marketing, sales and value-added services to gain new customer and to retain existing customers. Net-worth of a company is an important parameter for gauging its financial standing. However, whether specifying a minimum net-worth for an applicant MSO will help improve orderly growth, is a pertinent question?
- 2.3 In the registration of MSO, Government do not allocate any natural resource. MSOs have to make their own business plan to survive in the competitive market. It is the decision of the MSO to maintain necessary capital and working capital for smooth conduct of business. One argument could be that stipulation of minimum level entry net worth will ensure MSO that it has enough strength to run its business. Counter argument could be that in free market, there is no need for any stipulation by the Government as the applicant has full freedom as to how it manages the resources such as land, labour and capital. More

over entry level net worth may not ensure that every MSO succeeds in the business.

- 2.4 As per MIB data, there are 1471MSOs registered with MIB as on 31/03/2018. In line with progress of digitisation, the number of registered MSOs has steadily increased, 31 in 2012 to 1471 in 2017.



- 2.5 Theoretically, the presence of large number of smaller firms within an industry with higher fixed costs may not sustain in the long run in competition with larger entities as the later have economies of scale. Many of the smaller firms may not get adequate access to financial markets. Because such firms may be subjected to credit rationing wherein lenders would be able to provide funds only after ascertaining creditworthiness or other parameter denoting financial strength. On the demand side, it is possible that an entrant MSO has relatively smaller estimated consumer base. Thus, a typical MSO has to face competition both from within industry that is from incumbent MSOs, as well as from outside the industry that is from other type of distribution platforms like DTH service providers etc. The stiff competition and advent of new technology like freely available content on OTT platforms exert sufficient pressure on such small firms. These factors underline the possibility that the smaller entrant firms may be more susceptible. Such firms may fail to recover fixed costs and become unviable. Therefore, in order to induce stability and sustainability of growth in the industry, one view

could be to prescribe a minimum net worth requirement for registration as MSO.

2.6 At present, as per Cable Television Network Rules 1994 (as amended), an applicant seeking license for operating as an MSO can be an individual, an association of individuals or body of individuals, whether incorporated or not, or a company. The eligibility criteria for an applicant multi-system operator as per rule 11(B) are as follows :—

- a) where the applicant is a person, he shall be a citizen of India and not less than eighteen years of age;*
- b) where the applicant is an association of Individuals or body of individuals, whether incorporated or not, the members of such an association or body shall be citizens of India and not less than eighteen years of age;*
- c) where the applicant is an association of Individuals or body of individuals, whether incorporated or not, the members of such an association or body shall be citizens of India and not less than eighteen years of age;*
- d) the applicant shall not be an undischarged insolvent;*
- e) the application shall not be a person of unsound mind as declared by a-competent court;*
- f) the applicant shall not be convicted of any criminal offence.*

2.7 Further as per MSO registration procedure followed by MIB, in case of individuals the eligibility criterion in terms of net worth states that he/she should have a positive net worth. In case of association of individuals or body of individuals or a company, there is no criterion in terms of net worth requirements.

2.8 It is essential that a company has an adequate financial strength while operating in a technology dependent, dynamic and capital-intensive industry. Cable TV distribution service is an important support in the overall value chain as it constitutes the last mile for extending service to the consumer. A financially weak entity may either wind-up or may have to compromise on quality of its services. In either case the effects of such scenarios are not good for orderly growth of the sector. The

policy framework should therefore ensure that only those entities which can sustain competition and provide best quality of service to consumer are eligible to register.

