



## DB Corp Q1 FY13 Earnings Conference Call Transcript July 20, 2012

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**Moderator** Ladies and gentlemen good day and welcome to the DB Corp Limited's Q1 FY13 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "\*" and then "0" on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Malini Roy from CDR India. Thank you and over to you ma'am.

**Malini Roy** Thank you Marina. Good afternoon everyone, welcome to the Q1 FY 13 conference call of DB Corp Ltd. We will be sharing the key operating and financial highlights for the quarter ended June 30<sup>th</sup> 2012. We have with us today the senior management team of DB Corp Ltd. Mr. Pawan Agarwal – Non-executive Director, Mr. Girish Agarwaal – Non-executive Director, Mr. PG Mishra – Group CFO, Mr. Ashok Sodhani – Chief General Manager Finance and Accounts and Mr. Prasoon Pandey-Head Investor Relations.

Before we begin, I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been e-mailed to you. I invite Mr. Pawan Agarwal to share his outlook on DB Corp's performance for this quarter.

**Pawan Agarwaal** Good afternoon everybody and welcome to DBCL's Q1 FY13 earnings conference call. You would have already had the opportunity to glance through this quarter's performance. I would like to share some key highlights of our financial and operating performance for the quarter, following which, we will be happy to respond to your questions.

On an overall basis, there have been various challenges on both local and national front which has had a domino effect across categories. This quarter, we focused our strategies to ensure that we successfully maintain our position in all markets. We studied the environment and adopted a two-pronged strategy to be aggressive on our market share and maintaining a very prudent approach towards expenditure control and cost rationalization across all operations. This approach served us well as we have been able to maintain our margin performance. Our progress in Aurangabad & Nasik in Maharashtra – where we recently celebrated our launch success at first anniversary, has also been very encouraging as proven by strong subscription renewal of copies. Besides, Sholapur, Jalgaon and Ahmednagar continue to do very well, in respective markets.

We have continued to consolidate our pan-India leadership position in core and legacy markets of Madhya Pradesh, Chhattisgarh, Chandigarh, Haryana, Punjab

(JAL), urban Rajasthan and key markets of Gujarat where DB Corp continues to be the largest read newspaper group with 19.02 million readers and we have deepened our penetration with 65 editions and 199 sub editions. In Madhya Pradesh and Chhattisgarh we have a combined readership of around 5 million where Dainik Bhaskar continues to lead over 115% to its nearest peer and has a readership greater than the combined readership of its next 4 peers.

In Chandigarh, Haryana, Punjab (CPH), Dainik Bhaskar enjoys sole leadership with 2.2 million readers, as per IRS Qtr 4 2011 with a lead of 10% over the next peer. In Rajasthan, Dainik Bhaskar continues to be a leader with 11.5% more readers than its closest competitor in urban Rajasthan. In capital city of Jaipur, we enjoy a lead of 41% over our peer. According to IRS Q1 2012, DBCL continued to strengthen its presence in the Gujarat market - focused on developing the core and a dedicated readership base, where 3.03 million of Divya Bhaskar readers did not read any other newspaper. The total readership of Divya Bhaskar and Saurashtra Samachar stands at 3.9 million in Gujarat. In Jharkhand, Dainik Bhaskar has further increased its readership to 0.8 million readers. The current readership figures are largely based on the Ranchi edition. Dainik Divya Marathi continues to ramp up steadily - Aurangabad first year renewal subscription bookings have increased by 10% since launch in May 2011 and in Nashik renewal bookings increased by 6% since launch in July 2011, both places at a higher subscription rate. Besides, Sholapur, Jalgaon and Ahmednagar, continues to do very well in respective markets.

I would now like to present DB Corp's consolidated financial performance for quarter under review. Our total revenues stood at Rs. 3784 million as against Rs. 3537 million in Q1 FY 12, showing a growth of around 7% on YOY basis and 5% on QOQ basis in Q1 FY 2013. Our advertising revenues came in at Rs. 2862 million which accounts to ~9% growth on Q-o-Q against Rs. 2630 million in the previous quarter and 1% on YOY basis. Our EBITDA margins were at 22.4% for this quarter, and we reported EBITDA of Rs. 849 million, thus registering a QOQ growth of ~12%. The same factors our one time preoperative expenditures of Rs. 12.1 million for Maharashtra launches and Forex loss of Rs. 11.8 million. Net Profit for the quarter came in at Rs. 437 million and Net Profit margins were at 11.5%. The same factors, our one time preoperative expenditure of Rs. 12.1 million for Maharashtra and Forex loss of Rs. 79.3 million. Our Mature market PAT margin, excluding Forex loss stands at around 20% for Qtr 1' FY 13.

Our radio business continues to report steady growth. Advertising Revenue stand at Rs. ~140 million in the current quarter, as against Rs. 124 million of Advertising Revenue same period last year depicting a growth of 13%. EBITDA margins stood at ~21% with EBITDA of Rs. 30 million.

With regards to our digital business which has witnessed impressive and encouraging growth, in Q1 FY 2013, [www.dainikbhaskar.com](http://www.dainikbhaskar.com) and [divyabhaskar.com](http://divyabhaskar.com) have grown by around 100%, in last 9 months from 100 million page views to 200 million page views, on monthly basis. In terms of page views, Dainikbhaskar.com has witnessed 54% more page views over its nearest competitor and Divyabhaskar.com is over 200% ahead of its nearest peer.

