

Hindustan Media Ventures Ltd.

“Hindustan Media Ventures Limited Q1 FY16 Earnings Conference Call”

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Hindustan Media Ventures Ltd.



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**MANAGEMENT: MR. VIVEK KHANNA - CEO - HINDUSTAN MEDIA VENTURES LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'16 Earnings Conference Call of Hindustan Media Ventures Limited hosted by IDFC Securities. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you and over to you Mr. Dokania.

Rohit Dokania: Good afternoon everyone. Thank you for logging in to Q1 FY'16 Results Conference Call for Hindustan Media Ventures Limited. I would like to thank the management for giving IDFC Securities the opportunity to host this call. HMVL is represented by Mr. Vivek Khanna, CEO; Mr. Ajay Jain, CFO and Mr. Vinay Mittal, the Chief Financial Strategist for HT Media. Over to you Sirs for a brief commentary after which we will begin the Q&A, thank you.

Vivek Khanna: Good afternoon to everyone. Thanks for joining on this call. We are happy to report that we have had another strong quarter with a strong top line growth as well as a very good bottom-line growth. Our advertising revenue grew by 7% in the quarter but the underlying growth was 15%+ as last year Q1 had a lot of one-time revenue from the general elections. Circulation continues to grow and the circulation revenue is up by 8.3% on the back of higher net realization per copy. We have seen raw material costs come down due to global softening of newsprint prices. That along with the top line growth has helped us to grow EBITDA by 19% for the quarter. Our EBITDA margin is now at 28.1%, compared to 24.9% last year. Operating EBITDA is at 24.4% versus 20.4% last year. So, we have seen an expansion in margins. PAT has grown by 23% for the quarter.

Our growth has come on account of continuous strong performance in UP /Uttarakhand and our leadership in Bihar and Jharkhand. Also, we are confident that going forward we will deliver a good growth in the quarters ahead. So, that's really a summary of what has happened in the first quarter of this financial year. We are open to questions now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Good afternoon Sir. Can you quantify what would be the advertising growth on a like-to-like basis if we remove the impact of elections in the base quarter? Secondly, what is the scope of increasing subscription revenues driven by cover price hikes, given that we have seen at least the other players doing more of a double digit growth in subscription revenues? Can we move towards that as well?

Vivek Khanna: If we remove election revenue and add back government revenue that didn't come because of code of conduct during elections, we are saying that the underlying growth is about 15%. I am not just simply removing

election revenue, if I do that the revenue growth will be even higher. On your second question w.r.t. increase in circulation revenue and cover price increase, there is potential to increase cover prices in some markets of Western UP which we will continue to do. Also, there is potential to increase cover prices in certain markets of Jharkhand. We would have also seen a double-digit growth in circulation revenues but, we have had to correct some prices because of the entry of Dainik Bhaskar in Bihar. The other two competitors in Bihar had dropped their cover prices, and though we didn't drop the cover prices to the extent they had because of our leadership position, we did correct some prices. Had we not done the same, we would have seen a double digit growth in our circulation revenues.

Vikas Mantri: Sir may I ask the average realization rate at the company level and what is it in Bihar and Jharkhand vis-à-vis competition?

Vivek Khanna: Average net realization per copy at the company level is Rs.2.21p. In Bihar, every market at this moment is operating in a very different scenario. Cover price in Patna city are at Rs.3.36 on an average for a week as compared to Rs.3 for competition. In many other upcountry markets, our average cover price is between Rs.4 and Rs.5; Prabhat Khabar in most places is between Rs.2.50 and Rs.3, Dainik Jagran is between Rs.3 and Rs.4.

Vikas Mantri: Okay Sir, thank you and best of luck.

Moderator: Our next question is from the line of Rohit Balakrishanan who is an individual investor. Please go ahead.

Rohit Balakrishanan: Good afternoon Sir. Congratulations on a good set of numbers. Sir, I joined the call a bit late, and just wanted to understand that going forward what kind of growth are we looking at in terms of revenues. I understand that if we would have excluded the code of conduct revenues then the revenue would have grown at a much higher rate. I mean would that also take a hit because of the guidelines now or what is your view on that?

