

May 15, 2019

To,

Shri Anil Kumar Bhardwaj (Advisor-B & CS)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan
Jawahar Lal Nehru Marg
New Delhi-110002

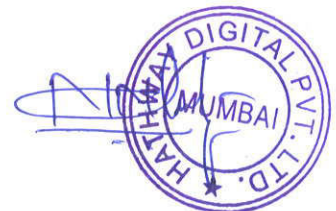
Sub: Comments on the Consultation Paper dated 9th April 2019 on Entry Level Net Worth requirement of Multi-system Operators in Cable TV Services

Dear Sir,

At the outset we thank Telecom Regulatory Authority of India (TRAI) for giving us an opportunity to provide inputs on the requirement of Net worth for Multi System Operators in Cable TV Services.

At the very outset we would like to state that by the own submissions of Hon'ble Telecom Regulatory Authority of India (TRAI) in reliance to data of Ministry of Information and Broadcasting (MIB) only 77.7% of the total MSOs granted license by Ministry of Information and Broadcasting (MIB) are functional at present. The rest inspite of getting the License either has not been able to start their operations or have to stop its operations due to financial infirmity.

It is stated that grant of license to non-serious players has not only impacted the orderly growth of the cable sector but has also wedged the quality of service being provided by such MSOs. It is matter of great unease that inspite of passage of more than two decades since the advent of cable TV services the sector is still under evolution.



Hathway Digital Private Limited

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It is submitted that prescribing a net worth for MSO license will allow only the serious players to be part of the business which ultimately will help in matured and organized evolution of the cable sector.

We are detailing our response to issues raised by Hon'ble TRAI for its kind consideration.

For **Hathway Digital Private Limited**



Niharika Matlani

Company Secretary and Compliance Officer



ISSUES & RESPONSES

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?

HDPL's Response: The issue numbered as 3.1 in the consultation paper seems to factually mis-presented as no net worth eligibility/criteria for getting a MSO license has been prescribed as on date. The rule 11 (A) and 11 (B) of the Cable Television Networks Rules, 1994 which contains the requirement for getting a MSO License only speaks about a processing fee of Rupees One lakh apart from other non-financial eligibilities.

It is stated that under the present rules prescribed for getting a license for operating as a Multi System Operator (MSO) any individual/company/associations of individuals can do so by paying a processing fee of Rupees One lakh only. The present rule does not have a filter for serious and non-serious players. It may be noted that as on date MIB has granted a total 1471 MSO license out of which only 1143 are currently operational. The percentage of non-operational MSOs which was 20% in 2017 has risen to 22.3 % in 2018. The aforementioned figures present a grim picture of the growth of a sector which is still striving to evolve even after more than two decades of its advent. It may be noted that apart from other ignorance and hindrances which is preventing the orderly growth of the cable sector absence of financial checks for getting a MSO license is also one of the prominent cause.

It may also be noted that grant of License though is the first step towards starting operations as a MSO, it involves setup of infrastructure on a colossal scale for making it operational. The MSO operations has to be qualitatively sound to be in



compliance with the parameters detailed by Hon'ble TRAI vide various regulations more specifically the regulations and guidelines shaped for the benefit of subscribers and lack of financial strength will have a negative bearing on the same.

It is stated that the financial strength will out rightly give the Regulator/MIB an insight into the seriousness and sustainability of a MSO and also its strength to comply with the mandate of Hon'ble TRAI. It may be noted that absence of financial checks is leading to hara-kiri and chaos, resulting not only into extinction and impact on the growth of cable sector but also unemployment. The random mushrooming of MSOs due to easy accessibility to MSO license has resulted into upsurge of a class of MSOs who have no reverence for the mandates of TRAI, which is flouted openly and due to lack of filters and checks only few of big MSOs always remain in focus and ultimately have to bear the ire/brunt of regulator.

It is submitted that every regulation by Hon'ble TRAI has been legislated with the motive of parity, uniformity and subscriber benefit in its core. However the very motive of Hon'ble TRAI is not achieving its end due to chaos created because of non-availability of financial eligibility. It may be noted that while at one end few of the MSOs are being chastised for compliance of mandates others are clearly flouting the rules in the guise of financial constraints.

It is stated that being a MSO operating in particular region does not necessarily mean that it has financial limitation and cannot comply with the mandates of TRAI. It may be noted that irrespective of the size of area of operation the said MSOs are market leader or holds the second position.

It is submitted that eligibility of minimum net worth will not only put a check on the violation of rules by MSOs but also ascertain the sustainability and growth of MSOs and cable sector. Accordingly, we are of the opinion that Regulator /MIB should define a minimum net worth eligibility for grant of MSO License.



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 at present? Please elaborate your comments with reasons and facts.