- 2.9 Another very important issue is regarding eligibility of an individual to operate services as MSO. Rule 11B of the cable TV rules does not differentiate between a person and a legal person as an applicant for MSO registration. As such, if an individual applies for an MSO license, there is no prudent way to confirm his/her actual net worth. Because an individual is not required to make any statutory submissions to any public authority that specifies the net-worth. So, if a minimum net worth requirement is specified, it will be necessary to specify the format and the procedure to calculate the net-worth. Similarly, issues will arise in case of the group of individuals. Alternatively, if a minimum net-worth is prescribed, the extant rules may be reviewed to prescribe only business entity like a proprietor-ship firm in case of an individual and a partnership firm in case of group of individuals. It is noted that business entities as registered firms are duly audited, and their net worth can be duly assessed based on their actual paid up capital or previous years' audited reports. Such audited reports are part of statutory filings and therefore can be duly verified.
- 2.10 Due to digitalization and convergence, many non-traditional broadcasting TV distribution platforms such as OTT are emerging in the market. To remain competitive, it becomes necessary for MSOs to upgrade their networks and equipment for provisioning of value-added services including triple play services and broadband internet. In such a scenario, it becomes even more essential for the firms to have substantial financial strength.
- 2.11 On the other hand, any entry or exit barrier may deter first generation/new entrepreneurs. The nature of competition in the market as well as high upfront investments can itself ensure that firms having adequate financial strength only enter the field. However, though no specific data exists for MSO's becoming unviable, the fact that only about 77.7 % of those registered with MIB are actually operating business, may be an indication.

2.12 Conversely, the regional MSOs are necessary in the cable TV sector as they can better provide the program diversity to cater to the regional/local tastes. A minimum net-worth criterion or entry could discourage the growth of smaller MSOs in far-flung areas and in-turn may hinder the incubation and growth of local and regional channels. Thus, an entry barrier like fixing a minimum net-worth requirement may adversely affect overall program diversity and development of local and regional content.

2.13 Apropos the above, the issues for consultation are-

- a) **Do the present rules and provisions as regards eligibility and net worth for MSO require a review or modification? Give your answer with justification?**
- b) **If yes, should there be provisions specifying eligibility only for registered proprietorship / partnership firms or it should continue to include individuals or group of individuals as at present? Please elaborate your comments with reasons and facts.**
- c) **Is there a need for prescribing an entry level minimum net worth for the MSOs? Please justify your comments.**
- d) **If yes, what should be the procedure to check and verify the net-worth in case of individual or group of individuals? Similarly, what should be the mechanism to verify the net-worth as claimed by business entities like proprietor-ship firm, partnership firm, LLP or Company as the case may be?**

### **Net-worth based on area of operation-**

2.14 In the cable TV sector, MSOs providing cable TV services are categorized on a pan-India basis only. As per the guidelines issued by the MIB vide notification No. 2/108/2015-DAS dated 27/01/2017 whereby all registered MSOs are free to operate in any parts of the country, irrespective of registration for specified DAS notified area(s) granted by the Ministry of I&B.



- 2.15 However, since the capital requirements for setting up operations of an entrant MSO would depend upon the areas of operation, it is conceivable that their net worth requirements could also vary with the initial proposed area of operation.
- 2.16 Accordingly, there could be categories of MSOs based on the area of operation. First there could be the national level MSO providing its services in major part of the country covering at least 'n' number of states. Similarly, there could be state level MSOs having an area of operation in a state. And at local level there can be MSO's who cover a district or part thereof.
- 2.17 As mentioned above, the investment level required for each of the above three categories of MSO would vary significantly depending upon the area of coverage, with a pan India MSO having a substantially higher levels of required investment followed by other two categories of MSOs. Therefore, one view could be to fix the entry level net worth requirement in accordance to the desired scale of operation of an entrant MSO such that the required minimum net worth would be highest for Pan India MSOs followed by state level MSOs and least for district level MSOs.
- 2.18 As evident from above, currently, registrations are granted to MSOs for operations on a Pan India basis. Now, one scenario might be that if a requirement for minimum net worth is specified based on the proposed area of operation then the licenses may not be granted on a Pan India basis. Other scenario might be that even after specifying a minimum net worth requirement, licenses are granted on a Pan India basis. This is because even if an applicant wishes to operate on a local or regional level, licenses could be granted on a Pan India basis after ascertaining the requisite net worth to operate at that level. There are two possible scenarios. Scenario 1, where an entrant MSO operates on a district level or state level and gradually expands its coverage. Scenario 2, where an MSO starts with multistate operations and expands its horizons nationally through organic and in-organic (through mergers and acquisitions) growth. In scenario 1, a multi-level net worth may be necessary whereas in scenario 2 a single level net worth would suffice.