I would also like to reiterate that as the largest print media group in India across 13 states, in 4 languages and 65 editions; we continue to remain optimistic about our progress in every region and about our business fundamentals. Going forward, we are keeping a watchful eye on the policy process as various ministries seem to be working towards kick starting economic growth. However, as the current business environment remains challenging; further assistance from the government and RBI would definitely be welcome to stimulate growth.

My colleagues and I will now be happy to take your questions. We look forward to continuing our interactions and please do contact our investor relations department headed by Mr. Prasoon Pandey, for all further requests and queries.

**Moderator** The first question is from Nitin Mohta from Macquarie, please go ahead.

**Nitin Mohta** My question is on the ad-growth side. I understand that the macro environment is really looking tough but compared to the last quarter when we were talking about internal sales targets of 20% ad-growth, the 1% performance doesn't really look satisfactory. I want to understand what is driving that miss and what is the outlook for the rest of the year?

**Girish Agarwaal** What we indicated to you was that internally we are working with a 20% number and as a result we were able to switch to a higher number of almost double-digit growth for our retail markets in Rajasthan, Gujarat, and Punjab. One area where we have taken a major beating is the national market because of the overall market scenario in the country which has really taken down the number overall.

**Nitin Mohta** Can you quantify what was the growth in the retail channel versus what was the decline that we have seen in national and what is the outlook for the rest of the year?

**Girish Agarwaal** If you compare my overall number from Q4 to Q1 on the advertising side, you will see we have a 9% growth from Q4 to Q1 so we hope that this number goes further up and the retail number is almost 13-15% growth in the Q4 to Q1. But if you look at the overall comparison there is a growth of around 9% in retail and there is a decline in the national market.

**Nitin Mohta** Is there a case where national advertisers are finding you expensive to reach the target segment and is there a shift happening to TV because on the TV broadcasting side we haven't really seen steep declines up till now.

**Girish Agarwaal** Frankly speaking we have not seen any major category shifting from print to television because the biggest categories for us like automobile, education, government and real estate have not shifted to television. But there has been a slump in that particular category itself. So the top line or the bottom line of that particular category is not moving hence the advertising has been temporarily cut down. So we don't see any shift happening from print to television on those categories.

**Moderator** The next question is from Shobhit Khare from Motilal Oswal Securities Ltd, please go ahead.

**Shobhit Khare** What is the current newsprint price per Kg? You reported a cost of around Rs 32.3 for the 1<sup>st</sup> Quarter, will it sustain for the full year and also what is the expectation on the consumption growth for the full-year? We have done around 6% on a Y-o-Y basis and second is on other expenses which have increased quite significantly for us, just wanted a color on that. Third is on circulation revenue side can we see some more increase in terms of cover prices etc, what is the scope there?

**Girish Agarwaal** Let me take your last question first which is on the circulation side. In circulation revenue we have increased the cover price in a few markets like Jharkhand, Chandigarh, and some part of Gujarat. Our average cover price is still around Rs. 2.53. We have scope to increase our cover price further more in various markets. But we have taken a call that since the newsprint price, going forward, are not looking to go up, based on that we don't want to take up the cover price in our market, that is one part of it.

**P. G. Mishra** Current newsprint price, we have reported is Rs 32.32 and we do not foresee any upward price movement but we think that the price will come down in the coming quarter.

**Shobhit Khare** So you think this can sustain for the next 2-3 quarters?

**P. G. Mishra** Maybe it will come down between 5 to 6%.

**Shobhit Khare** So there will be no impact of the rupee depreciation etc. Is there in this price?

**P. G. Mishra** Because INR is at Rs. 55.61 as on 30<sup>th</sup> June. We hope that rupee will be ranging Rs. 54 to Rs. 56.

**Shobhit Khare** What kind of a consumption growth you are looking at?

**Girish Agarwaal** You are asking going forward consumption or the current consumption?

**Shobhit Khare** You have done around 6% on a Y-o-Y basis so is that a good number to think about in terms of the full-year?

**Girish Agarwaal** I don't think that the percentage will further grow, because this 6% growth is including the Maharashtra launch which we have done last year. I don't think that newsprint quantity consumption will go up may be more than 1 or 2%.

**Shobhit Khare** For the full-year?

**Girish Agarwaal** Yes because we are not doing any new launches this year.

**Shobhit Khare** If you can just explain why other expenses have gone up so dramatically?

**P. G. Mishra** Because of recent guidelines around Rs. 8 crore is included which is a FOREX loss because earlier it was below EBITDA and some portion was above the EBITDA but now with the new guidelines it is in the other expenses.

**Moderator** The next question is from Abneesh Roy from Edelweiss Capital, please go ahead.

**Abneesh Roy** We have discussed the slowdown in advertising market, could you give us a broad breakup of your 5-6 key sectors like auto, education, government, real estate, consumer durable, telecom etc?

**Girish Agarwaal** The lifestyle category continues to grow, there is a growth in the real estate category also, though comparatively less but there is a growth. The bad news is that the government category which has been showing a steady growth of almost 10-11% every year, but in this quarter we have seen a decline of 4% in that category. Maybe because there are no new projects launched by the government so there are no big tenders happening, there is no major advertising from government tom-tomming about their achievements, maybe because of that there is a decline on that.