HDPL's Response: It is submitted that all entities/persons who are seeking license for operating as a MSO should have to prove its financial competence before getting the License irrespective of its status. It is stated that operational and statutory compliances mandated by Hon'ble TRAI for operating as a MSO are uniform and accordingly the financial strength whether it is a company/ registered proprietorship/partnership firms or a group of individuals have to be even and maintained for smooth conduct of the business and statutory compliances as a MSO. It is submitted that what is a duty for one cannot be a privilege for another. The cable sector which should have attained a maturity by now is still striving for its identity due to lack of uniform parameters and same appreciation for all categories of MSOs. It may be noted that giving a privilege based on the status of the person viz legal or natural will further prove detrimental to a sector which is already bleeding and struggling for its basis survival. It is stated that the regulator should endeavour for an industry which will evolve by way of open market competition based on quality and not special privilege to one at the cost of other.

3.3 Is there a need for prescribing an entry level minimum net worth for the MSOs? Please justify your comments.

HDPL's Response: We are of the opinion that there should indeed be an entry level minimum net worth for the MSOs. It is submitted that owing to lack of financial eligibility/criteria for grant of MSO license many non-serious entities get license which ultimately have a bearing on the compliances and quality of the customer service. It may be noted that policies of government are framed on the



basic principle of uniformity and accordingly MSOs should also be viewed in the parlance of said principle. It is submitted that the satellite based channels which came into existence in 1983 and got a lift in 1992 with launch of satellite based channels streaming India specific content, has been able to achieve the desired success and has turned into an organized and profitable sector due to uniform policies including fixation of net worth criteria which has been made more stringent in 2011 for getting Uplinking and downlinking license. The same has helped the Broadcasting sector to weed out the non-serious players out of the race, bearing of which can be felt by the phenomenal growth of the sector. It is submitted that while MIB has fixed a net worth criteria as Rs. 5 Crore for first non-news channel and Rs. 2.5 Crore for additional channel, Rs. 20 Crores for news and current affairs channel and Rs. 5 Crore for the additional news and current affairs channel for the Uplinking and downlinking license, have defined net-worth of Rs. 10 crore for getting license to operate as a HITS operator, have fixed an entry fee of Rs. 10 crore for DTH operator, for MSOs a meagre amount of Rs. One lakh suffices for getting license and operating as a MSO. The entry of non-serious entities had ultimately affected the quality of service being provided by the MSOs and the same is quite evident from switchover of subscriber from MSO's platform to DTH platform. It is stated that the introduction of platform like OTT apart from DTH are giving stiff competition to the MSOs and unless entities with appropriate financial strength who can match the quality and promptness of service of other platforms are allowed to operate as a MSO, the platform will perish. The platform which could have been the torch bearer in the entertainment industry is lagging behind even the new platforms and is struggling for its basic survival. It is also quite unfortunate that even TRAI by way of The Telecommunication (Broadcasting and Cable) Services Register of Interconnection Agreements Regulation, 2019 is considering giving privilege in compliances to a class of MSOs handpicked on the



basis of subscriber base which will further impact the uniform growth and parity of the platform.

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?

HDPL's Response: It is submitted that for verifying the net-worth in case of individual or group of individuals the details/documents such as income tax return of last three years, property tax payment details if any, copy of inheritance documents such as succession certificate etc., Banker's Certificate, DP Service Provider Portfolio, CIBIL reports can be sought by the Regulator.

It is stated that the individual and /or group of individuals on the basis of the above should be further required to furnish certificate from a practising chartered accountant certifying the net-worth and cash flow.

It is further submitted that in case of a proprietorship firm, partnership firm/LLP or Company audited annual accounts of last three years certified by a practising Chartered Accountant can be sought for the purposes of ascertaining/verifying the net-worth.

3.5 Should the net worth requirements for entrant MSO be based on its proposed area of operation? Give your comments with justification.

HDPL's Response: It is submitted that the permission for operating as MSO is provided on PAN India basis and hence the net worth requirement should also be decided accordingly i.e. uniformly for all MSOs irrespective of its area of operations. It is same as for the TV Broadcasters wherein irrespective of the Broadcaster is operating in a particular region or has pan India presence the net-



worth eligibility including the annual renewal fee is same for all of them. It is submitted that whether the MSO is operating in particular area/state or has pan India presence there are requirements and compliances not only under the Cable Television Networks Rules, 1994 but also under the Telecommunication (Broadcasting and Cable) Services Standards of Quality of Service and Consumer Protection (Addressable Systems) Regulations, 2017 which has to be mandatorily followed for operating as a MSO. It may be further noted that irrespective of area of operations every MSO is required to make investment for setup of Headends, Conditional Access System (CAS), Subscriber Management System (SMS), Call Centres, set top boxes, office infrastructure etc. and accordingly have to be financially sound to keep going as a MSO. It may also be noted that The Telecommunication (Broadcasting and Cable) Services Interconnection (Addressable Systems) Regulations, 2017, The Telecommunication (Broadcasting and Cable) Services (Eight) (Addressable Systems) Tariff Order 2017 and The Telecommunication (Broadcasting and Cable) Services Standards of Quality of Service and Consumer Protection (Addressable Systems) Regulations, 2017 ("New Tariff Regime") has a national tone and the said new tariff regime has not been enacted on the basis of area of operations of a MSO. It is stated that categorization of MSO based on the area of operations will also dilute the very intent of the new tariff regime.