Vivek Khanna: No, the hit is on account of the fact that we had very high election revenue in Q1 of last year which was one-time due to the general elections. In fact, our growth rate in Q1 last year was 17%, much higher than what some of the other companies had reported and therefore the underlying growth, correcting for that one-time revenue growth, is about 15%. We expect to grow in double-digits going forward.

Rohit Balakrishanan: Understood. And just in terms of our regional advertisement in our total advertisement mix, what would be the share of regional versus national at this point of time?

Vivek Khanna: So, local versus national as we define it would be about 47:53, which was 44:56 last year at the same time. Though, there are times when we have seen sudden spurts in national advertising, but on an average, it is about 47:53.

Rohit Balakrishanan: Got it. And just couple of questions more. So, one question on data, I think that at the close of the year FY'15, we were at a net cash position of around Rs. 488 Crores and latest presentation mentions we have a net cash of about Rs. 576 Crores. So just want to understand, what has led to massive increase in the net cash position? Is it because of tight repayment or working capital? Could you just explain that?

Ajay Jain: Net cash position at end of March'15 was Rs. 543 Crores. Rs. 488 Crores was the position at end of Dec'14. Two things have contributed to increase in net cash position. One is the operational profit which is about 42 Crores since March'15 and 85 Crores in the last six months which is adding to the cash. Then, there are favorable working capital changes.

Rohit Balakrishanan: Will it be possible for you to broadly share such favorable working capital changes. Also, how much of working capital has been released in this quarter?

Ajay Jain: Working capital release is about 15 Crores versus the end of the year. The mechanics of reduction is that the accounts receivable have been brought down. Secondly, inventory has also been lowered. So, working capital reduction is happening because of these two things.

Rohit Balakrishanan: I wanted to know EBITDA margins in UP market. Are they trending up and also if you can broadly share the numbers?

Vivek Khanna: They are definitely trending up and we have seen EBITDA margins expand significantly this quarter compared to last year. They have expanded in all geographies and UP, of course, is moving faster. We had mentioned three months back that UP is profitable for us and in single digit margin compared to Bihar and Jharkhand which are pretty strong. Also, we had mentioned at the beginning of the year that we expect operating margins in UP to grow by two percentage points year-on-year for the next three years. I think we have done better than that in Q1. All geographies have seen margin expansion, especially UP and Uttarakhand. I am not getting into specifics of how much in UP and how much in Bihar or Jharkhand but broadly all geographies are growing well.

Rohit Balakrishanan: Sir, there was a recent report mentioning that we will soon unveil our digital strategy. So if there is anything that can be shared about the same.

Vivek Khanna: I will not be communicating our strategy on a conference call but our strategy is in place and we will be soon rolling out some of the initiatives as part of it. You will see probably some aspects of that within a month's time.

Moderator: Our next question is from the line of Janith Jobanputra from Natvarlal Son & Stock Brokers. Please go ahead.

