

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?

Yes. We agree that the current framework requires modification since there is no specific net worth requirement for entry level and/or existing MSO.

In this regard, we wish to state that in order to ensure that only serious players are granted MSO license, there is a need to define net worth criteria after considering the fixed as well as variable expenditure required for effectively providing services in the intended area of operations, especially under the new regulatory regime. We do not agree that the MSO should be granted a PAN India license irrespective of its area of operation. Rather it should be confined to the intended area of operations.

To that effect we also submit that a MSO who has applied and has been issued license has to mandatorily commence operations for the intended area of operations within a period of twelve months, failing which the license issued shall stand cancelled. This also applies to MSOs who are already holding a license issued by the MIB in the past.

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.

It would be discriminatory and against the freedom granted under Article 19(1)(g) the Constitution of India, if the MSO license is issued only to registered entities. Any individual which satisfies the net worth criteria for various categories of MSO license based on the intended area of operations, should be granted a MSO license by the MIB.

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

There is an absolute need to prescribe entry level minimum net worth criteria after taking into consideration (a) fixed expenditure required to set up the necessary infrastructure as well as variable expenditure required to maintain the said infrastructure (*including compliance with applicable laws inter alia the QOS regulations*) (b) minimum channel carrying capacity of 300 channels and (c) intended area of operation. This will ensure that only serious players are granted MSO license.

To that effect we have already highlighted the issue of Piracy in the form of unencrypted signals/analog signals/multiple CAS (*which are not integrated to the SMS*) by several registered MSOs who are in a way derailing the process of smooth implementation of new regulatory regime which has already come into effect from February 1, 2019.

We have also highlighted the fact that the systems of certain registered MSO do not meet the minimum technical specifications specified by the Authority to several partner broadcasters. However, no concrete action has been initiated against them and the broadcasters still continue to provide signals of their channels to such non-compliant MSOs.

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?

For the purpose of verification of the minimum net worth requirements as stated in our response to issue 3.3, the MIB can empanel independent firm(s) providing valuation report services, who shall verify and certify that the existing MSO and/or new applicant MSO, as the case may be, meets the minimum net worth requirement(s) for the intended area of operations. Also, such firm(s) shall be de-empaneled in the event they are found guilty of negligence and/or have not taken professional diligence while issuing certification.

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

Yes. As stated in our response to issue no. 3.1 of this present consultation and also acknowledged by the Authority, significant investment/expenditure both fixed as well as variable is/are required for effectively providing MSO services. The said variable expenditure primarily depends on the intended area of operations and thus, the net worth required to provide services will also depend on the intended area of operations. For instance, variable expense to provide cable TV services in entire State will be more as compared to catering a small city/town/village with limited subscribers.

Accordingly, MIB has to consider the intended area of operation while determining minimum net worth of MSO at the time of issuance of MSO license.

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

We are of the opinion that the MSOs (**be it existing or entrant MSO**) should be classified basis the existing or intended area of operations, as the case may be, in the following manner:

Sr No	Classification/Categories	Area of Operation(s)
1	Local MSO	City/Town/Village/District
2	District Level MSO	Upto 5 Districts within the State
3	State Level MSO	More than 5 Districts/Entire State/ Union Territory
4	Multi State	Upto 5 States/Union Territories
5	National / PAN India	More than 5 States or Union Territories

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.

We have already highlighted that significant investment/expenditure both fixed as well as variable is required for effectively providing MSO services and the same primarily depends upon the area of operations. Accordingly, after considering the same and based on the classification stated by us in our

response to issue 3.6, we have recommended minimum net worth requirement for various categories of MSOs in the table below:

Sr No	Classification/Categories	Investment (in Crores)	Net worth (in Crores)
1	Local MSO	1.52	0.76
2	District Level MSO	5.52	2.76
3	State Level MSO	10.52	5.26
4	Multi State	100.52	50.26
5	National or PAN India	200.52	100.26

- *The net worth is computed on an assumption that the MSO has a minimum carrying capacity of 300 SD channels.*
- *Details of Investment is stated in **Annexure I**.*
- *Minimum net worth for the Categories of the MSO is conservatively computed @ 50% of the Investment.*

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.

As stated in our response to issue 3.6, we are of the opinion that the MSOs (***be it existing or entrant MSO***) shall be classified basis the existing or intended area of operations, as the case may be.

Accordingly, the existing MSOs who have been granted PAN India license should be reclassified on the basis of their existing area of operation(s) and should be meeting the minimum net worth criteria as stated in our response to issue 3.7 of this present consultation.

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.

We have already stated in our response to issue 3.6 that the minimum net worth requirement shall be based on the Categories/Classification of MSOs based on the existing or intended area of operation, as the case may be. Giving any relaxation for MSOs operating in North East and/or J&K will only create a non-level playing field for the existing MSOs intending to cater such States/territories. On the contrary, the provisioning of broadcasting services through cable(s) is itself a daunting task in the said territories and therefore there should be enhancement of minimum net worth requirements (*leave alone any relaxation*) for operating in such territories to ensure that only serious players are granted license and/or providing cable TV services in such territories.

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

Kindly refer to our response to issue 3.9 and hence, we do not agree to any relaxation in the minimum net worth criteria for MSOs operating and/or desirous of operating such States/territories.

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

Major component(s) of Fixed Cost are stated in the table herein below:

Sr No	Particulars
1	Digital Headend
2	CAS
3	SMS
4	Call Center
5	Software's / Other Infrastructure

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

Major component(s) of variable cost are stated in the table herein below:

Sr No	Particulars
1	Set Top Boxes
2	Man Power
3	Bandwidth

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?