3.6 If yes, what could be different classification of entrant MSOs based on area of operation? Give your comments with justification.

HDPL's Response: It is submitted that though we are not in favour of categorization based on area of operation, however without prejudice to what is stated above in our response to issue numbered as 3.5 it is stated that we can classify the MSO as National Level, State Level, City/District Level MSO. We would like to elaborate this further with the help of real example. The MSO like Hathway Digital Private Limited who have presence in more than one state should be



treated as National Level MSO, while a MSO like Ortel Communications Ltd which is operating in the state of Odisha only should be treated as State Level MSO, ACN Digital Pvt Limited which is operating in the City/District of Indore can be termed as City/District Level MSO. It is however categorically stated that the criteria should not entail any relaxation on the compliances and other requirements mandated by Hon'ble TRAI.

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

HDPL's Response: It is submitted that there are minimum investments which is mandatorily required to be made to start operation as a MSO irrespective of the area of operation. The fixed cost involves the cost of Headends, CAS, SMS, set top boxes etc. as enumerated below. The fixed cost would vary depending upon the number of channel carrying capacity of the headend and the number of Set top Boxes proposed to be seeded by the new MSO. Further, in our opinion for a MSO business to be viable and profitable, the minimum number of set top boxes that needs to be seeded should be 50,000, while the headend should have a channel carrying capacity of atleast 300. The same view has also been echoed by Hon'ble TRAI under the provisions of The Telecommunication (Broadcasting and Cable Services) Interconnection (Digital Addressable Cable Television Systems) Regulations, 2012. This is because of the fact if the new MSO intends to provide only basic service tier he would not be able to retrain/have any subscriber as these subscribers would migrate to either free dish or Doordarshan which is free of cost. Accordingly, on the basis of such assumption the minimum net-worth for a MSO operating in any region/geography should be Rs. 20 crores.



Fixed Cost requirement for Starting a MSO Business		
Particulars	Assumption	Amount in Cr.
		300 Channel
Headend		8.00
CAS (Incl. Licence)	Includes \$1.5 license fee per STB	1.00
SMS		3.00
STB	Minimum 50000 @ Rs. 1000 per STB	5.00
CAPEX (Cable/Nodes etc)	Rs. 500 per STB	2.50
Cost towards setting up infrastructure for QOS compliances (Like Establishing Web site etc)		0.40
Manpower cost p.a. for seeding and maintaining 50,000 STBs	Rs.10 per STB per month	0.60
Office expenses - for Installation of office Equipment & for office use		0.24
Total		20.74

The above prices are for standard equipments which are fully in compliance with technical standards set up by the Authority for provision of cable services to the subscriber. There could be a counter argument that the above fixed cost is higher as there are products available in the market which are at much cheaper price. In this regard, we would like to state that the products which are available in the market at a cheaper price are mostly Chinese product and are generally not in compliance with the technical and Quality of Service Standards prescribed under the TRAI regulations. The Authority is already aware about the mushrooming of such Headends/CAS and the piracy issue because of such non standardised headend/CAS.



In our opinion it is the right time for the Authority to recommend net-worth criteria for starting operation as a MSO which will only allow serious players who are willing to provide quality service to subscribers to prevail in the market.

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 reclassify.

HDPL's Response: It is stated that we have already given a description under 3.6 on the classification of MSO based on the area of operations. It is stated that a MSO operating in more than one state should be classified as a National MSO, a MSO operating in a state should be levelled as a State Level MSO and a MSO operating only in a city and /or a district can be levelled a City/District Level MSO. The proposed process for re-classification is as below:

- i) All the existing license holders should be asked to submit to MIB
 - a. A certificate duly signed by their compliance officer certifying the area of operation of the existing MSOs along with an affidavit affirming the correctness of the information furnished.
 - b. A certificate from statutory auditor in case of a partnership firm/proprietorship firm/LLP/Company certifying the area of operation of the existing MSO should be submitted. In case of an individual or a body of individual an affidavit certifying the area of operation of the MSO along with a certificate from a practising Chartered Accountant.
- ii) Further the certificate should also contain a declaration that in case the information provided is found to be incorrect, MIB would be empowered to cancel the license of the concerned MSO.