**Abneesh Roy** This is across all the states or is it from the central government?

**Girish Agarwaal** This is largely from the central government.

**Abneesh Roy** And normally what is the split between the government from Centre and from the state?

**Girish Agarwaal** States are at 40% and 60% of the central government.

**Abneesh Roy** 40% is it growing?

**Girish Agarwaal** 40% kind of flat, slight growth is seen in few markets but overall kind of flat.

**Abneesh Roy** And you expect this to continue or based on policy paralysis going away it might reverse?

**Girish Agarwaal** We hope so.

**Abneesh Roy** What is the percentage contribution from education, auto, real estate, broad contribution.

**Girish Agarwaal** None of the category contributes more than 10% overall.

**Abneesh Roy** Not even education?

**Girish Agarwaal** Not even education.

**Abneesh Roy** Are you finding this slowdown more alarming than the 2009 slowdown advertising?

**Girish Agarwaal** When we saw the 1999-2000 slowdown that lasted for almost 10 months. 2008-09 slowdowns lasted for around 14 months. So far we have already crossed 10 months starting October 2011 so I don't know where we are going exactly. But if I compare from the Q4 to Q1, there has been a 9% growth.

**Abneesh Roy** That is unfair to compare because in media especially QOQ doesn't have much of meaning.

**Girish Agarwaal** Why we have actually compared this way because our Q1 of the last year was on a higher base. There was a higher growth on that, almost 20%+ growth in that quarter. That is the reason we thought let's check whether things are steady, going up or going down. From Q4 to Q1 it has improved by 9% so it is not going down is what I'm trying to say.

**Abneesh Roy** And any guidance you can share for the full year or it's too dynamic for the advertising growth?

**Girish Agarwaal** Frankly speaking on our 9-10 months experience, it is too dynamic to really comment on it.

**Abneesh Roy** You have said cover price increase looks a bit unlikely because newsprint is not going up. Wanted to check in MP, Jagran area, they should increase its intensity over the coming months and similarly Maharashtra we are hearing that Bennett-Colman Marathi edition have made plans to increase aggression. So in these two micro-markets, how are you seeing the competitive intensity from these two players and what ramifications it can have on you in terms of cost?

**Girish Agarwaal** In Madhya Pradesh we have increased some circulation in last one year's time. We have done slightly deeper penetration. Regarding Jagran Nai Duniya working, we are yet to see any action on the ground so far and in Maharashtra also Maharashtra Times had launched some scheme in Nasik and after the scheme got over we did not see any impact on us or in the market. But having said, that we are prepared in all these markets. As I told you my average price countrywide is Rs. 2.53. I am anyway on the lower band of the price and we don't want to increase the price so we are still in the penetration mode.

**Abneesh Roy** Next question is on the employee cost there is 19% growth Y-o-Y, 12% QOQ, what is the reason?

**Girish Agarwaal** This is Q-on-Q because of the annual increment that we took a call that we don't want to hold the employee cost increment and the difference what you are seeing from the Q1 into this quarter is because of the new centers also coming into picture like Maharashtra and annualization of it.

**Abneesh Roy** EBITDA has seen a decline Y-o-Y so in terms of our Maharashtra and Jharkhand what impact does it have? I understand that you won't expect but for the existing editions you are a new player you need to do that extra mile to remain strong there. So does the EBITDA decline on a Y-o-Y basis have any impact on your Maharashtra and Jharkhand edition?

**Girish Agarwaal** No if you see our emerging edition losses it was Rs. 20 crore in Q4 FY 2012 which has now come down Rs. 12 crore in Q1 FY 2013 that clearly indicates that Maharashtra and Jharkhand and other small emerging markets are really improving in terms of their revenues and their losses are coming down.

**Abneesh Roy** But how is that happening because your EBITDA has declined on an absolute basis but your new markets EBITDA loss has declined more. In existing markets are you investing more in terms of circulation, are the costs going up in terms of employee cost because new players might enter?

**Girish Agarwaal** If you just try to plot it properly you will understand that my top line has not grown and my expenses have grown up in my existing markets, my salary costs have gone up in my existing market and the top line has not grown so obviously there is a dip on the EBITDA absolute number as well margin there. Had I taken a call that I don't want to increase any salary in my existing markets then I might have shown a slightly better number, but for a 12,000 people organization, we don't want to take such a drastic call.

**Moderator** The next question is from Hiren Dasani from Goldman Sachs, please go ahead.

**Hiren Dasani** I wanted some breakup in terms of operating expenses, selling and distribution and general admin?

**Girish Agarwaal** What exactly you want please tell me I can give you that?

**Hiren Dasani** Earlier you use to break it up in three heads now you have just disclosed one disclosure of Rs. 99 crore.

**Girish Agarwaal** We can give you the breakup of this quarter. Out of my total expenses of Rs. 1450 million, operating expenses are Rs. 433 million, personnel expenses is Rs. 606 million, selling and distribution is Rs. 183 million and general administration expenses Rs. 227 million, this totals up to Rs. 1450 million.

**Hiren Dasani** And the FOREX bit would it get reflected in the general and administration piece?

**Girish Agarwaal** Other expenses.

**Hiren Dasani** Which is Rs. 22 odd crore.

**Girish Agarwaal** Rs. 8 crore in this quarter.

**Hiren Dasani** What is the outstanding debt as of now?

**Girish Agarwaal** Long-term debt is Rs. 135 crore.

**Hiren Dasani** And working capital?

**Girish Agarwaal** Rs. 77 crore. Which is only buyer's credit.

**Hiren Dasani** You said the newsprint consumption will not grow so does that also depends on the advertising volumes in the subsequent quarter as well as the organic circulation growth in the existing markets?

**Girish Agarwaal** If my advertising goes up then the newsprint consumption goes up I am the most happy guy. Otherwise we have taken a situation that overall in the current scenario the circulation increase will not be more than 1 or 2%.