- Janith Jobanputra:** Sir, in Q2 of financial year 2015, you had commented that you have excess cash and there are two new markets where you had plans to enter. Can you please throw some light on the progress in those markets?
- Vivek Khanna:** We have kept organic expansion on hold for the moment. Within our existing markets, we are seeing significant upsides and so we are focusing on that at this moment.
- Janith Jobanputra:** Sir, currently different newspapers have come up with subscription model on online basis. Are there any plans for Hindustan Media to come up with the subscription model because it brings more certainty regarding revenues?
- Vivek Khanna:** Are you talking about paying for the news online?
- Janith Jobanputra:** Yes, paying for the news online and even in the Q2 conference call, there was a comment that 95% of FY15 revenue were on non-subscription basis.
- Vivek Khanna:** I think there is a little bit of confusion. Nobody pays for news online.
- Janith Jobanputra:** Sir, Financial Times do charge.
- Vivek Khanna:** Yes, FT and Wall Street Journal and one-or-two more newspapers do. But across the world, online news is not charged. The subscription that we were talking about is that for a printed newspaper. Though, we sell majority of the newspaper on cover price but there are few markets, which though account for only 5%-to-6% of our total copies but wherein copies are sold at a discounted price. These are called subscription schemes, wherein we offer the newspaper to readers for a year at a lower price. This is typically done when we enter a new market and so we are only talking about the physical paper here and not about the online news.
- Moderator:** Our next question is from the line of Srinivas Seshadri from Antique Stock Broking. Please go ahead.
- Srinivas Seshadri:** Congratulations to the management. Just two-three questions. One is during this quarter have we done some bit of anticipatory spending in terms of sales and marketing promotional activities to counter the increased competition in Bihar and if you can directionally guide whether this is going to increase in next quarter or this is kind of a peak level?
- Vivek Khanna:** Thanks Srinivas. Yes, certainly in Bihar we have done some spending in anticipation of the launch by competition. I expect that probably for another quarter we will have this kind of activity, post which our experience tells us that it should start coming down.
- Srinivas Seshadri:** Okay, so we should model somewhat similar numbers for next quarter as well.
- Vivek Khanna:** Probably.

- Srinivas Seshadri:** Secondly, a couple of questions on the financials. The other income has come off a bit, last quarter it was about 16 Crores and it has come down to about 12 Crores despite a net accretion of around 30 Crores in the cash balance. So, if you can just explain what should we look at on a full year basis in terms of treasury yield?
- Ajay Jain:** The thing is that the yields per se have come down in Q1 because of the marked-to-market adjustments. That is why, it is lower than last year Q1 and also compared to Q4. This trend depends on how the RBI takes the rate cut and if the rate cuts happen, then obviously there will be an improvement in the yields over a period of time.
- Vinay Mittal:** Over the next three quarters it should level out.
- Srinivas Seshadri:** So over the next three quarters you should see it come back in terms of the other income on full year basis.
- Vivek Khanna:** Yes.
- Srinivas Seshadri:** Is there any kind of number you can share broadly in terms of what kind of yield on portfolio are you expecting on a full year basis?
- Ajay Jain:** It is a market related thing. But obviously, the cash balance continues to improve.
- Srinivas Seshadri:** Fair enough. So we should expect it to at least pickup to third, fourth quarter levels going forward. Would that be a fair assumption in terms of the absolute numbers?
- Vinay Mittal:** Yes.
- Srinivas Seshadri:** Okay. And the last question is on depreciation. It has come off a bit in the last couple of quarters or last three quarters. I understand the earlier part of the year was due to the change in the Companies Act depreciation rates but just wanted to understand why it is falling even now and what is the outlook there?
- Ajay Jain:** See, one is obviously one-time change that happened in last Q1. In terms of depreciation, there are some assets which actually have lesser life and therefore the asset base continues to become lower. As the additional capex will come, the depreciation will keep moving up.
- Srinivas Seshadri:** Also, is there any one-off or reversals in depreciation in the current quarter?
- Ajay Jain:** There are no one-off reversals.
- Moderator:** Our next question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

