



## Hindustan Media Ventures Limited's

### Q1 FY2015 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2015 Earnings Conference Call of Hindustan Media Ventures Limited hosted by CIMB Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and 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. Srinivas Seshadri from CIMB. Thank you and over to you sir

**Srinivas Seshadri:** Thank you and good evening to everyone on the call. On behalf of CIMB Securities, I welcome you all to this conference call of Hindustan Media Ventures Limited. We have with us from the Management team Mr. Vivek Khanna – the CEO, Mr. Ajay Jain – the CFO and Mr. Vinay Mittal – Head of Financial Strategy and Investor Relations. We will start with opening remarks from Mr. Vivek Khanna followed by Q&A. I now hand over the call to the Management.

**Vivek Khanna:** Thanks Srinivas and good evening ladies and gentlemen. Happy to report that in the new financial year we have started well and in our first quarter, we have seen a very healthy growth in both topline and bottom-line. We have seen advertisement revenue growth of 17% for the quarter, versus the same period last year, on the back of increasing advertising yields. Circulation revenue has also grown by 17% due to higher number of copies as well as higher realization per copy. We have seen our EBITDA grow by 16% in the quarter despite an increase in raw material cost and the employee cost. Majority of the increase in employee cost is one time regulatory compliance cost and going forward, wages as a percentage of revenue will continue to be in the range of 12-12.5%. PAT has grown by 12% for the quarter. Similar to last few quarters, our performance in UP/UT continues to be extremely strong and we continue to maintain our leadership in Bihar and Jharkhand. We are confident that we will continue to deliver value for our shareholders by delivering both topline and bottom-line in the quarters ahead. Over to the Q&A's now.

**Moderator:** First question is from the line of Abneesh Roy from Edelweiss.

**Abneesh Roy:** How much cover price growth are you expecting in the balance part of the year?

**Vivek Khanna:** We have increased cover prices virtually every quarter in one market or the other. Even in the first quarter, we had a cover price increase in certain markets. The increase of circulation revenue is on account of both cover price and absolute number of copies. This has led to circulation

revenue growth of 17%. We believe that we will continue to have circulation revenue growth in double digits in the quarters ahead.

**Abneesh Roy:** What is the breakup? How much was the average cover price this quarter versus the same quarter last year and how much was the circulation increase?

**Vivek Khanna:** The cover price increase accounts for about 6% and balance is because of the circulation increase.

**Abneesh Roy:** How is our cover price versus the other players, particularly in UP and Uttarakhand?

**Vivek Khanna:** We are in line with the competition in most of the markets. There are one or two markets which we entered late and where we are slightly behind. Having said that, we are ahead of the competition in some of our markets such as Lucknow. So it depends on each market.

**Abneesh Roy:** There is a 10% increase in circulation but raw material cost has increased 26% YoY. We have not seen a similar trend in terms of raw material cost for the other results which have come out. Could you explain what has happened there?

**Vivek Khanna:** The raw material cost is mainly led by the price increase in newsprint over last year's first quarter. The average price increase is about 13%. In addition, about 10-12% increase in raw material is because of the increase in the consumption.

**Abneesh Roy:** Is 13% average for the industry, i.e. for the other players also?

**Vivek Khanna:** Well, I think it should be almost in that range. I do not know what other companies have declared, but for us it is a 13% price increase versus first quarter last year.

**Abneesh Roy:** On the advertising growth, 17% is a good number, but we also need to consider the base. In this context, could you give the current market size in Bihar and Jharkhand versus prior to the period when the new players were not there, at least in Patna and Jharkhand? Similarly in UP, how much market share has increased and in the next 2-3 years where do you see the UP market share stabilizing?

**Vivek Khanna:** Our advertising market share continues to be very strong in Bihar and Jharkhand. There has been absolutely no impact of the new players on our market share in Patna city or in Bihar. As far as UP and UT are concerned, we continue to grow every quarter and we have a very healthy share. We measure share in a three-player market and our volume share ranges between 38-40%.

