



## Hindustan Media Ventures Limited's

### Q3 FY14 Earnings Conference Call

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[www.hmvl.in](http://www.hmvl.in)

**Moderator:** Ladies and gentlemen good day and welcome to the Hindustan Media Ventures Ltd's Q3 FY14 earnings conference call hosted by IIFL Capital Ltd. 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. Please note that this conference is being recorded. I would now like to hand the conference over to Bijal Shah of IIFL Capital Ltd. Thank you and over to you sir.

**Bijal Shah:** Good evening everybody and welcome to the Q3 FY14 earnings conference call of Hindustan Media Ventures Limited. We have with us today Mr. Vivek Khanna – CEO, HMVL, Mr. Ajay Jain – CFO, HMVL and Mr. Vinay Mittal – Chief Financial Strategist, HT Media. I now hand over the call to Mr. Vivek Khanna for his initial comments, after which we will open the floor for Q&A.

**Vivek Khanna:** Good evening ladies and gentlemen. We are pleased to report yet another quarter of healthy top-line and earnings growth. During the quarter, we achieved the highest ever total revenue of Rs. 199 crore in a quarter. This is on the back of a 16% increase in advertising revenue which increased to Rs. 137 crore from Rs. 118 crore in Q3 last year. Our efforts towards improving yields are showing results and I am happy to share that the growth in advertisement revenue is driven by improvement in both, volume and yields. In addition, our circulation revenues increased by 18% to Rs 46 crore from Rs 39 crore on the back of higher realization per copy, which has increased to Rs 2.11 from Rs. 1.85. Our raw material expense was higher on account of both an increase in circulation by 1 lakh copies and increase in newsprint cost to Rs. 36,000 from Rs. 32,000 per tonne. Despite this, our EBITDA grew by 35% to Rs 47 crore from Rs. 35 crore last year. Similarly, our PAT grew by 38% to Rs 29 crore from Rs. 21 crore last year.

We are delighted with the latest results of IRS. It is a testimony to the efforts the Company has undertaken over the last 2-3 years towards investing in UP and Uttarakhand for increasing circulation and readership. While our efforts were not reflected in IRS over the last 4 or 5 rounds, we are happy that the latest IRS depicts a true picture with HMVL as a clear No. 2 player in UP and No.1 player in Uttarakhand. This is a significant opportunity for us. At the same time, we continue to be the leader in both, Bihar and Jharkhand while retaining our No. 2 position in Delhi. While we have made a lot of efforts to increase our width in UP, there are still a few pockets where we need to increase our depth and we have already started working on these pockets. Additionally, we are also looking at other

opportunities to see how we can continue to deliver value to our shareholders. With this, we would like to open the floor for Q&A.

**Moderator:** Participants we will now begin the question and answer session. We have the first question from Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** There are a lot of controversies around the latest IRS results. So, do you believe that we will benefit from these results since there is a chance that this survey might be pulled back?

**Vivek Khanna:** We will benefit from this. We are aware that there is a lot of confusion ever since the results have come out; but there are a few clear trends. Barring 2 or 3 states like UP and MP, player rankings have not changed. I think it is extremely important to understand that the current IRS cannot be compared with the earlier IRS because now the methodology is different and more robust. For example, technology has been used for the first time to ensure there is a better reflection of all the newspapers while conducting the survey. Specifically for us, there was a lot being said about our gains in UP. However, if you look at the results of the last 4 or 5 rounds, you will notice that there was no reflection of copies we added over the last 2 years. Whereas, we believe that we should have been significantly higher. Therefore, we think whatever has happened in this IRS is a fairly accurate reflection of on the ground situation in UP.

**Abneesh Roy:** If this survey is not withdrawn, is there a risk that the current players who were impacted in their key markets will come back very strongly in terms of the circulation which in turn will impact your profitability?

**Vivek Khanna:** You have to understand that it is not about just printing copies and trying to push it into households. It is a combination of various factors like the marketing mix and the product. The latest IRS reflects our efforts towards the product and distribution of our newspaper. Competition will try its own strategies to gain ground and we will have our own strategy to ensure that we continue to grow. Net-net, a strong No.2 position in UP is certainly going to give us benefits going forward.

**Abneesh Roy:** Could you elaborate on HMVL's strong advertising growth and how do you see it pan out going forward?

**Vivek Khanna:** Both, Bihar and Jharkhand grew by approximately 16%. Growth in UP is significantly higher than this. Delhi, on the other hand, did not grow much due to lower DAVP advertising as a result of the elections in Q3 FY14. Moreover, the real-estate scenario in Delhi is not improving. That said, going forward we expect strong growth momentum in Bihar & Jharkhand to continue given our dominant position in both these regions.

**Abneesh Roy:** Other large players in MP and Chhattisgarh benefited from political advertising in Q3. However, you had an adverse impact in Delhi. So, why is this trend different in your case?