Fixed cost being cost of relevant infrastructure to provide competitive services is the same irrespective of the size of operations. Large operators might be able to avail favourable deal terms with the vendors in terms of credit terms. But essentially, variable cost will largely depend upon the coverage area of the network i.e. intended/actual 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

According to us the minimum net worth should be based on **both** i.e. average fixed cost plus the average variable cost required to provide competitive and sustainable services in the actual/intended area of operations, as the case may be.

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.

In this context, kindly refer to our comments to issue 3.14, wherein we had already stated that both average fixed as well average variable cost based on the Category of the MSO shall be considered.

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.

Channel carrying capacity is a must to sustain competition. Averagely a MSO having a decent presence in a District/State offers around 300+ channels to its subscribers. Any new entrant needs to have necessary infrastructure to atleast carry 300 channels for it to able to sustain in the market.

Moreover, there is also a need to continuously upgrade the capacity to add more channels or services (especially local content for the relevant target market) since it has to face competition not only from other MSOs but also other distribution platform operators like DTH.

We have in our response to the present consultation have considered a minimum carrying capacity of 300 SD channels for deciding the minimum net worth of the MSOs based on their Categories i.e. area of operations.

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?

In this regard, kindly refer to our response to issue 3.16 wherein we have clearly stated any new entrant needs to have necessary infrastructure to atleast carry 300 channels for it to be able to sustain in the market. Moreover, there is also a need to continuously upgrade the capacity to add more channels or services (*especially local content for the relevant target market*) since it has to face competition not only from other MSOs but also from other competing distribution platform operators like DTH.

From the aforesaid it is clear that in order to sustain competition, a MSO cannot be confining itself to offering basic service tier only, because then such MSO is more prone to succumb to competition. Furthermore, this will also defeat the very essence of new regulatory framework which offers choice to the consumers to not only to avail FTA channels but also pay channels of their choice. Hence, restricting the offering to only basic service tier will also adversely affect consumer interest.

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

Fixed cost being cost of relevant infrastructure to provide competitive services is the same irrespective of the number of subscribers availing MSO service. However, the variable cost may vary marginally depending upon the number of subscribers catered in coverage area of the network. Rather the marginal variable cost will only decline with every increase in subscribers in the area of operation. Thus, we are of the opinion that number of subscribers do not have material impact on the minimum net worth at the time of determining the minimum net worth criteria for a MSO.

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?

Kindly refer to response to issue 3.18 of this present consultation wherein we have stated that the number of subscribers of the MSO do not have material impact on the minimum net worth at the time of determining the minimum net worth criteria of the MSO.

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

We are of the opinion that the entry level criterion shall be basic so that the MSO is not only able to sustain competition in the market but also encourage investment.

At the time of suggesting the minimum net worth requirement, we have only considered basic factors like Fixed Cost, Variable Cost (depending upon the Area of Operation) and minimum channel carrying capacity

of 300 channels which are a must to provide competitive services. The idea is not to discourage investment but to ensure that only serious players are granted license and/or operating in the market to curb the menace of Piracy and/or undue closure of operations of MSO on account of non-sustainability.

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?

Kindly refer to response to issue 3.4 wherein we have suggested that the MIB shall empanel independent firm(s) providing valuation report services who shall verify and certify that the individual applicant MSO meets the net worth requirement(s) for the intended area of operations.

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?

Kindly refer to response to issue 3.2 wherein we have stated that any individual which satisfies the net worth criteria for various Categories/Classification of MSO license (i.e. Local, District Level, State, Multi State and National) based on the intended area of operations, shall be granted a MSO license by the MIB.

As far as verification of the net worth of individual applicant is concerned, we have suggested that independent firm(s) providing valuation report services empaneled by that the MIB shall verify and certify whether the individual applicant meets the net worth requirement(s) on verification of document(s) as well as and physical verification of asset(s)/infrastructure (*including the capacity to competitively provide services*) in the intended area of operations.

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?

In case of individual documents such as income tax return of last three years, Banker's Certificate, CIBIL report, certificate from independent firm empaneled by MIB etc. needs to be furnished. Further, in case of a proprietorship firm, partnership firm/LLP or Company audited annual accounts of last three years certified along with by a certificate from independent firm empaneled by MIB can be sought for the purposes of ascertaining/verifying the net-worth

Annexure I

Details of Investment

Local MSO		
Sr. No	Description	Cost (Cr)
1	300 Channel Digital HE	0.3
2	CAS	0.05
3	SMS	0.05
4	Call Center	0.02
5	Software's / Other Infrastructure	0.1
6	Set Top Boxes 10K	1
	Total	1.52

District Level MSO		
Sr. No	Description	Cost (Cr)
1	300 Channel Digital HE	0.3
2	CAS	0.05
3	SMS	0.05
4	Call Center	0.02
5	Software's / Other Infrastructure	0.1
6	Set Top Boxes 50K	5
	Total	5.52

State Level MSO		
Sr. No	Description	Cost (Cr)
1	300 Channel Digital HE	0.3
2	CAS	0.05
3	SMS	0.05
4	Call Center	0.02
5	Software's / Other Infrastructure	0.1
6	Set Top Boxes 100K	10
	Total	10.52

Multi State		
Sr. No	Description	Cost (Cr)
1	300 Channel Digital HE	0.3
2	CAS	0.05
3	SMS	0.05
4	Call Center	0.02
5	Software's / Other Infrastructure	0.1
6	Set Top Boxes 1000K	100
	Total	100.52

All India		
Sr. No	Description	Cost (Cr)
1	300 Channel Digital HE	0.3
2	CAS	0.05
3	SMS	0.05
4	Call Center	0.02
5	Software's / Other Infrastructure	0.1
6	Set Top Boxes 2000K	200
	Total	200.52