- 2.19 In case a new regime is created by granting registration on the basis of area of operation then there may also be a need to classify even the existing MSOs on the same basis to create a level playing field within the industry. The counter view may be that such classification may not be required as it may complicate the process.
- 2.20 Apropos the above, the issues for consultation are-
- a) Should the net worth requirements for entrant MSO be based on its proposed area of operation? Give your comments with justification.**
  - b) If yes, what could be different classification of entrant MSOs based on area of operation? Give your comments with justification.**
  - c) What should be the entry level net worth for each of the categories of MSOs if any classification is made on the basis of area of operation? Give your comments with justification.**
  - d) In case, license area of MSO's is classified on the basis of area of operation, what should be the mechanism and criteria to classify existing MSOs? Please comment with proposed process to re-classify.**

### **Net worth Requirement for North East and J&K**

- 2.21 Although there has been a significant increase in the uptake of cable TV services over the years, its reach has yet not been uniform throughout the country. Some regions such as North East and J&K have difficult topography and harsh weather conditions from the viewpoint of laying cables. This makes the business of an MSO less commercially viable due to still higher upfront costs incurred in laying down cables and its maintenance.
- 2.22 Under such circumstances, one can argue that to augment the commercial viability, relaxation in the net worth requirements should be provided in such areas since a minimum net worth can act as an entry barrier especially for smaller firms.

- 2.23 Other view could be that since there is a lack of commercial viability of providing Cable TV services in these areas due to factors such as difficult terrain or sparser population, thus a business entity should have greater financial strength vis-à-vis entities in other parts of the country. Thus, curtailing the minimum net worth requirement criterion may result in promotion of inefficient firms in these regions.
- 2.24 Apropos the above, the issues of consultation are-
- a) Should the minimum net worth required in case of MSOs operating in North east and/or J&K be relaxed compared to other regions? Please provide suitable justification.**
  - b) If yes, by how much should the entry level net worth criteria be relaxed? Please give your comments with justification.**

### **Criteria for Establishing Minimum Net worth requirements**

- 2.25 An entrant MSO has to incur fixed overhead costs for starting its operations, some of which may be the sunk cost. In addition to the fixed cost, the entity also incurs variable costs which comprise of operating expenditures as well as maintenance cost.
- 2.26 There should be an appropriate and justified criterion for the establishing the minimum net worth requirement. One measure of the capital intensiveness is the amount of upfront fixed cost that a firm incurs at the time of entry. In that context, an MSO incurs heavy upfront costs mainly for 3 purposes- a) Head end establishment b) CAS and SMS installation c) STB deployment d) Laying down cables. One such criterion could be that the minimum net worth be a fraction of the fixed cost.
- 2.27 Further, in terms of the existing regulatory framework notified by TRAI, it is necessary for the MSO to offer a basic service tier consisting of minimum of 100 FTA channels to the subscribers. Due to this, it becomes necessary to have a minimum capacity of 100 channels in the network. However, an MSO operating in cities generally have a capacity of carrying 300 channels whereas national level MSOs have a capacity up to 500 channels. The investment required depends upon the channel

carrying capacity of the platform because it constitutes the fixed cost. Therefore, one view could be that the net worth requirement should take into account the establishment costs for setting up an average capacity of 300 channels. The counter view could be that the registration of an MSO does not mandate the total carrying capacity and that the average capacity of district level MSO is significantly lower than 300 channels, therefore the net worth should take into account the establishment costs of just 100 channels.