**Abneesh Roy:** Navbharat Times has entered in one of the cities in UP. Are you worried from this entry and till now, how has it impacted the existing players?

**Ajay Jain:** Navbharat Times entered almost a year back. There has been absolutely no impact and we are not concerned about what they have done in Lucknow. That launch has not really worked so far from their point of view.

**Moderator:** Next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** What was the one-off in the employee cost with respect to regulatory charges?

**Vinay Mittal:** This was with respect to the wage board piece.

**Vikash Mantri:** What is the amount in absolute?

**Vinay Mittal:** We would not like to quantify, but it includes the wage board catch-up and the regular piece. Going forward on a recurring basis, our wage bill should normalize at about 12-12.5% of the revenue.

**Vikash Mantri:** On the advertising front, we have done a good job. Just wanted to understand better, the gains from the readership survey as that had some controversies around it. What has been the response from the advertisers? Do you think that this 17% increase is because the advertisers have positively looked at that readership survey?

**Vivek Khanna:** Certainly we have been going around and telling the advertisers about our growth in UP. It is something that we have been doing for the last 2-3 years as we have grown copies in these markets. The results which came out in the last IRS were really a reflection of our efforts in UP and UT. Advertisers do believe in us as we have done a lot of work. We have been saying it for the last 2.5-3 years that we have increased copies and while there is controversy, we believe that the numbers which this IRS reflects are correct.

**Moderator:** Next question is from the line of Jay Doshi from Kotak. Please go ahead.

**Jay Doshi:** Can we expect this 17% YoY advertising revenue growth to continue in the coming quarters? Was there any kind of one-off benefit from the elections and if so, can you quantify it, particularly in UP?

**Vivek Khanna:** We get revenue from political parties, revenues from government stops, government display revenue as well as tender revenue gets offset by the political revenue. Election revenue was there in the first quarter though we had a drop in government revenue because of the code of conduct. We believe that we have been growing double digits in our topline and should continue to do so in the coming quarters.

**Jay Doshi:** Is it a function of price increases that you may have taken?

**Vivek Khanna:** Yes, it has been a function of yield increase this quarter.

**Jay Doshi:** Can you give us some idea of the growth that you have seen in UP and Bihar? Is there a huge divergence?

**Vivek Khanna:** In percentage terms, yes because UP is, relatively speaking, a new market for us and therefore the growth rate in UP/UT is significantly ahead of the growth rate in our mature markets of Bihar and Jharkhand.

**Moderator:** Next question is from the line of Bijal Shah from IIFL

**Bijal Shah:** My question is on medium-term EBITDA margin. Now if I remove other income and I look at EBITDA margin, it is around 20% and our competitors are reporting EBITDA margin of around 30%. Where do you see margins from a 2-3-year perspective, as a good amount of investment is behind us?

**Vivek Khanna:** Our margin has been increasing by 100 - 200 basis points every year for the last 3-4 years. In addition, if we don't factor in the one-time arrears of the wage board, then this margin would have been higher than what it looks currently. The margin improvement is happening on a continuous basis. We are getting operational leverage from our investments and we are catching up with the margin which the industry is expecting. It is only a matter of few quarters from here when the margins will be in a similar range.

**Vinay Mittal:** If operating leverage does come through, we should see somewhere between 100-150 basis points increase in operating margin every year barring exceptional charges.

**Bijal Shah:** But we have seen good amount of growth even in the last few quarters. If I adjust your margin taking your employee cost at 12.5%, YoY margin is still more or less flat this quarter after having 17% of advertising revenue growth. What kind of circulation increase are we likely to see going forward? Are we behind in terms of investments or not? Will we continue to see 10-12% increase in circulation?

**Vivek Khanna:** It is our endeavor to keep investing in various markets where we feel it is necessary. Circulation increased 10-12% in this quarter versus the same period last year. As I mentioned last time, we are looking at some other white spaces. Wherever we see an opportunity where we can get growth, we will do those investments. The operating leverage has kicked in as per the discussion we used to have a few quarters back. It has started giving us returns in UP/UT in particular and our EBITDA margin will continue to go up.

