

From: **Rajiv Berlia** <Rajiv.Berlia@edelweissfin.com>

Date: Oct 13, 2016 11:22:49 AM

Subject: Media - Draft TV tariff order: Good intent marred by uncertainties; sector update

To: Rajiv Berlia <Rajiv.Berlia@edelweissfin.com>

TRAI has released draft TV tariff order. The regulator is seeking comments from the different stakeholders till October 24, 2016. Though actual timeline for implementation of the order is not mentioned, we expect implementation to take time as different stakeholders may take recourse to legal route for remediation of certain proposed measures. Further, TRAI through the order has tried to ensure transparency among the various distributors and promote a-la-carte pricing. However, we expect LCOs to remain as the main detractors. Also, on-ground implementation will also be an issue. Over longer term, we can see jump in monetization from *premium channels* and scale up of revenues from Phase III and IV markets. [Click here for entire draft of TV tariff order.](#)

Salient features | Broadcasters

Broadcasters to set maximum retail price (MRP), excluding taxes of their a-la-carte pay channels. They can also offer bouquet of pay channels and set MRP of the bouquets. **However, MRP of such bouquet of pay channels will not be <85% of the sum of the MRP of a-la-carte pay channels.** TRAI has also prescribed genre wise ceiling on MRP of channels. Moreover, **broadcasters at their discretion may offer discounts of not more than 15% on MRP to distributors based on fair and quantifiable parameters.**

Salient features | Distributors (DTH/cable)

Charges payable by subscribers for network capacity and content have been separated. **Monthly rental at maximum INR130 (excluding taxes) per STB to be paid by subscribers for capacity of 100 SD channels.** Further, to compensate the cost of collection and remittance, **TRAI has mandated broadcasters to provide 20% fees to distributors.** Distributors are **permitted to form bouquets only from a-la-carte channels.** Retail price of such bouquet of pay channels will not be <85% of the sum of the retail prices of the a-la-carte pay channels.

Our view

Intentions of the paper are good, but we expect implementation to face hurdles. 1) Consumers may still prefer to choose packages due to low awareness and ease/inertia. **Distributors will have to come up with a standard package for consumers, which will provide all popular channels.** We expect industry to back-calculate a-la-carte prices from existing deals once the tariff order is implemented. 2) **There is no clarity on carriage fee and placement revenue.** However, we expect distributors to charge carriage revenue to broadcasters for carrying FTA channels in the basic pack. Clarification on carriage fee is also expected in interconnection paper. 3) **We see risks on weak channels of broadcasters/weak broadcasters in the new regime. Investment into content may increase to create a pull from end consumers.** 4) There is no discussion on sharing between MSOs and LCOs. 5) In case of MSOs, **unless prepaid billing starts, we do not expect fair share of revenue for the MSOs from**

the LCOs. 6) Currently, lower package price of DTH is INR99 which could potentially go up to INR130.

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From: **Rajiv Berlia** <Rajiv.Berlia@edelweissfin.com>

Date: Oct 14, 2016 2:55:54 PM

Subject: TV tariff order (October 10, 2016)

To: "pradvbcs@traf.gov.in" <pradvbcs@traf.gov.in>, "vk.agarwal@traf.gov.in" <vk.agarwal@traf.gov.in>

Dear Sir,

First of all, I want to congratulate on the amazing draft TV tariff order released by you on October 10, 2016. Not only did you try to protect the interest of all the stakeholders but also bring transparency in the system. I believe if implemented in true spirit, the whole industry will benefit. However I have my concerns. These are:

1. As mentioned in the paper that the consumers will opt for channels (a-la-carte or bouquet) from the distributors. India has 160 TV households. Out of which 37mn are digital cable subscriber, 58mn are DTH subscribers and 65mn are analogue subscribers. Assuming that all 37mn digital cable subscribers opt for different packages. Do MSOs have infrastructure to provide 37mn different package?
2. Another aspect to be aware of is that most of the distributors will form 2-3 basic packages which will provide 200 channels to the consumer. This will help consumer to decide quickly which package to opt for and further it lessens the burden on MSOs to provide different packages to the entire consumer. In this case, broadcasters will fight with the distributors to place their channels in those packages which will give rise to carriage revenues. Kindly share your views on the same.
3. The actual collection on the ground is done by LCOs. LCO will not differentiate between rental income and subscription revenue. Today, it keeps 50% of the consumer ARPU. It will still continue to do so after the implementation of the paper. Further LCO is going to lose out in revenue if the new tariff order is implemented. Why do you think that LCO will agree to the new tariff order?
4. Nothing is mentioned about the placement fee. Can you share your thoughts on the same?

5. You have given a provision of 15% discount to the a-la-carte channels sold from the broadcasters to distributors. Assuming broadcaster *A* sells a channel to Distributor *B* and *C* at INR10 and INR8.5 respectively. In this case Distributor *C* has an edge over Distributor *B*. Also, the consumer will prefer to choose Distributor *C* over Distributor *B* as it will offer the channel at lower rate. Does the distributor *B* have power to lower the channel rate to 8.5 while offering to the consumers?

6. Do you allow cross genre packaging at broadcaster and distributor level?

7. Clarity on the tax aspect. Currently MSOs pay service tax on the amount charged to the LCOs while LCO pays service tax and entertainment tax. Who will pay those taxes in the new regime? Should MSO pay service tax in the rental income and broadcaster pay service and entertainment tax on the subscription revenue?

8. By when can we expect the implementation of the new tariff order?

9. Lastly, what will happen in the Chennai market? The Chennai market contains to be in analogue region. Will the order be implemented in Chennai market?

Regards,

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