**Hiren Dasani** In your existing as well as new markets?

**Girish Agarwaal** Yeah and we have our ad rate ratio is also under very much control, the almost 30% is advertising. So we have enough margin out they are also in the current number of pagination we can a more ads.

**Hiren Dasani** What would be your total circulation exiting the June quarter and within that how much would be in Maharashtra as well as in Jharkhand?

**Girish Agarwaal** 47 lakhs is the overall circulation and Maharashtra and Jharkhand put together will be almost 6.4 Lakhs.

**Hiren Dasani** Split roughly equally?

**Girish Agarwaal** I would avoid to disclose that number.

**Moderator** The next question is from Dinesh Harchandani from JP Morgan, please go ahead.

**Princy Singh** This is Princy Singh from JP Morgan. The first one is on the Maharashtra market. Can you just throw some light on what could be the cumulative losses over the next couple of years? The losses have come off quite sharply over the last year. Would we expect this run rate to sustain? If things were to pick up going forward, would the company look at making more investments in Maharashtra or should we just assume that abatement of losses is now going to be the trend line?

**Girish Agarwaal** Maharashtra is almost more than a year old now for us. Almost 15 months and so far the numbers are very much as per our expectations in terms of top line and also with respect to the losses over there, which are reducing with every passing month. In the next 12 months' time, we have no major expansion plans in Maharashtra because we have already launched five editions. We would like to consolidate these five editions, gain some more advertising numbers, get some more comfort there and only then move onto other 2-3 smaller markets. I don't think we're going to do any major expansion in Maharashtra and the numbers that we have executed in Maharashtra for our losses are very much under control.

**Princy Singh** What is the total dividend paid out for the year interim plus final?

**Girish Agarwaal** 50%.

**Moderator** The next question is from Vikash Mantri from ICICI Securities, please go ahead.

**Vikash Mantri** Just wanted to understand now that we have gone through Q1 and have a better idea of outlook, any change in our guidance for FY13 ad-growth from the earlier 20%?

**Girish Agarwaal** If you remember last time also we never gave a guidance of 20%. We said we are internally working on a 20% target within our sales team because there is no point giving guidance as we don't have any control on the markets. There has been an overall number, market has been sluggish for various categories. Those sectors which are the main advertisers for us like auto, lifestyle in real estate and even government have been sluggish. So unless and until those categories improve they will not increase their advertising spend. So we will not be in a position to give any guidelines for any category going forward.

**Vikash Mantri** In case of the numbers that you have given for a 1% ad-growth and you have also given the revenues for your new editions and I see a 100% growth in your new editions on a Y-o-Y basis. So if I were to use that data and look at advertising, advertising for your mature editions would have declined by 5 to 7%. Is it a correct assessment?

**Girish Agarwaal** No, because my emerging editions' market top line number is very small. So if I take that out they may be a difference of a percent or 2.

**Vikash Mantri** I did not get this.

**Girish Agarwaal** If you look at the top line of my emerging editions, it is too small and if I show 100% growth over there and that to it will not give that kind of impact.

**Vikash Mantri** So let me just rephrase it, last year we did around Rs. 22 crore of revenue and this year we have done close to Rs. 44 crore of revenue in emerging editions and it will be fair to assume that most of it is coming from advertising. So if I reduce that Rs. 22 crore delta from your advertising revenues I'm assuming that the 20% is your circulation on a company- wide basis

**Girish Agarwaal** No, that is also not correct. If you remember in the last call we mentioned very clearly that in a newer market my advertising ratio revenue initially is lesser. For instance, in a market like Maharashtra, this is one year old for us. So right now almost 50% of my revenue will be circulation-led. Also, please understand that in Maharashtra we launched in the last one year's time and we did analyze that the advertising numbers will be much lesser because circulation can be generated from day one but the advertising revenue takes much time to come in.

**Vikash Mantri** But since we generally give those schemes circulation revenue, I would have thought it would be negative to very low per copy.

**Girish Agarwaal** No, but please understand we are not talking about the net margin of circulation, we're talking about the revenues so even if the revenue is one rupee, that still is a revenue.

**Vikash Mantri** So, in a scheme, the cost attached to it is booked separately on the P&L and is not on the cost that is booked?

**Girish Agarwaal** It is a very simple accounting procedure. Whatever the revenues are booked, are booked as revenue and whatever the expenses are booked, are booked under the expenses account.

**Vikash Mantri** When we talked about circulation, you had mentioned 4 lakh copies for Maharashtra and 3 lakh for Jharkhand. And now we are talking about only 6.4 Lakhs and 6.3 Lakhs range for both these markets. So have we had a decline in circulation in each of these markets?

**Girish Agarwaal** In Jharkhand, we have purposely taken a call and in the up-country markets which are the rural markets, we have increased the cover price from almost Rs. 2 to Rs. 3. So there has been a slight decline in those markets which is required to keep the EBITDA slightly healthy. As far as Maharashtra is concerned, there will be no decline. In fact, we analyze the number, going forward there could be an increase too.

**Vikash Mantri** So would it be 4 lakh plus in Maharashtra now?

**Girish Agarwaal** Around 4 lakh. We cannot disclose the exact numbers to you. Hope you will appreciate that.

**Vikash Mantri** In terms of your rupee-dollar cost for newsprint we have seen an increase in newsprint costs sequentially, now I would assume that it is largely to do with the dollar movement. So could you give us the share of imported newsprint currently and on a rupee basis how has newsprint behaved quarter on quarter, only for the domestic market?