- Vinod Malviya:** Sir, in your presentation you have mentioned that your ad yields have come-off in this quarter. Can you just quantify how much would have been the drop in the yields on Y-o-Y basis and is there any sequential de-growth in the yields as well?
- Vivek Khanna:** The yield wean-off is only on account of the elections, as election advertising comes at very high yields and which is zero in this quarter. Our display advertising yields have actually gone up over the year.
- Vinod Malviya:** And then how it has moved on the sequential basis?
- Vinay Mittal:** The yields have gone up on a sequential basis by 4%.
- Vinod Malviya:** Okay and this is across all regions where we operate or in a particular region?
- Vivek Khanna:** Yields have gone up across regions.
- Vinod Malviya:** Okay. And second on the raw material cost. The raw material costs have come down and that is why our margin has also improved. Going forward, is there a further scope in improvement of the EBITDA margins or have the newsprint prices bottomed out?
- Ajay Jain** Well, you see the raw material cost have come down mainly because of the decrease in the newsprint prices versus last year. We expect the newsprint prices will continue to be soft, and the lower cost of raw material will have a positive impact on our margins.
- Vinod Malviya:** So further scope is there and we can expect further improvement in the margins going forward?
- Ajay Jain:** We expect the raw material cost reducing and continuing to soften, so that will go straight to the bottom line.
- Vinod Malviya:** Sir in the last call you mentioned that you are looking at a couple of acquisitions and now you are sharing that the same have been kept on hold for the time being. You have pretty good cash on books which is close to 576 Crores and by the nature of your business; you don't require so much of cash. So what Plan B do we have for the cash right now?
- Vinay Mittal:** We continue to look out for acquisitions. Nothing is imminent at this point of time. As Vivek did share, organic expansion is on hold at this point of time. When and if something comes up and we do conclude, we will certainly announce.
- Vinod Malviya:** So, right now you are just looking for inorganic growth.
- Vinay Mittal:** That's right.

- Moderator:** Our next question is from the line of Amit Kumar from Investec capital. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity Sir. To begin with, could you please break down the ad revenue growth of 7% YoY between yields and volumes?
- Vivek Khanna:** If we normalize for the significant election revenue sitting in our base in Q1 last year, which is also the highest yield category, we see that this quarter's growth is a combination of volume and yields. I would say equally between volume and yields. So, if you look at display advertising for example, which is very clear and adjusted for everything, we would have seen an equal improvement in volumes and yields.
- Amit Kumar:** Alright. My second point Sir, in terms of the key categories which are driving the double digit growth in display advertising and also a specific comment if you can share how education is doing specially in UP and Bihar?
- Vivek Khanna:** Education has been soft, but the categories which have been driving growth are government advertising, which is partly a function of the code of conduct which was there last year. FMCG has done extremely well alongwith Banking and finance. Also, we are seeing the emergence of a new category in e-commerce, even though it is small right now. Automotive has also shown decent growth.
- Amit Kumar:** How much would now e-commerce contribute to the overall advertising pie for you?
- Vivek Khanna:** Very small in terms of percentage to overall revenues, so would not want to get into percentages. But we are seeing the revenues coming for the first time in decent numbers so that it is at least worth mentioning on the call.
- Amit Kumar:** Alright. Since seemingly raw material pricing is negative at this point in time, when do you expect this to revert back to positive territory or do you expect this to remain negative for the rest of the year as well?
- Vivek Khanna:** Well for the next couple of quarters we certainly expect this softness and then we will have to see how it is going forward.
- Amit Kumar:** And any sort of differential trends in terms of imported and domestic newsprint or are both of them trending down simultaneously?
- Ajay Jain:** No, you see domestic newsprint follows international newsprint prices multiplied by the dollar rate so in a sense they only trail by a quarter-or-so. So, both are soft and maybe on a downward trend.
- Moderator:** Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thank you for the opportunity. What would be your annual newsprint consumption?

