

COMMENTS ON ENTRY LEVEL NET WORTH REQUIREMENT OF MULTI-SYSTEM OPERATORS IN CABLE TV SERVICES

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INTRODUCTION:

At the Outset we would like to thank the Authority for publishing the Consultation Paper on Entry Level Net worth requirement of Multi-system Operators in Cable TV services and giving us an opportunity to furnish our comments.

We do feel that this Consultation Paper would help in regulating the cable industry better by regulating the entry of new MSOs and ensuring only serious players with good net worth enter the business thereby ensuring the best of services are provided to the Customers.

However, it is pertinent for us to mention here that the said Entry Level Net worth requirements of Multi-system Operators should be imposed prospectively only on registration of New MSOs and no change in the conditions/regulations to the registered MSOs should be prescribed by the authority as this would be a retrograde step and send negative signals to investors both Indian and foreign.

COMMENTS ON 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?

Answer:

We do feel that the present rules and provisions regarding eligibility and net worth for MSO require a review & suitable modification, in our opinion individuals or group of individuals should not be made eligible for registration as MSOs as it is very difficult to prudently gauge the net worth of individuals as there is no statutory requirement to maintain a balance sheet and P&L account, also to add most of the currently registered MSOs are companies, partnership firms & limited liability partnerships.

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.

Answer:

Current provisions should be suitably changed/amended specifying eligibility only for registered companies/firms for registration as MSOs. Registered companies maintain book of accounts and audited financial reports.

3.3 IS THERE A NEED FOR PRESCRIBING AN ENTRY LEVEL MINIMUM NET WORTH FOR THE MSOS? PLEASE JUSTIFY YOUR COMMENTS.

Answer:

There is a definite need for prescribing an entry level minimum net worth for MSOs as this would ensure that only serious players who would sustain in stiff competition and other external factors enter the capital intensive cable industry, thereby ensuring quality of service to the customers. This would also ensure quantification of the word "*financial strength*" in the current framework which is governed as per Rule 11 (3) of CTN rules 1994.

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?

Answer:

The mechanism to verify the net-worth as claimed by business entities like registered firms, LLP or company should be the production of a certificate of net worth along with balance sheet and P&L account.

3.5 SHOULD THE NET WORTH REQUIREMENTS FOR ENTRANT MSO BE BASED ON ITS PROPOSED AREA OF OPERATION? GIVE YOUR COMMENTS WITH JUSTIFICATION.

Answer:

We do not think that the Net worth requirements of an entrant MSO be based on its proposed area of operation, as the circular dated 27th January 2017 conveys that all registered MSOs are free to operate in any part of the country, irrespective of registration for specified DAS notified areas granted by the Ministry.

It would be also necessary for entrant MSOs to keep its area of operations flexible for quickly adjusting itself to market forces and competition.

3.6 IF YES, WHAT COULD BE DIFFERENT CLASSIFICATION OF ENTRANT MSOS BASED ON AREA OF OPERATION? GIVE YOUR COMMENTS WITH JUSTIFICATION.

Answer:

Not Applicable

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.

Answer:

Not Applicable

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.

Answer:

We are of the firm opinion that there is no need to re-classify/ change or amend any of the current regulations for existing MSOs or to prescribe any new net worth levels to existing MSOs.

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.

Answer

Not Applicable

3.10 IF YES, BY HOW MUCH SHOULD THE ENTRY LEVEL NET WORTH CRITERIA BE RELAXED? PLEASE GIVE YOUR COMMENTS WITH JUSTIFICATION.

Answer

Not Applicable

3.11 WHAT ARE THE COMPONENTS OF THE FIXED COSTS INCURRED BY AN ENTRANT MSO? GIVE YOUR COMMENTS WITH JUSTIFICATION.

Answer

Some of the components of fixed cost incurred by entrant MSO are Headend establishment, CAS & SMS installation and integration- STB Deployment. Laying down cables and connectivity cost.

The connectivity cost is dependent on the area of operation of the entrant MSO.

3.12 WHAT ARE THE COMPONENTS OF THE VARIABLE COSTS INCURRED BY AN ENTRANT MSO?

Answer

Some of the components of Variable cost are Broadcaster costs, AMC (*roughly 15 % of Fixed cost*), Network maintenance, Salary. Electricity 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?

Answer

The Fixed costs and variable costs would increase with the scale of operation that is the number of channels offered and the area of operation.

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

Answer

Yes, the Minimum net worth required must be based on average fixed cost and the working capital incurred by a new entrant.

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

Answer

No Comments.

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

Answer

We feel that Minimum Net Worth must not be based on the proposed channel carrying capacity of the entrant as the channel carrying capacity by an MSO is subject to a mix of different factors like market conditions, area where the MSO operates, competitors and customer demand etc.

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?

Answer

Not Applicable

3.18 SHOULD THE MINIMUM NET WORTH DEPEND UPON THE PROPOSED NUMBER OF SUBSCRIBERS THAT AN APPLICANT MSO WOULD CATER TO? PLEASE JUSTIFY

Answer

We are of the firm view that that the minimum net worth should not be based on the proposed number of subscribers that an applicant MSO would cater to as it would be very difficult and cumbersome for the authority to track the proposed number of subscribers of an applicant MSOs declaration, also such a method of calculating net worth would require the authority to frequently review and change the Net Worth of MSOs.

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?

Answer

Not Applicable

3.20 DISCUSS IF ANY OTHER CRITERION COULD BE USED TO DETERMINE THE ENTRY LEVEL NET WORTH OF THE MSOS?

Answer:

Not Applicable

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?

Answer:

We are of the opinion that Individuals should not be permitted to seek MSO registration.

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?

Answer:

We are of the view that Individuals should not be permitted to seek MSO registration as it would be difficult to gauge the net worth of individuals prudently because there is no statutory requirement for preparing Balance Sheet & P&L.