**P. G. Mishra** Do you want price wise breakup or quantity wise?

**Vikash Mantri** Both quantity and price.



**P. G. Mishra** Quantity consumption for domestic newsprint was around 67-68% and imported newsprint was 33%.

**Vikash Mantri** But was it not 22% last quarter?

**P. G. Mishra** Trailing quarter 27% and 73%.

**Vikash Mantri** So you have increased the imported consumption?

**P. G. Mishra** Why we have increased because we have used 42-43 GSM imported newsprint which can match up the price and the quality of the best Indian newsprint.

**Girish Agarwaal** Because the Indian newsprint is 44 and 45 and 46 GSM while in the imported newsprint you are able to get 42 GSM so by quantity I might be using more imported but when the price parity comes in I'm using almost the Indian newsprint because of the lower GSM.

**P. G. Mishra** The difference between this is their quantity percentage is 67%-33% for domestic and 73%-27% for import but last time also the gap between the component price was 4% between the imported and Indian. If my imported newsprint was 27% but price wise it was 31 rupee and again the same percentage is maintained.

**Vikash Mantri** What would be the rupee cost of imported newsprint and domestic newsprint?

**P. G. Mishra** If you want dollar wise imported newsprint when INR is Rs. 55.60 it is around the Rs. 36 during this quarter and Indian average is Rs. 32.40 plus.

**Vikash Mantri** Average then doesn't come to 32.40

**Girish Agarwaal** Rs. 36.15 is the imported newsprint, Indian is Rs. 30.40.

**P. G. Mishra** Average is Rs. 32.32.

**Moderator** The next question is from Rishi Maheshwari from Enam AMC, please go ahead.

**Rishi Maheshwari** I was wondering most forecasts suggest that rainfall is expected to be very weak this year; I believe that may have a direct bearing on your local advertisers. Are you already experiencing that threat in your conversation with your local advertisers?

**Girish Agarwaal** Yes because of the monsoon there are certain concerns. So we're waiting for July to get over then start talking to advertisers again what is the exact impact happening because in most of our markets the rains have to come in the month of July itself and so far there is a shortfall here. So there could be some impact on that but let us hope for the best.

**Rishi Maheshwari** In the same context I would like to know if the weakness is seen across markets or are those specific states where the weakness is sharper than the others?

**Girish Agarwaal** I think it is a mixed basket, in certain categories couple of states are doing very well like real estate in Rajasthan and Madhya Pradesh while suddenly the same category is very sluggish in Gujarat and Punjab. So there is a mix basket of the things and we can't make out any pattern out of it.

**Rishi Maheshwari** Lower pagination a prudent way to check cost if in case things go worst or altering the size of the newspaper do you think those things will work out if things do not go as per your anticipation?

**Girish Agarwaal** Yes we have taken that call, if you look at last year Q1 and Q1 year-on-year we were at 22 pages pagination which has come down to 21.23 and even if you see from the Q4 to Q1 the trailing quarter, we have come down from 21.57 to 21.23. So we are conscious about that area of cost saving.

**Rishi Maheshwari** Do you believe that this is the most opportune time for you to buyout any of your competitors?

**Girish Agarwaal** We will take this offline please.

**Rishi Maheshwari** Sure.

**Moderator** The next question is from Shung Khoo from One North Capital, please go ahead.

**Shung Khoo** I got two questions from my side, firstly just want to understand how much FMCG national advertisers contribute to your overall ADEX revenue typically and whether you see any sense of a comeback in the sector going to the second-half of the year? Second question relates to the cost; want to understand more for the mature business, would the employee cost be running fairly stable at the current run rate from now on and what are the other costs elements that could go up during this year?

**Girish Agarwaal** FMCG contributes roughly around 4% to our overall advertising category and we have seen flattish numbers in that category and we are hopeful that maybe in the next quarter it may slightly improve. Coming to your next point on the cost side; 45% of our cost is newsprint, almost 19% is the manpower cost in that. If you look at the areas wherever we could do the cost saving, we have done it and the cost taken up on the manpower which has been around 10-11% is now done for one-year. So next call we have to take in the next year in the month of March-April and on newsprint as we indicated to you that the market is going to be either the flat or might be some saving coming forward.

**Shung Khoo** On the mature business side; would you expect your current cost structure in terms of an absolute rupee terms for manpower and other OPEX to remain flat in the 1<sup>st</sup> Quarter run rates going for the rest of the ,years would there be any bump up in any of these lines going forward?

**Girish Agarwaal** Yeah that would remain same. Whatever the costs are in Q1 would largely remain same for the next three quarters in our mature markets.

**Moderator** The next question is from Amit Kumar from Kotak Equity, please go ahead.

**Amit Kumar** I just wanted to get a sense of these two categories, durables and education. One, how they have done in this particular quarter and how do you see this in July what kind of trends have you seen here?

**Girish Agarwaal** In Automobiles, there has not been a drastic growth but a slight growth and on the education there again a growth but not what was expected, like last year on the same quarter the growth was phenomenal. But this quarter there is a growth but not that much. Education category in the 2<sup>nd</sup> Quarter didnt grew much, but now it will come back in the 3<sup>rd</sup> Quarter and automobile hopefully in the next two quarters should be big because that is a season time for us.