- Ajay Jain:** On annual basis we would consume about 88,000-90,000 tonnes.
- Dheeresh Pathak:** On annual basis what is the current run rate of number of copies that we print?
- Vivek Khanna:** We are printing about 27 lakh copies as of now.
- Dheeresh Pathak:** I think earlier someone had asked question on circulation revenue. So, last two to three years the circulation revenue growth has been in mid-teens, but this quarter it was on the lower side. You gave some explanation on competition in Bihar, if one were to see that through, then how much increase in cover prices should one expect each year going forward?
- Vivek Khanna:** Last year we grew circulation revenue by 10% and we should have probably delivered a similar number this quarter had we not adjusted some pricing. I think on a steady state basis, probably after another quarter, we should certainly see us getting back to those kind of numbers.
- Dheeresh Pathak:** Okay, will that be driven equally by circulation and cover price increase or will it be just cover price increases in high single digit?
- Vivek Khanna:** No largely cover price increases. Some of the price corrections that we have done right now may get rolled back and we may increase prices again. If you recall about a year and a quarter back, everyone had dropped prices in Patna city, and already in the last two quarters we have seen Patna city prices moving up. The same may start happening in Bihar in Q3 or Q4.
- Dheeresh Pathak:** Okay and last year for full year I think advertisement revenue growth was 13% on a full year basis. What would have been the growth last year excluding the elections?
- Vinay Mittal:** The elections impact on full year basis last year was not very significant.
- Dheeresh Pathak:** Only the first quarter last year had election impact is it?
- Vivek Khanna:** That's right.
- Dheeresh Pathak:** Okay so we can probably take that out. So this year you know on a like-to-like basis adjusted for election, the growth in advertisement revenue should be in mid-teens, is that a fair assumption?
- Vivek Khanna:** I mentioned that at the beginning of the call at around 15% normalized for the elections in Q1 last year.
- Moderator:** Thank you very much. Our next question is from the line of Shalab Agarwal from Snowball Capital. Please go ahead.

- Shalab Agarwal:** Good evening gentlemen and congratulations for a very good set of numbers. First of all if you can give some qualitative understanding on the editions in UP. How do we compare with our competitors in terms of advertising rates across editions?
- Vivek Khanna:** Thanks so much. Compared to the market leader, we would be about 55% to 65% depending on categories. We should be looking at going pass Amar Ujala in ad rates by the end of this year.
- Shalab Agarwal:** Okay. Is this across all the cities in which we are present in UP or are these average numbers that we are talking about?
- Vivek Khanna:** No, average numbers in most of the cities. Of late, we are seeing very good traction but what I have given you is the average numbers.
- Shalab Agarwal:** Are there any editions in UP which are still loss making for us?
- Vivek Khanna:** No, almost none.
- Shalab Agarwal:** Sir, what is the percentage of advertising revenues that we get from classifieds?
- Vivek Khanna:** The percentage of advertising revenue from classifieds is about 6%.
- Participant:** Okay. Is it similar across states broadly?
- Vivek Khanna:** No it is not similar across states. Obviously, classifieds percentage is higher in our traditionally strong markets or mature markets of Bihar, Jharkhand and Delhi. But it is growing faster in UP.
- Shalab Agarwal:** There was a comment made that the organic expansion has been put on hold. Just wanted to understand your reasoning behind the same?
- Vivek Khanna:** We wanted to focus more on the space that we are operating in right now. We believe that we have got more to leverage from the existing geographies at the moment and that is why we have kept organic expansion plans on hold at this point in time.
- Shalab Agarwal:** Are there any new editions that we plan in UP or Uttarakhand?
- Vivek Khanna:** We will probably add a few copies here and there but nothing very significant.
- Shalab Agarwal:** Okay. So when you say in terms of focus on the existing geographies, what does it mean?

- Vivek Khanna:** We have a lot of headroom in UP. In the immediate term, we can look at getting growth by focusing more on UP. We have also got Bihar which is a fast developing market and where a lot of action is happening and hence, we do believe that there is potential for us in Bihar as well. We also have some inorganic opportunities. So, we have decided to take a look at those first and keep the organic expansion plan on hold while continuing to exploit the potential in our existing geographies. If there is any change, we will let you know.
- Shalab Agarwal:** Sure. And Sir lastly what is the plan for the capex for this year assuming no major expansion in any other states?
- Ajay Jain:** The normal maintenance capex which includes capacity expansion etc. should consume about 15 to 20 Crores.
- Moderator:** Our next question is from the line of Ankit Kedia from Centrum Broking. Please go ahead.
- Ankit Kedia:** One of your competitors in UP has taken some steep price cuts few months back, do you think that has helped us in certain way?
- Vivek Khanna:** Yes, it has in some way certainly helped us because it has left more money on the table for us to pick up. We have clearly seen that in terms of display advertising which has seen very good traction.
- Ankit Kedia:** So is that momentum continuing and can we expect 14%-15% growth for the next couple of more quarters?
- Vivek Khanna:** As I mentioned, we expect double-digit growth in the quarters ahead.
- Moderator:** Our next question is from the line of Raunak Agarwal from Catamaran, please go ahead.
- Raunak Agarwal:** Good evening Sir, thank you so much for this opportunity. I have two questions. What is the advertising growth in UP market? Secondly, you mentioned that you are 55% of the leader in UP, how much was it three years back and what is the yield differential in Bihar among the top three players?
- Vivek Khanna:** Three years back, we were probably 25%-30% of the leader. Also if 3 years back, we got 100 advertisers in Bihar, we got only 20 to 25 in UP/UT. Today that number has gone up to 70, so very clearly in last 3 years lots of the growth has come on account of our UP strategy. UP has been traditionally growing between 15%-20% over the last 2-3 years and again this quarter, net of the election etc., we have seen similar trends. Normalized Q1 growth is about 15% and I think net of the election revenue, UP would again be similar. So the traction in UP continues.
- Raunak Agarwal:** Sir, the yield differential in the Bihar?