**Moderator:** Next question from the line of Amit Kumar from Espirito Santo Securities.

**Amit Kumar:** Are we saying that election advertising spending nets off the loss of government advertising and that there was no benefit at all in this particular quarter?

**Vivek Khanna:** No, there was a benefit. It is very difficult to quantify how much government revenue one would have got. You can put an estimate on the basis of your trends that if there was no code of conduct, what would the government revenue be. But there has been a benefit.

**Amit Kumar:** Would you be able to quantify that very broadly?

**Vivek Khanna:** Probably 4-5% points.

**Amit Kumar:** In UP, the last addition that you had launched is about 2 years old. UP is not completely matured, but just getting there. What kind of margins are we looking at in UP currently and if you could give us a sense of where they will be in another 2-3 years' time when that market matures for you as well?

**Vivek Khanna:** We had mentioned a couple of quarters back that UP has started making money for us and that trend continues. UP continues to give us profit as we go along and while it is still small compared to our more mature markets of Bihar, Jharkhand and Delhi, it is growing very rapidly.

**Amit Kumar:** What kind of margins are we looking at?

**Vivek Khanna:** About 7-8% in UP.

**Amit Kumar:** Given your expectation of continuing advertisement growth momentum, what kind of steady state margins do you expect from UP in 2-3 years' time?

**Vivek Khanna:** Between 2-3 years from now, it should be in line with the mature businesses that we have in Bihar and Jharkhand i.e. over 20%.

**Amit Kumar:** UP is still in single digits and your consolidated margin itself is around 20%. So I would presume Bihar and Jharkhand would be in the 25% kind of region?

**Vivek Khanna:** Slightly higher than that. If you look at the overall weighted average revenue, Bihar and Jharkhand would come out to be higher than that.

**Amit Kumar:** What has been the YoY and QoQ increase in newsprint prices for the quarter?

**Ajay Jain:** Year-on-year increase is about Rs. 4,000 per tonne and quarter-on-quarter prices are actually the same.

**Amit Kumar:** On a YoY basis, what would this be in percentage terms?

**Ajay Jain:** 13% YoY. There was a dollar disruption last year as you are aware.

**Moderator:** Next question from the line of Sachin Lamba, an individual investor.

**Sachin Lamba:** If you compare yourself with the other players in the industry, your working capital is one of the best. Are we doing anything differently in terms of working capital vis-à-vis our competition?

**Ajay Jain:** I do not know about competition, but we can tell you that we have a working capital focus. We are very tight on collections in terms of our account receivables. We are very tight on our inventory management. Managing our current assets is a very high focus area for us and a specific team is continuously monitoring and following up on this.

**Sachin Lamba:** As we also have another company in the similar industry, do we get some benefit in terms of group buying or even in terms of receivables from the advertisers? Do we also get some sort of receivables?

**Ajay Jain:** Obviously there is no group benefit for receivables. Group buying in terms of our newsprint does benefit us as, we require higher tonnage, which helps in negotiating better terms.

**Sachin Lamba:** What would be the broad range of capex that we would undertake this year?

**Ajay Jain:** The range in terms of our maintenance capex is about 45-50 crores and that is what we have defined for the year.

**Sachin Lamba:** Would this also include some expenditure beyond maintenance? As mentioned couple of quarters ago, the maintenance capex was around 30-odd crores. Are we also looking to beef up our investments in some other markets, probably a different market?

**Vivek Khanna:** It could include removing bottlenecks, a bit of expansion etc., but not new markets.

**Sachin Lamba:** I looked up the outcome of the board meeting, as per which we are going to the postal ballot to increase our limit on debt. So are we looking to raise debt?

**Vivek Khanna:** No, we are not looking to raise debt. It is just a precautionary measure, in case we have to raise it temporarily, but idea is not to raise debt.