**Vivek Khanna:** We believe that the political parties have used various alternatives in the recent Delhi elections, because of which the advertising spends on Print were limited. This is the first time it has happened, otherwise one always benefits from elections. If you recollect, we benefited significantly when we had Assembly Elections in UP and Bihar. Elections always bring in benefits and we expect that to come at the time of General elections. We are already seeing signs of this benefit in the current quarter.

**Vinay Mittal:** Just to add, Aam Aadmi Party did a lot of the campaign on radio in addition to one-on-one street level interactions. Print and television inventories were not utilized in the Delhi elections.

**Abneesh Roy:** Did you see a shift from BJP and Congress as well?

**Vinay Mittal:** Similar to AAP, BJP and Congress also did not use print.

**Abneesh Roy:** Did we gain from elections in Bihar? As far as I remember, we had not seen a very good benefit there?

**Vivek Khanna:** What happens during any election is that after the code of conduct comes into place, the DAVP revenue declines and the political revenue starts coming in. So, when I said that we got the benefit in Bihar, what I meant was that we gained significant political revenue. We expect it to happen this year also. In fact DAVP volumes and revenue has already increased in the current quarter and political advertising has also picked up. The impact of general elections on advertising will be marginal in Q4 FY14. A significant impact of this advertising will be visible in Q1 FY15 revenues.

**Abneesh Roy:** Could you please comment on the circulation revenue?

**Vivek Khanna:** Despite the price drop in the Patna market, we expect our overall circulation revenue to increase because of higher copies and cover prices in most markets.

**Moderator:** The next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.

**Prakash Ramaseshan:** How critical is the inorganic side of the story for the company given that you are now a comfortable number 2 player in UP based upon the recent survey? Also, is it necessary to maintain the extremely high level of cash or does distribution seems like a better option going forward?

**Vivek Khanna:** As mentioned earlier, there are certain pockets in UP where we have to increase our depth, which the latest IRS also highlighted. Additionally, we are also looking at other opportunities both, organic as well as inorganic and we shall intimate it to you the moment it is finalized.

**Moderator:** The next question is from Kalpesh Makwana from Quant Capital. Please go ahead.

**Kalpesh Makwana:** Which sectors contributed to advertisement growth?

**Vivek Khanna:** Sectors driving growth include FMCG, DAVP, retail and classifieds. The sectors which did not grow were education and durables.

**Kalpesh Makwana:** How do we categorize political revenues earned from elections?

**Vivek Khanna:** This is categorized separately as political revenue. In Q3 FY14, political revenue was insignificant but it has started coming in Q4 FY14.

**Kalpesh Makwana:** We continue to maintain that we are dominant players in Bihar including Patna; however, we have taken a price cut in Patna even before the competition was launched. Could you throw some light on why we did not use our dominant position to continue the pricing power?

**Vivek Khanna:** We had a well thought through strategy to face competition entering into Patna head-on. Pricing is only one of the initiatives we have taken in Patna. The most significant step was to improve the product considerably. We were researching even before the entry of Dainik Bhaskar was announced and based on that research we added some supplements and changed the construct of our paper. This is an ongoing process and we have done it in various markets including Patna. In addition, we also changed our distribution process which increased our copies significantly in the Patna market, and we believe that these copies can be monetized. The drop in cover price was taken in the light of a new entry in Patna and it was in line with what the existing competitors were doing in that market. These initiatives together have paid us dividend. So far, our lead over the No.2 player has increased significantly in Patna and we are receiving excellent feedback for our product. Also, our higher advertising revenues are compensating for any impact that the cover price may have had.

**Kalpesh Makwana:** Could you quantify the number of copies that have gone up in Patna in the recent quarters?

**Vivek Khanna:** About 45% increase in circulation.

**Kalpesh Makwana:** Are we close to making any official announcement regarding an acquisition or inorganic growth opportunity?

**Vinay Mittal:** This is a little too strategic to answer on a call. Whenever there is a development we will disclose it to SEBI and the investor community.

**Kalpesh Makwana:** But we are looking at Hindi products?

**Vivek Khanna:** Yes.

**Moderator:** The next question is from the line of Srinivas Seshadri from CIMB Securities. Please go ahead.

**Srinivas Seshadri:** What is the total circulation and newsprint consumption in Q3 FY14?

**Vivek Khanna:** We added 1 lakh copies in Q3 FY14 compared to last year. Our newsprint consumption has increased by 9% in Q3 FY14 compared to last year due to higher circulation and pagination because of increase in advertising volume.

**Srinivas Seshadri:** Your Y-o-Y and Q-o-Q increase in raw material appears higher compared to your peer group? Could this be due to a difference in the way you source newsprint or a difference in the supplier mix or the import-domestic mix?

**Ajay Jain:** If you recall, our paper prices were lower than our competitors in the previous quarters. Looking at the overall trend, our paper prices are not significantly different from the previous quarters. The reason for higher raw material cost Q-o-Q is because there is an increase in circulation and pagination. So while the impact of inflation would be similar or lower for us compared to our competitors, the impact of circulation and pagination would be higher on our raw material cost compared to our competitors.