- Vivek Khanna:** The No.2 player used to be a bit higher but now they have dropped to about 60% and No.3 has much lower yields currently.
- Moderator:** A reminder to our participants, if you have any questions please press * and 1.
- Rohit Dokania:** Hi, this is Rohit here. Given the fact that the Bihar election are around the corner, how much does the government contribute in Bihar and could that have an impact because of the model code of conduct?
- Vivek Khanna:** It should have a positive impact. Every time there are elections there is a positive impact because we see that the government advertising tends to go up before the elections plus more importantly, there is political advertising when the elections happen. So, depending upon the date of the elections, either in September-October or October-November, we may see a benefit coming either in this quarter or in the Q3.
- Rohit Dokania:** A lot of things are being spoken about the slowdown in the rural economy. Was just wondering if there is any impact of the same on our local advertising as far as our upcountry editions etc., are concerned?
- Vivek Khanna:** We are certainly seeing traction because we have been expanding. Secondly, the current or the latest outlook on the monsoons is not as grim as the first outlook was and for the last few days, if Delhi has been any indication, there has been pretty good rainfall. The latest indication that I saw today also seems to indicate that we would have a normal monsoon and that should certainly help us in ensuring continuous rural demand in our markets.
- Rohit Dokania:** And last question from my side, Radio would be taken care by HT Media right?
- Vivek Khanna:** That's right.
- Moderator:** Our next question is a follow up question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Hi, just going back to that age old question of when you will yield higher dividend and can we see any timeline to it? I think a year back, you used to talk about one year timeline post which you planned to increase the dividend payout if nothing came up. If you can just refresh, is there a timeline post which we can think of a higher dividend payout if nothing inorganic materializes?
- Vinay Mittal:** You know it is really for the Board to decide. I suppose they will pick it up as the cash keeps increasing but really I can't say much more than that on it.
- Moderator:** Thank you very much. Next question is from the line of Lalaram Singh who is from Analyse Wise Investment Advisors. Please go ahead.

- Lalaram Singh:** Good evening Sir. May I know the capex plan for the next year or this year?
- Ajay Jain:** As I mentioned earlier, also the normal capex for maintenance as well as capacity expansion etc., is about 15 Crores to 20 Crores in a year.
- Lalaram Singh:** In terms of employee benefit expenses it has fallen obviously because of a higher base in the previous quarter which was due to a regulatory charge, so from here on can we expect the employee expense to move up by a 8% to 10% every year?
- Vinay Mittal:** It will be about 11%.
- Moderator:** As there are no further questions, I now hand the conference over to Mr. Rohit Dokania for closing comments. Over to you Sir!
- Vivek Khanna:** Just wanted to say that you know we have seen a momentum behind us in the last many quarters on account of certain strategy that we have been following and we expect that momentum to continue. We have few important events also coming up in the quarters ahead and we expect to deliver continuous returns to our shareholders. Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call, thank you all for joining us and you may now disconnect your lines.