It is however submitted that every time the status of MSO changes i.e. a City/District MSO starts its operation on a State Level or a State Level MSO



starts/extends its operation on a Pan India basis, going beyond its existing territory should necessarily require resubmission of the above certificates/affidavit.

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.

HDPL's Response: It is submitted that we have already discussed categorization based on area of operations and cost involved in functioning as a MSO. The compliances and requirements are same expect the net worth which the Regulator/MIB might fix/decide based on the category of the MSO and accordingly, we are of the opinion that there should not be any further relaxation on any ground whatsoever.

3.10 If yes, by how much should the entry level net worth criteria be relaxed? Please give your comments with justification.

HDPL's Response: Please refer to our comments recorded under 3.9

3.11 What are the components of the fixed costs incurred by an entrant MSO? Give your comments with justification.

HDPL's Response: It is submitted that under the provisions of Cable Television Network Rules, 1994, the terms of license granted by MIB for operating as a MSO and the QoS Regulation it is mandatory to set up digital head end, CAS, SMS, maintain websites, provide set top boxes by a MSO and make it functional within six months of the grant of License. Accordingly the fixed cost would include the following as summarized below:



Head End
Conditional Access System (Including License Fee)
Subscriber Management System
Set Top Boxes
CAPEX (Cable/Nodes/Splitters etc.)
Cost of QoS Compliance (like creating and managing website etc)
Manpower cost for seeding and maintaining boxes
Office expenses (Rental etc.)

3.12 What are the components of the variable costs incurred by an entrant MSO?

HDPL's Response: The variable cost includes cost of Bandwidth, Call Centre Charges, Commissions etc.

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?

HDPL's Response: It is stated that the area of operations does not have much bearing on the fixed cost if the said equipment are in compliance with the TRAI Regulations as stated under Clause 3.7 above.

It may be noted that however, the variable cost which comprises of bandwidth, commissions and call centres charges etc. might changes as per the requirement of the MSO depending upon the area of operations.

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

HDPL's Response: Kindly refer to our response under 3.7 above



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

HDPL's Response: Please refer to our comments recorded under 3.14

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

HDPL's Response: We are detailing the average cost incurred in establishing a minimum capacity of 100/200/300/500 channels which except for the reasons mentioned under 3.7 above somewhat remains same.

Fixed Cost requirement for Starting a MSO Business					
Particulars	Assumption	Amount in Cr.			
		500 Channel	300 Channel	200 Channel	100 channel
Headend		10.00	8.00	3.50	2.00
CAS (Incl. Licence)	Includes \$1.5 license fee per STB	1.00	1.00	1.00	1.00
SMS		3.00	3.00	3.00	3.00
STB	Minimum 50000 @ Rs. 1000 per STB	5.00	5.00	5.00	5.00
CAPEX (Cable/Nodes etc)	Rs. 500 per STB	2.50	2.50	2.50	2.50
Cost towards setting up infrastructure for QOS compliances (Like Establishing Web site etc)		0.40	0.40	0.40	0.40
Manpower cost p.a. for seeding and maintaining 50,000 STBs	Rs.10 per STB per month	0.60	0.60	0.60	0.60
Office expenses - for Installation of office Equipment & for office use		0.24	0.24	0.24	0.24
Total		22.74	20.74	16.24	14.74



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?

HDPL's Response: Kindly refer to our comments recorded under 3.7 above.

3.18 Should the minimum net worth depend upon the proposed number of subscribers that an applicant MSO would cater to? Please justify

HDPL's Response: We are of the opinion that for the reasons detailed in responses above there should not be any further categorization for fixation of net-worth. We can take a cue from the net-worth and guidelines prescribed for the TV Broadcasters wherein irrespective of the size and shape of the company or the guarantee of viewership the net-worth eligibility is uniform for all of them.

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?

HDPL's Response: Kindly refer to our response recorded under 3.18

3.20 Discuss if any other criterion could be used to determine the entry level net worth of the MSOs?

HDPL's Response: No comments

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?



HDPL's Response: It is submitted that Rule 11 A and 11 B of the Cable Television network Rules , 1994 does not speaks about any minimum net-worth eligibility. Accordingly to accommodate the requirement of net-worth and basis of its classification the cable television network rules indeed be required to be modified

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?

HDPL's Response: We are fine with the grant of License to an individual subject to his/her competence to comply with the mandate of Hon'ble TRAI and other relevant statutory compliances. It is stated that we have already explained the method for calculating and verifying his/her net-worth under 3.4 above.

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?

HDPL's Response: Kindly refer to our response recorded under 3.4 above

3.24 Comments on the contents of proforma on the basis of which net worth for the new entities is to be calculated?

HDPL's Response: We are fine with the proforma.

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