**Amit Kumar** You are expecting education to come back in the 3<sup>rd</sup> Quarter?

**Girish Agarwaal** Generally what happens is Education is a big category in two quarters Q1 and Q3 and depends on the exam. Generally what happens is if the exams get postponed then Q3 becomes Q4. Like the results of the competitive exams which month they come out so based on that the other education gets affected. So generally our trend says that Q1 and Q3 are the Education quarters.

**Amit Kumar** So in July there has not been too much benefit because there was this issue going on between the Mr. Sibal and IITs, has that impacted education advertising from coaching centers somewhat this time?

**Girish Agarwaal** Frankly speaking not much.

**Amit Kumar** What about durables side besides autos as well?

**Girish Agarwaal** Durable also is down actually that is the one of the worst hit category.

**Amit Kumar** And how is it trending in July?

**Girish Agarwaal** Again it's a market to market, national market has still not improved, retail market is good.

**Amit Kumar** I just wanted to broadly have a sense of your expansion, given the pressure that we have seen on the advertising side, we did the Sholapur expansion in April but going forward we are staying put so to speak. What was the thought process behind the Sholapur expansion and the second is when do we hope to complete our Maharashtra expansion whatever we have thought barring Bombay-Pune, Nagpur whichever way it stands?

**Girish Agarwaal** Sholapur was done as per the original plan because launching any edition takes almost nine months. Sholapur was conceived last year around same time so we did Sholapur as per the schedule. Now considering the market situation in the current scenario and what we expect, we are not launching anymore editions at least for next nine months and if the market improves we would look at the market furthermore.

**Amit Kumar** So we don't have a sense of the launches that you want to do in Maharashtra when they will finish off essentially but not likely in this financial year?

**Girish Agarwaal** There will be no launches in this financial year in Maharashtra. We have already identified the places where we have to go but we don't want to start off till the time the market really improves.

**Amit Kumar** The Company's view still remains the same that Bombay-Pune is something that you are not very interested in?

**Girish Agarwaal** Yes Bombay-Pune- Nagpur.

**Moderator** The next question is from Gaurav Jain from Alta Vista Capital, please go ahead.

**Gaurav Jain** It is just a longer term question, Indian macro is weak, people are cutting GDP growth forecast for this year and next year. As you look towards the next three years what are the financial metrics that you think you would want to look at to manage the company, is it EBITDA margin, is it an EPS or is it revenue growth?

**Girish Agarwaal** I would really discuss this offline with you as this cannot be answered. We have made certain plans for mid term and long-term but I would prefer to discuss it offline if you are okay with it.

**Gaurav Jain** I think you made a comment that you are still in a penetration mode so are your peers, everybody is launching, Jagran has just acquired Nayi Duniya in MP, your customers have slowed down. Why is the entire industry almost going into each other's market and destroying each other because all the companies are losing money on the editions. So, what makes you to say that you want to continue to be in penetration?

**Girish Agarwaal** When I say I am in the penetration mode we have two areas very clearly, one is penetrating our existing market like Madhya Pradesh, Gujarat, Punjab where we have a particular circulation number but we know the market can further take more because these markets are getting educated faster. These markets are getting exposed to more consumption so for example in Rajasthan and Madhya Pradesh we have added on new editions in last two years' time. I feel Punjab can take one more lakh copies in next two years' time and that can further give you more command and we can have a dominating position in that market. Another mode is launching new markets like what we did in case of Maharashtra that is a long process because one has to understand the potential of that market and how that market can give the returns back to us. So far our experience in Punjab, Gujarat, Jharkhand and Maharashtra has been good. We take a calculative risk that which market we want to go and what is the reason, when we launched Maharashtra we clearly decided that we don't want to go to Mumbai, Pune or Nagpur because these markets will be difficult to make that kind of money what we are looking for so we decided not to do this. For other newspaper organizations, I don't know their strategy. But one thing is for sure that in India the newspaper penetration overall for the Indian languages is still a long way to go. So if the market continues to be good then newspapers can actually penetrate their own market and to grow the markets and get more higher revenues.

**Moderator** The next question is from Sidharth Goenka from JM Financial, please go ahead.

**Sidharth Goenka** If you can give us some sense on your volume and yield improvement on your advertising and circulation revenues for this quarter?

**Girish Agarwaal** Volumes are almost flat and the yield also is almost flat because we wanted to take up the yield but we realized that the markets are down so it is difficult to go and tell an advertiser to pay more for the same advertisement so it's largely flat.

**Sidharth Goenka** So we are not planning to take up any ad-rate hike probably going forward?

**Girish Agarwaal** Not now atleast. We have a possibility to reduce the discount rather than taking a rate hike, I would push for slightly lesser discount so that it can help some yield improvement.

**Sidharth Goenka** If you can give us any sense what will be the average cover price hike we have taken?

**Girish Agarwaal** My current cover price average is Rs. 2.53. In few markets we were at Rs.2, we made it Rs. 2.50-Rs.3, in some markets we were at 2.50 made it Rs.3; in some market we improved our Sunday cover price to Rs. 3.50. So there has not been any fixed pattern across, this all depends on the market to market, our need and how the market will react to.

**Sidharth Goenka** So out of this 15% growth what we have done in circulation is it fair to assume that approximately 10% will be our cover price and 5% will be volume?

**Girish Agarwaal** Yes, same thing, you are right 5% is the cover price impact and 10% is the volume impact.

**Sidharth Goenka** Going forward of course the volume growth will be lower because you are not planning to expand our circulation base right now?

**Girish Agarwaal** Yes

**Sidharth Goenka** Anything you can share on your CAPEX plan going forward or it will be just maintenance CAPEX of Rs. 40-50 crore?