- 2.28 One criterion for fixing the minimum net worth requirements for an entrant MSO could be based upon some combination of a fraction of average fixed cost (as required for setting a minimum channel carrying capacity of 100/300 channels) and a fraction of expected average variable cost incurred annually during operations of a typical MSO.
- 2.29 The other criteria for fixing the entry level minimum net worth could be on the basis of expected number subscribers that an entrant MSO estimates to cater to. As such there could be a minimum number of subscribers to which a typical MSO would serve. Accordingly, net worth can be fixed taking into account the cost of providing service to this minimum number of subscribers such that the business of that entrant MSO is viable.
- 2.30 **Apropos the above, the issues of consultation are-**
- a) What are the components of the fixed costs incurred by an entrant MSO? Give your comments with justification.**
  - b) What are the components of the variable costs incurred by an entrant MSO?**
  - c) How do the fixed costs and the variable costs depend upon the scale of the operation that is for the small, medium and large operators?**
  - d) Should the minimum net worth required be based upon the average fixed cost incurred by an entrant? If yes, what should be the appropriate criterion? Please explain**

- e) Discuss if there could be some other criteria in context of costs incurred such as a combination of average fixed and variable costs**
- f) What is the average cost incurred in establishing a minimum capacity of 100/200/300/500 channels? Should the minimum net worth depend upon the proposed channel carrying capacity of the entrant? Please justify**
- g) If the answer to question (f) is in affirmative, what should be the minimum net worth requirement for an entrant MSO willing to provide just the basic service tier of channels? Further, how should the minimum net worth requirement vary with increase in proposed capacity tier?**
- h) Should the minimum net worth depend upon the proposed number of subscribers that an applicant MSO would cater to? Please justify**
- i) If the answer to question (h) is in affirmative, what should be the proposed number of subscribers and the relevant net worth for the same?**
- j) Discuss if any other criterion could be used to determine the entry level net worth of the MSOs?**

**Documents to be furnished at the time of registration to justify Net worth requirements-**

- 2.31 As per Cable Television Network Rules 1994, an applicant seeking license for operating as an MSO can be an individual, an association of individuals or body of individuals, whether incorporated or not, or a company.
- 2.32 Further, as per the Registration procedure of MIB for MSO, in case of individuals the eligibility criteria in terms of net worth requirements is that he/she should have a positive net worth. In case of association of individuals or body of individuals or a company, there is no criterion in terms of net worth requirements. Applicants are required to produce a certificate of net worth along with Balance sheet and P&L account.
- 2.33 An applicant entity can be a going concern or a new entity. As per the statutory requirements for a going concern, the companies are required to prepare Balance sheet and P&L account<sup>7</sup>. Further, in the case of firms, the obligation to maintain book of accounts and audited financial reports is governed by sections 44AA and 44AB of Income Tax Act. Firms are required to maintain book of accounts if his income from business, total sales, turnover or gross receipts exceeds a certain minimum amount.
- 2.34 In the case of individuals there is no statutory requirement for preparing balance sheet / P&L, therefore, applicant is required to assess through a chartered account as to what is the net worth. Generally, any individual runs the business as a proprietorship firm. This is reflected from the data of the registered MSOs with MIB where most of the MSOs are registered as companies, proprietorship firms, partnership firms, Limited Liability Partnerships (LLP).

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<sup>7</sup> As per section 129 of The Companies Act, 2013.