**Sachin Lamba:** Couple of days back DB Corp came out and said that they are launching their UP edition not through print, but online. So just wanted to know your comments on that and do we also have any specific strategy to counter that? Are we looking at the digital space aggressively?

**Vivek Khanna:** We are absolutely looking at the digital space and lot of work is going on in that area. You will see various initiatives from us in the quarters ahead as far as digital is concerned.

**Moderator:** We are going to take a follow up question from the line of Vikash Mantri from ICICI Securities.

**Vikash Mantri:** Could you help me with the cash on books at the end of Q1?

**Vivek Khanna:** Well, the cash on the book is about 500 crores, but there are borrowings, so net cash is 420 crores.

**Vikash Mantri:** Recently we had spoken about our plans to expand into newer markets by the end of this year. Any further developments on that?

**Vivek Khanna:** Yes, work on evaluation of markets and business plans etc. is going on. Nothing to report at the moment but as mentioned, by the end of the year you will hear from us.

**Moderator:** The next question is from the line of Amit Kumar from Espirito Santo.

**Amit Kumar:** I just wanted to understand the 13% YoY increase in newsprint prices. Your raw material cost still has gone up pretty substantially. That means a double digit increase in consumption as well. Is this on account of circulation or pagination increases? In which markets are you investing in terms of circulation as well as pagination?

**Vivek Khanna:** On a YoY basis, our circulation has gone up by double digits in Q1 this year compared to Q1 last year and it happened across markets in Bihar as well as in UP.

**Amit Kumar:** In Bihar I presume this would be Patna, but in UP are there any specific territories that you are targeting or is this across?

**Vivek Khanna:** It is across. There are some places we have increased our presence very significantly by doing a lot of initiatives and by improving our product which has been a constant focus area. We

have got some very good returns across markets and one or two markets have given us returns better than the others, but it has been across.

**Moderator:** Next question from the line of Rohit Dokania from IDFC.

**Rohit Dokania:** Against last quarter, newsprint prices are more or less constant, but we are still seeing a 7.5% sort of an increase in the raw material expenses. Have we also increased copies sequentially and in which markets would we have done that?

**Vinay Mittal:** Yes, we have increased the copies in the markets across UP and Bihar. We prioritize depending on where the need is. So that is the way, but there is no price increase in this quarter versus last quarter.

**Moderator:** Next question from the line of Mr. Srinivas Seshadri from CIMB Securities.

**Srinivas Seshadri:** What is the reaction you are getting from national advertisers when you present the IRS 2013 data because some of your competitors are obviously disputing the validity of the data? What kind of response do you get from some of your large clients on this?

**Vivek Khanna:** As I mentioned, for the last couple of years, we have been talking about the fact that we have increased our presence very significantly in UP and UT. Most advertisers see this as a reflection of the efforts that we have been putting in as well as the reflection of whatever we have been saying to them over the last couple of years.

**Srinivas Seshadri:** On the data itself, is there skepticism or are people taking the data at face value? What is the sense you get? I know that they understand the credibility of your increase in the circulation and leadership, but on the data itself what is the sense you are getting from the advertisers?

**Vivek Khanna:** Well, we talk about our data and our figures and I think that most advertisers agree that the work that we have put in is getting reflected. Now whether it should be X or 95% of X or 105% of X, I do not think those kind of discussions happen at the advertiser level.

**Srinivas Seshadri:** And the other question pertains to the growth dynamics between the local and the national advertisers. On a YoY basis, how does the growth or the mix look like for you?

**Vivek Khanna:** As we have expanded our presence in UP/UT, our local-to-local advertising has gone up more.

**Srinivas Seshadri:** If you can broadly share what ratio it will be at currently?

**Vivek Khanna:** They are pretty much the same; 50-50.

**Srinivas Seshadri:** What is the outlook in terms of newsprint cost for the next one or two quarters?

**Ajay Jain:** Newsprint prices are actually heading southwards. The dollar has stabilized, the international prices are softening and a combination of both will lead to the reduction in prices of

imported newsprint and consequentially, domestic newsprint. So the outlook is soft for the next couple of quarters.