- Girish Agarwaal** We have done Rs. 20 crore as a normal maintenance CAPEX for the year. We are not expanding anywhere so there will not be any major CAPEX coming into the picture.
- Sidharth Goenka** Normally we had a maintenance CAPEX of around Rs. 40 crore if I am understanding it correctly.
- Girish Agarwaal** In the last 3-4 years we have done most of the machine changes and I don't think this year more than Rs. 20 crore will be required for the maintenance CAPEX.
- Moderator** The next question is from Aashish Uppanlawar from Spark Capital, please go ahead.
- Aashish Uppanlawar** I just had a broader question on the strategy, on the expansions that you would have done because as of now since the market is not good, we are stopping on the expansion but does it mean once it recovers maybe in FY14-15 but would it mean Bihar editions for us would be launched then and what is the base case growth in EBITDA that you would be targeting even after taking gestation losses of any such launches? It is just to get an idea how things are going to progress and the advertising markets improve for us?
- Girish Agarwaal** That's a pretty holistic question and it depends on market to market. I would request if this can be taken off line because this is more like a strategy question for the company's perspective which we will be able to share with you.
- Aashish Uppanlawar** Just to add with this, this has been the broader question for investors to a take a call on how the earnings trajectory for your company is going to be so probably in the interest of all the participants if you would add something here?
- Girish Agarwaal** Considering the current market scenario we are continuing the expansion in our existing markets, for example you have seen that out of the total impact on the circulation revenue largely from the volume growth, we will continue a percent or 2 more in our markets like Madhya Pradesh and Punjab and Gujarat and Rajasthan. We will increase circulation more in these markets. Considering Bihar and other newer markets that are clearly not in this financial year. Going forward how we are looking at is when the market improves, certainly Bihar would be on our radar and then depends whichever market throws more opportunity we will be looking at it. But very clearly once we feel that we are comfortable in terms of our balance sheet.
- Aashish Uppanlawar** Maybe in FY14 or thereafter we may not see an EBITDA growth of 15% or more than that because of the gestation losses coming in. The only problem is that the earning predictability has been a bit blurred for your company at this time. Other than that I just wanted to ask you, is the scenario similar across states that we operate across major states in Gujarat, Rajasthan as far as advertising instances in the local market?
- Girish Agarwaal** In the national market the scenario is almost same for all because one large national company takes a similar call for all the markets but the retail market scenario is slightly a mixed bag, for example Gujarat has been an outperforming state this quarter internally for us, same was Rajasthan and MP. Haryana and Punjab were a slightly sluggish so it is again a mixed basket.
- Aashish Uppanlawar** On the other operating income compared to the immediate last quarter it was lower by Rs. 10 odd crore so I suppose it's for MP Printers that is there but how do we go about this item of revenue?
- Girish Agarwaal** This other income is largely MP Printers.
- Aashish Uppanlawar** But it was Rs. 34 odd crore last quarter and it was Rs. 24 odd crore this quarter so how is it going to pan out going ahead?

**P. G. Mishra** Last year it was FOREX gain.

**Aashish Uppanlawar** I am talking about the other operating income.

**P. G. Mishra** It is FOREX gain which is included in the operating income.

**Aashish Uppanlawar** On a sustainable basis what would it be?

**P. G. Mishra** It is one-time.

**Aashish Uppanlawar** But a sustainable number would be on the other operating revenues?

**Girish Agarwaal** Around Rs. 30 crore.

**Moderator** The next question is from Aruna Bharathi from Pari Washington, please go ahead.

**Aruna Bharathi** It will be helpful if you can just comment on the working capital aspect in terms of inventories and debtors that will be helpful. And the second question is on your home market which is Madhya Pradesh if you can comment about your competitors namely Rajasthan Patrika and Jagran's Nai Duniya that will also be very helpful?

**Girish Agarwaal** The two competitions which you just named, one of them is being in the Madhya Pradesh from almost 4.5 -5 years but we have been seeing a steady growth in our circulation numbers and the advertising numbers as well. In the recently takeover deal of Nai Duniya by Jagran we have not yet seen any major plan by them on the ground. They have not gone on cover price war and we are yet to see anything from their side.

**Aruna Bharathi** But isn't the Rajasthan Patrika displaying a little bit of renewed vigor in your home market – is that a fair statement to make or is it wrong?

**Girish Agarwaal** If you look at my circulation growth, my readership growth and my revenue growth have been steady in Madhya Pradesh barring out last three quarters because of the sluggish market, it has been one of the strongest performing market for us. So we don't see any major problem in any of the markets, especially in the key markets of Indore and Bhopal if you see my top readership I am almost more than 100% in the nearest competition especially in the top segment of SEC A&B?

**Aruna Bharathi** If you look at the inventory numbers, they have gone up quite sharply actually.

**P. G. Mishra** Normally we keep 15 to 21 days of Indian stock and imported stock is normally kept between three to four months but this time it might be possible because it shows a stock on a particular day 30<sup>th</sup> June. So it might be possible that some shipment have arrived in the last week of June that's why the total days is around 74, Indian was 16 days and imported was 122 days.

**Aruna Bharathi** Then on receivables?

**P. G. Mishra** Receivable advertisement debtor is ranging between 90 to 95 days, circulation debtor is almost 30-32 days.