- 2.35 In case of going concerns such as companies, proprietorship firms, partnership firms or LLP, the net worth certificate of the relevant entity can be ascertained by the balance sheet and Profit/Loss account. But in the case of individuals, the net worth certificate submitted cannot be justified since he/she is not registered as a business entity. Therefore, one view may be that modifications should be carried out in the Cable TV registration rules so that individuals unless registered as a one-person company shall not be allowed to seek MSO licenses. Other view could be that necessary modifications could be carried out in the Cable TV rules and an appropriate procedure is laid down so that the net worth certificates as submitted by the individual seeking MSO licenses may be prudently justified.
- 2.36 In case of new entities, either individuals or firms or companies, it is not possible to produce balance sheets and other financial reports. Therefore, in such cases, to ascertain net worth, different procedure for assessing the net worth will be required. One such method may be calculating net worth as per a specific Proforma with details of the assets and liabilities. A sample proforma is enclosed at **Annexure-II**.
- 2.37 **Apropos the above, the issues of consultation are-**
- a) Should necessary modifications be made in Cable TV rules in case of individual applicants so as to ascertain his/her net worth more prudently compared to the existing regime?**
  - b) Should the individual be permitted to seek MSO registration? If he/she is permitted, what should be the method for calculating and verifying his/her net worth?**
  - c) Which documents need to be furnished at the time of registration in order to justify the given net worth requirements for all other 3 cases, i.e., body of individual, partnership firms, companies?**
  - d) Comments on the contents of proforma on the basis of which net worth for the new entities is to be calculated?**

## **CHAPTER 3**

### **ISSUES FOR CONSULTATION**

- 3.1 Do the present rules and provisions as regards eligibility and net worth for MSO require a review or modification? Give your answer with justification?**
- 3.2 If yes, should there be provisions specifying eligibility only for registered proprietorship / partnership firms or it should continue to include individuals or group of individuals as at present? Please elaborate your comments with reasons and facts.**
- 3.3 Is there a need for prescribing an entry level minimum net worth for the MSOs? Please justify your comments.**
- 3.4 If yes, what should be the procedure to check and verify the net-worth in case of individual or group of individuals? Similarly, what should be the mechanism to verify the net-worth as claimed by business entities like proprietor-ship firm, partnership firm, LLP or Company as the case may be?**
- 3.5 Should the net worth requirements for entrant MSO be based on its proposed area of operation? Give your comments with justification.**
- 3.6 If yes, what could be different classification of entrant MSOs based on area of operation? Give your comments with justification.**
- 3.7 What should be the entry level net worth for each of the categories of MSOs if any classification is made on the basis of area of operation? Give your comments with justification.**
- 3.8 In case, license area of MSO's is classified on the basis of area of operation, what should be the mechanism and criteria to classify existing MSOs? Please comment with proposed process to re-classify.**
- 3.9 Should the minimum net worth required in case of MSOs operating in North east and/or J&K be relaxed compared to other regions? Please provide suitable justification.**
- 3.10 If yes, by how much should the entry level net worth criteria be relaxed? Please give your comments with justification.**



- 3.11 What are the components of the fixed costs incurred by an entrant MSO? Give your comments with justification.**
- 3.12 What are the components of the variable costs incurred by an entrant MSO?**
- 3.13 How do the fixed costs and the variable costs depend upon the scale of the operation that is for the small, medium and large operators?**
- 3.14 Should the minimum net worth required be based upon the average fixed cost incurred by an entrant? If yes, what should be the appropriate criterion? Please explain**
- 3.15 Discuss if there could be some other criteria in context of costs incurred such as a combination of average fixed and variable costs**
- 3.16 What is the average cost incurred in establishing a minimum capacity of 100/200/300/500 channels? Should the minimum net worth depend upon the proposed channel carrying capacity of the entrant? Please justify**
- 3.17 If the answer to question 3.16 is in affirmative, what should be the minimum net worth requirement for an entrant MSO willing to provide just the basic service tier of channels? Further, how should the minimum net worth requirement vary with increase in proposed capacity tier?**
- 3.18 Should the minimum net worth depend upon the proposed number of subscribers that an applicant MSO would cater to? Please justify**
- 3.19 If the answer to question 3.18 is in affirmative, what should be the proposed number of subscribers and the relevant net worth for the same?**
- 3.20 Discuss if any other criterion could be used to determine the entry level net worth of the MSOs?**
- 3.21 Should necessary modifications be made in Cable TV rules in case of individual applicants so as to ascertain his/her net worth more prudently compared to the existing regime?**
- 3.22 Should the individual be permitted to seek MSO registration? If he/she is permitted, what should be the method for calculating and verifying his/her net worth?**