**Srinivas Seshadri:** Any broad range you would like to share on that front?

**Vinay Mittal:** Around 5% reduction over two quarters. So in each quarter you will see 2-3%.

**Moderator:** We are going to take a follow up question from the line of Abneesh Roy from Edelweiss.

**Abneesh Roy:** If you see your other peers, local versus national is in the range of 60:40 to 65:35. For us, it is 50:50. In terms of targeting the local advertisements, what is the plan in terms of driving it closer to the peers? If you see, some of the peers are taking some targeted initiatives for that kind of advertising.

**Vivek Khanna:** We also do large number of initiatives targeting that kind of advertising. There are a couple of things I know regarding the way we look at local-to-local versus the way some of the peers look at it - there is a marginal difference in that. That causes a little bit of difference in terms of the percentages. But having said that, we certainly believe that UP is also headed towards giving us the kind of local-to-local revenue that we get in mature markets and we will be increasing our local-to-local revenue as a percentage of total revenue going ahead. We have a very large number of initiatives on the ground that we are running and we will continue with those as well as a few structural team changes that we did 7-8 months back which have started giving us returns.

**Abneesh Roy:** Two of the major TV broadcasters have started geo targeted advertising which will essentially target the same local advertising which is quite big for you. What can print sector do about this - because this is the big difference between TV and print – and suddenly this kind of technology will make local advertising possible on TV. Are you worried on this and can we do something proactively to overcome this?

**Vivek Khanna:** While we are watching the development closely, we are not necessarily worried on what is happening because the objective and the reason why advertisers go to television and also what is communicated is quite different from what gets communicated in print. Having said that, we are looking at this development closely. We believe that as far as Hindustan is concerned, there is significant opportunity for us to grow going forward and that is what we aim to deliver.

**Abneesh Roy:** In terms of corporate advertising, can you give more details sector wise, i.e. which are the ones doing better, the ones which are not doing better and when do you see recovery happening there?

**Vivek Khanna:** If you look at the first quarter, we had FMCG which did quite well for us. Similarly, durables have grown in the quarter. We have also had growth in our classified revenue which is again a reflection of the increased strength of Hindustan in UP markets. These are the categories which have grown. Some of the categories which have been flat have been education and real estate.

**Abneesh Roy:** How much is FMCG as a percentage of revenues? Is it among the top three now?

**Vivek Khanna:** Not yet, no.

**Abneesh Roy:** In the English business, you are quite serious on the digital side. You have spent lot of money there. On the Hindi part, if you see, your other large peer has become aggressive on digital. So what is our plan for the Hindi part of digital business?

**Vivek Khanna:** Our strategy for growth in the Hindi part of digital business has been finalized. Work started on it couple of months back and as I mentioned earlier, over the next couple of quarters you will see some of our initiatives coming out.

**Abneesh Roy:** This could lead to losses because in the English business we have seen a lot of investments happening for many years. So can that kind of cycle happen in the Hindi business now?

**Vinay Mittal:** Abneesh, in the English business it is because of the classified portal being launched. That is not happening in the Hindi business. This is the content based Live Hindustan piece.

**Abneesh Roy:** So essentially the news part only?

**Vinay Mittal:** That is right.

**Moderator:** Next question from the line of Jay Doshi from Kotak.

**Jay Doshi:** Just wanted to know if you would like to give a guidance or some sort of range in which you see your ad revenue growth in FY15?

**Vivek Khanna:** Double digits, around the mid-teens.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor to Mr. Srinivas Seshadri for the closing comments. Thank you.

**Srinivas Seshadri:** We thank the HMVL Management and all the participants on the call. Have a good day. Thank you.

**Moderator:** Thank you. On behalf of CIMB Securities Private Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.

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