**Aruna Bharathi** And advertising is about 90 to 95 days?

**P. G. Mishra** 90 to 95 days precisely.

**Moderator** The next question is from Bijal Shah from IIFL, please go ahead.

**Bijal Shah** My question is on the advertising outlook, now on an aggregate basis not going too much into what state and what category in local and national So are you getting a sense that we are at the bottom and we should start seeing an improvement or at least will remain stable at this rate of growth for rest of the year?

**Girish Agarwaal** I don't know how to answer it because last quarter we thought we were at the bottom, even now this quarter when talk to automobile companies that do you think next quarter you're going to grow? So they said yes whatever the worst is already over now we should improve. So it all depends like now suddenly monsoon which was predicted in to be good in June still remains a question mark. So we really don't know how it is panning out but we would assume that we are at the bottom already.

**Bijal Shah** The listed history of most of the companies in print media is very short but probably you can tell us from your experience when probably you were not listed. But how long probably does it last or even if the economic growth does not revive, does it stabilize or it continues to go down?

**Girish Agarwaal** Our experience has been very mixed in different markets. When you are only present in a few states than the market outlook is different, our dependency on national advertisers are lesser. Now since we have 13 states present our dependency in terms of overall numbers on the national market is also high so that also makes a certain impact. So earlier I could make an assessment of one or two markets like in retail market some of the markets are doing extremely well in the retail, their number is almost 18-20% growth but at the same time national market has declined in retail market while if you look at some other markets in retail which have shown a 5% growth. So it is very mix basket, it will be difficult to make any generalized statement for it.

**Bijal Shah** But as of now outlook remains a bit unclear.

**Girish Agarwaal** True.

**Moderator** The next question is from Shung Khoo from One North Capital, please go ahead.

**Shung Khoo** Just wanted to revisit the mature business again, could you just give me a sense of how the EBITDA margins for this side of your business would trend for the rest of the year?

**Girish Agarwaal** We have 30% EBITDA margins for our mature markets.

**Shung Khoo** So going forward given apart from you told me earlier that your costs should stay fairly stable but you were thinking of penetrating deeper within mature markets so just want to understand how sustainable is this 30% EBITDA margin in the coming quarters?

**Girish Agarwaal** The margin will not take any dip, if we go as per our calculation any further deep in terms of penetration because we already fixed a guideline for ourselves internally that to what extent we should take the costs up from the profits to penetrate those markets further. Now our only concern is that the top-line growth, advertising growth which will happen from the markets conditions, that is not in our control. For example if I see that the advertising is improving better I will improve my penetration slightly more but if I see the advertising is not increasing accordingly I will not do any further penetration for a while till the time advertising number increases.

**Shung Khoo** So in 1<sup>st</sup> Quarter you already raised whatever cost or whatever you needed to increase penetration and you are going to put that on hold and depending on how things flow, your penetration strategy would be on hold?

**Girish Agarwaal** Let me explain it to you on how the penetration strategy works; for increasing the penetration means increasing more circulation or launching some off-shoot editions. Now for that we don't have to incur major cost in advance because most of the cost is the newsprint cost or the circulation cost on that market that will only get incurred when I increase the circulation in that particular market. So if I'm not increasing the circulation that cost will not come in to picture.

**Shung Khoo** You won't need to increase headcount and stuff like that it is just pure printing.

**Girish Agarwaal** Yeah largely.

**Moderator** The next question is from Amit Kumar from Kotak Equity, please go ahead.

**Amit Kumar** What was the contribution at the revenue and EBITDA level from MP Printers in this particular quarter?

**Girish Agarwaal** Rs. 2.4 crore has been the EBITDA for MP Printers and Rs. 10 crore is the revenue.

**Amit Kumar** Typically for MP Printers how does this number trend, which is the heavy printing quarter?

**Girish Agarwaal** There is no major up and down for them because they do a lot of newspaper and magazine printing except that one quarter especially this quarter there will be some balance sheets and all that coming in but that is not like double or triple number as such.

**Amit Kumar** What I am looking at is that the 4<sup>th</sup> Quarter FY12 you had a slightly higher number about Rs. 14-15 crore from what I can recall?

**Girish Agarwaal** Because they do lot of printing of the newspaper supplements and since the volume of those newspapers are down they have no supplements so they had been a dip on that supplement printing for MP Printer.

**Moderator** The next question is from Anuj Sehgal from Manas Capital, please go ahead.

**Anuj Sehgal** This is again more from a longer-term perspective, you said that for the next nine months there will be no new launches and it takes typically about nine months to have a new market launch. So are we saying that maybe over the next 18 to 24 months there will be no new launches or if you could share at least in terms of how you see the market over the next three to five years or at least what you are planning, maybe it might not pan out that way but at least if you could share the thought process?

**Girish Agarwaal** As an organization we keep continuously researching new markets. We have already planed for few editions rolling out in Maharashtra but we will not start the ground work till the time market improves hence there will be no launch physically which will happen in this year. But if the market improves for examples in the 3<sup>rd</sup> or 4<sup>th</sup> Quarter and becomes really good and if we feel the numbers are back the way we wanted then we will be able to roll the new editions after 9 to 12 months' time. As of now as I told you we have clearly decided that this financial year there will be no launches rolling out but the planning has been done as that is a continuous process.

**Moderator** Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Pawan Agarwal for closing comments.

**Pawan Agarwal** On behalf of the management I thank you for your participation and time on this earnings call. I hope that we have been able to respond to your queries and will be happy to give you all assistance through our investor relations department headed



by Mr. Prasoon Pandey, should you have any further inquiries. Thank you very much.

**Moderator**

Thank you gentlemen of the management. On behalf of DB Corp Limited that concludes this conference call.