

Without Prejudice

Times Network's Response on the Consultation Paper on Entry Level Net worth requirement of Multi-system Operators in Cable TV services issued by TRAI on April 9, 2019.

Date of submission of Times Network's Response : May 15, 2019.

Q1. Do the present rules and provisions as regards eligibility and net worth for MSO require a review or modification? Give your answer with justification?

A1. Yes, in our opinion, the present rules and provisions as regards eligibility and net worth for MSO require a review/ modification. The same will be in line with the net worth requirements prescribed for the other stakeholders in broadcasting sector, for example, the Broadcasters and HITS Operators. For DTH Players also, there is a requirement of entry fee and bank guarantee. All these provisions ensure that only the serious players enter the business.

Q2. 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.

A2. In case of Broadcasters/ DTH/ HITS Operators, only a company registered under the Indian Companies Act is allowed to apply. An individual should not be allowed to enter or continue to retain the MSO License. It should either be a company, a registered partnership firm or a registered proprietorship firm that may be allowed to enter the business.

A group of individuals may form an association in the form of Partnership or Company and only then they should be allowed to enter the business. The existing individuals, if any, should also be required to convert to any of the entities, as discussed above, as structured businesses/ legal entities ensure higher dependability, transparency and compliance standards. Due to historical reasons for DAS implementation, the individuals were also allowed to be registered as MSOs, however now with the DAS implementation being achieved, the permission holders should also formalize their business enterprises.

Q3. Is there a need for prescribing an entry level minimum net worth for the MSOs? Please justify your comments.

A3. Yes, in our opinion, MSOs require a considerable amount of investment expenditure in creating the infrastructure coupled with large amount of working/ operating capital. Thus, a minimum entry level net worth is justified if prescribed for the MSOs.

The Net Worth is very important as the non-serious players may distort the functioning of the market and may severely affect consumer interests also. Further, since upfront payments are collected towards STBs from consumers, any abrupt discontinuation of service

by MSOs has direct implication on the consumer, apart from causing disruption in the chain of business. The fly by night operators can distort the entire broadcasting ecosystem.

Q4. 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?

A4. The Net Worth may be checked in any of the following manner:

- a. Bank Statements
- b. Income Tax Returns
- c. Property Documents
- d. Investment Documents

A Net Worth Certificate may be obtained by a Chartered Accountant, certifying the Net Worth.

Q5. Should the net worth requirements for entrant MSO be based on its proposed area of operation? Give your comments with justification.

A5. Yes, we find good ground with this categorization of fixing net worth requirements on the basis of area of operation.

As suggested, we also see scope in introduction of slabs w.r.t. the net worth based on area of operation. In case of a pan India MSO, the investments would be very high when compared with an MSO operating at the state or district level.

Moreover, the other criteria to categorize the MSOs i.e. on the basis of number of subscribers, fixed/ variable cost and channel carrying capacity, are dynamic in nature and may be subject to frequent change, bringing in inconsistencies.

Q6. If yes, what could be different classification of entrant MSOs based on area of operation? Give your comments with justification.

A6. The entrant MSOs, based on area of operation, may be classified into 3 slabs/ categories:

- Pan India MSO
- State Level MSO
- District Level MSO

Further, we also suggest that any MSO present in more than one state shall be considered as a PAN India MSO. Similarly, any MSO having operations in more than one district of a state shall be considered as a State Level MSO.

Q7. 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.

A7. We suggest the following entry level net worth for each of the following categories of MSOs:

- National Level MSO : Rs.2 crore
- State Level MSO : Rs. 50 lakhs
- District Level MSO : Rs. 25 lakhs

The above amounts have been suggested in view of the capital required for fixed and variable costs, by MSOs, at different levels.

Q8. 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.

A8. In our opinion, the net worth requirements for operational MSOs may be relaxed for some period of time, say one year, from the date of implementation of the changes in the policy, to give the existing players sufficient time to align with the requirement. However, they may be asked to classify themselves as National/ State/ District Level MSOs and accordingly comply with the net worth requirement criteria.

Q9. 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.

A9. In our opinion, the investment requirements will not differ for providing services in these states, hence the overall net worth requirement should be kept at the same level.

Moreover, under the New Tariff Order/ New Regulatory Framework, the provisions, including but not limited to interconnection and provisioning of signals, the QoS are common throughout the country, which includes these states, therefore, no need is felt to have separate set of rules for these states in relation to the minimum net worth requirements. The concerned state governments may promote the MSOs in their states by providing the incentives/subsidies as per their policy if the need is felt.

Q10. If yes, by how much should the entry level net worth criteria be relaxed? Please give your comments with justification.

A10. As stated in answer to Question No.9, the net worth requirement should be the same for the states in North east and/or J&K.

However, it is suggested that a relaxation of, say two years, may be given to the existing players in these states to align themselves with the requirement of minimum net worth.