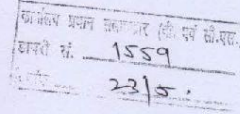
- 3.23 Which documents need to be furnished at the time of registration in order to justify the given net worth requirements for all other 3 cases, i.e., body of individual, partnership firms, companies?**
- 3.24 Comments on the contents of proforma on the basis of which net worth for the new entities is to be calculated?**

**Annexure-I**

No. 2/31/2016-DAS  
Government of India  
Ministry of Information and Broadcasting  
Room No.116, 'A' Wing, Shastri Bhawan, New Delhi  
\*\*\*\*\*

Dated 16<sup>th</sup> May, 2018

To,  
Shri Sunil K. Gupta,  
Secretary  
Telecom Regulatory Authority of India  
Mahanagar Doorsanchar Bhawan  
(next to Zakir Hussain College)  
Jawaharlal Nehru Marg (Old Minto Road)  
New Delhi: 110 002



**Sub: Fixation of entry level net worth of the Multisystem Operator(MSO) for operationalizing Cable TV Digitization across the country.**

Sir,

The Ministry of Information & Broadcasting has been granting MSO registration to the desirous applicants since 2012 to operate in DAS notified areas. The Ministry is considering a fixation of entry level net worth of the Multisystem Operator(MSO) for operationalizing Cable TV Digitization across the country as Rule 11(3) of CTN Rules, 1994 speaks only of financial strength of the applicant for grant of MSO registration without defining it.

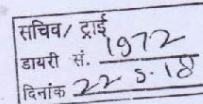
2. Since the Ministry is also carrying out changes in the Cable TV Rules for LCO registration, if the financial strength i.e. quantum of the Net-worth is fixed, the same will be incorporated in the Rule 11B under the eligibility for Multi System Operators. Further, the Net-worth of an MSO could be based on whether the MSO wants to operate in district/s, State/s or PAN India.

3. In view of the above, TRAI is requested to give their considered recommendations on the appropriate levels for Net-worth for fixation of entry level net worth of the Multisystem Operator(MSO) for operationalizing Cable TV Digitization across the country, keeping in view the fixed costs & the variable costs that are incurred in the operations.

Yours sincerely

*Shankar Lal* 16/5/18

(Shanker Lal)  
Deputy Secretary(DAS)  
Tel: 23385528



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**Annexure-II****Sample Proforma for calculating net worth for new entities**

Net worth of \_\_\_\_\_ (Name of partner/ Proprietor)

A.	Listed (Quoted) investments in the name of the applicant (at market value)	
B.	Margin of 30% on market value of listed (quoted) Investments	
C.	Net value of listed Investments (A) – (B)	
D.	Investments in unlisted (unquoted) companies (as per Note No. 2)	
E.	Margin of 50% on (D)	
F.	Net value of unlisted Investments (D) – (E)	
G.	Other Investments (at cost) with PPF and NSC at current value, Statutory deposits with Ace, Deposits with registered NBFCs, Bank FDs	
H.	Total Net Investments (C) + (F) + (G)	
I.	Market Value of Land & Building component of the Fixed Assets	
J.	Margin on I at 50%	
K.	Net value of such fixed assets (I – J)	
L.	Debtors not exceeding 3 months + Cash & Bank balance	
M.	Current Liabilities	
N.	Long term liabilities	
O.	Net worth (H + K + L) – (M + N)	

Place

(Name of Accounting Firm)

Date:

### List of acronyms

<b>Abbreviations</b>	<b>Description</b>
DAS	Digital Addressable Cable System
DTH	Direct to Home
FTA	Free To Air
HITS	Head end In The Sky
LCO	Local Cable Operator
LLP	Limited Liability Partnership
MIB	Ministry of Information and Broadcasting
MSO	Multi System Operator
OTT	Over the Top
STB	Set-Top-Box