Q11. What are the components of the fixed costs incurred by an entrant MSO? Give your comments with justification.

A11. The fixed costs incurred on entrant MSOs are as follows:

- a. Establishment of Headends including Installation of antennas to receive satellite signals;
- b. Playout facility for local channels;
- c. Establishing a cable Network;
- d. The signal scrambling and encryption systems – CAS;
- e. Setting up of Subscriber Management Systems (SMS);
- f. Office Setup, etc.

Q12. What are the components of the variable costs incurred by an entrant MSO?

A12. The components of the variable costs incurred by an entrant MSO would include:

- a. Procurement of Set Top Boxes (STBs) & the other equipments/accessories forming part of the CPE;
- b. Incentivising/ subsidizing the connection;
- c. Dealer Networks;
- d. Office operations;
- e. Service support infrastructure;
- f. Marketing and promotion activities etc.

Q13. 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?

A13. For a large operator, there will be economy of scale towards the fixed costs. Such advantages will not be available to the small and medium operators. However in case of variable costs, there may not be much difference as per the scale of operations.

Q14. 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.

A14. No, we are of the opinion that the minimum net worth required should be based upon the area of operation of the MSO only.

A backend calculation of the average fixed cost for MSO, categorized under National/ State/ District level, can be done to setup minimum net worth requirement.

Q15. Discuss if there could be some other criteria in context of costs incurred such as a combination of average fixed and variable costs.

A15. We are of the opinion that the average of the fixed cost and the variable costs has to be just used for reference, to set up net worth requirement on the basis of area of operation.

We further suggest that the variable cost(s) should not be factored in, while prescribing entry criteria, as variable costs depends on the market dynamics of demand and supply. There are times when the operators are required to subsidize the CPE or the services. Similarly there are times when there is no need for such subsidization. Also the variable cost depends on various other reasons such as geography, the socio-economic profile of the customer, the competition, the technology etc. Hence the variable cost is subject to constant change and hence should not be considered while evaluating the requirement of net worth of MSOs.

Q16. 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.

A16. We are of the opinion that the minimum net worth should not depend upon the proposed channel carrying capacity of the entrant.

The capacity of the MSO is dependent on various factors like the demand by subscribers, the technology available & deployed by MSOs etc. With the new regulatory framework in place, the demand for channels is driven by the consumer choice. Further the capacity enhancement/ curtailment is dependent on the business requirement and can vary due to various factors affecting the business including the changes in the regulatory regime.

Categorization of MSO on the basis of area of operation is most likely to have a direct link with the channel carrying capacity of the operator. Where, a national Level MSO is likely to have a larger capacity, on the contrary, the district level/ smaller MSO may have a lesser channel carrying capacity.

Hence, we suggest that the net worth requirement should be based on simple criteria of area of operation.

Q17. 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?

A17. We have answered in Q.16 that the net worth requirement for MSO should not be based on the basis of channel carrying capacity.

Q18. Should the minimum net worth depend upon the proposed number of subscribers that an applicant MSO would cater to? Please justify.

A18. The minimum net worth should not depend upon the proposed number of subscribers that an applicant MSO would cater to, as the same is a variable number and the subscriber

numbers may keep changing. The number of subscribers may also be affected with the active/de-active subscribers, subscribers who have temporarily opted out etc., thereby making it a weak foundation for determination of minimum net worth.

Further, we are of the opinion that the categorization on the basis of area of operation is likely to factor in this point (of subscribers) as well.

Q19. 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?

A19. As we have answered in Q.17, the net worth requirement for MSO should not be based on the number of subscribers.

Q20. Discuss if any other criterion could be used to determine the entry level net worth of the MSOs?

A20. We do not suggest any other criterion that can be used to determine the entry level net worth of the MSOs.

We are of the opinion that the categorization on the basis of area of operation fairly factors in all possible criteria as discussed above.

Q21. 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?

A21. Based on the recommendations of TRAI, the Ministry of I&B can prescribe the net worth requirements in the appropriate manner.

Q22. 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?

A22. As suggested in answer to question no. 2, an individual should not be allowed to enter or retain the MSO License. A group of individuals may form an association in the form of Partnership or Company and only then they should be allowed to enter the business. If an individual wishes to enter, he may get the proprietorship firm registered or opt for OPC and then apply. The existing individuals, if any, should also be required to convert to any of these legal entities/ registered firms within the prescribed timeframe.

Q23. 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?

A23. We suggest that the following documents should be furnished at the time of registration, in order to justify the given net worth requirements for all 3 cases, i.e., body of individual, partnership firms and companies:

- a. Net Worth Certificate
- b. Balance Sheets
- c. Profit and Loss Account
- d. Income Tax Returns
- e. Income/ Investment Documents

Q24. Comments on the contents of proforma on the basis of which net worth for the new entities is to be calculated?

A24. This being a operational issue, the format can be decided by the concerned authority as may be required from time to time.