**Srinivas Seshadri:** Was DAVP or local government spending a major driver for your revenue growth during Q3 FY14?

**Vivek Khanna:** It was one of the drivers. But like I mentioned, all our categories have grown other than education and durables.

**Srinivas Sheshadri:** So you would not attribute any major change in the growth to this particular factor?

**Vivek Khanna:** Nothing disproportionate. It has certainly contributed to the growth in advertising revenues and it is a large category for us.

**Srinivas Seshadri:** Based on your interaction with advertisers or media planners, what is their stance on the latest IRS numbers? Are they in favor of the latest IRS results or the Q4 2012 results?

**Vivek Khanna:** We have met advertisers over the last one week and there are a couple of things that they are saying. One, there was a similar hue and cry when television moved from a 'diary method' to a 'people meter' method. Secondly, while earlier they partially believed our UP story, the latest IRS results have validated our investment story in UP. Overall, we are receiving positive feedback from the advertising community on our performance.

**Srinivas Seshadri:** Based on the quantum of your readership increase, would it be fair for us to extrapolate that you will have a much higher advertising growth in the next year, assuming that the market conditions are stable?

**Vivek Khanna:** While we are positive on the outlook for the next year, it is a bit premature to talk about it right now. One has to keep in mind that there will be other factors like the general elections, the economic scenario, etc. But the latest IRS results, without any doubt, will certainly help us.

**Moderator:** The next question is from Mitul Patel from Laburnum Capital. Please go ahead.

**Mitul Patel:** 40% of your Market Cap is cash. Institutional investors are not given any indication from either the conference calls or the annual report regarding any activity on distribution of cash or dividends or anything that will help us in future.

**Vivek Khanna:** We are evaluating opportunities and we will make announcements regarding this in the next 3 to 6 months. Distribution policy will be decided by the Board. Suffice to say, there are plans to utilize cash in the business.

**Moderator:** The next question is from Bhaudik Chauhan Span Capital. Please go ahead.

**Bhaudik Chauhan:** What percentage of total advertisement revenue is from UP and Uttarakhand?

**Vivek Khanna:** Slightly more than a third.

**Bhaudik Chauhan:** What is the net realization per copy for HMVL?

**Vivek Khanna:** Realization per copy has increased to Rs. 2.11 in Q3 FY14 from Rs. 1.85 in Q3 FY13.

**Bhaudik Chauhan:** What is the company's strategy to improve yields going forward?

**Vivek Khanna:** We have been increasing yields over the last couple of months. In fact, the advertising growth in Q3 FY14 was driven equally by both volume and yields. We have seen significant increase in our yields in certain categories. Post the latest IRS results, we will push harder for higher yields.

**Bhaudik Chauhan:** Do you see any growth in Delhi market going forward?

**Vivek Khanna:** Yes, Delhi market has been growing for us. However, in Q3 FY14 the real-estate segment, which is an important segment for Delhi market, did not grow at the same pace it was growing earlier. We know that real-estate sector is cyclical and we expect it to improve over a period of time.

**Moderator:** The next question is from Anuj Sehgal from Manas Capital. Please go ahead.

**Anuj Sehgal:** Advertisement growth for you and your peers over the last 3-4 quarters was in the mid-double digits and if you go back 12-14 months, the advertising growth was in low single digit. Whereas, if you talk to companies across the Consumer Durables and FMCG sector; the volume growth has been declining. Can you throw some color on this?

**Vivek Khanna:** The impact of economic slowdown is much higher in markets like Delhi and Mumbai whereas this impact is much lower in the smaller towns and markets we operate in. In fact, some of the smaller markets are growing. There is greater demand for products in some of these markets which lead to increased advertising.

**Moderator:** The next question is from Jay Doshi from IIFL. Please go ahead.

**Jay Doshi:** What is your circulation in UP and how does it compare with the leader?

**Vivek Khanna:** We have a circulation of around 12 lakh copies. It would be difficult for me to comment on the leader's circulation

**Jay Doshi:** How does our readership by circulation ratio look in UP versus other markets? With the new IRS is our readership per copy very high in UP as compared to other markets?

**Vivek Khanna:** Using Reader per Copy (RPC) could be misleading and therefore is not a correct parameter to use. To put this in perspective, you can claim to have a certain circulation but there are markets where copies are being printed but not reaching households.

Also, you may have 2 or 3 papers reaching a household, but not every paper gets read. So the product that actually stands out from competition tends to get picked up first and gets counted in readership. Therefore, it may not be appropriate to compare the readership per copy of one market with another or of one publication with another.

I can probably, in a separate conversation, take you through how this new IRS is entirely different from the old one.

**Jay Doshi:** What is the discount in HMVL's yields compared to the leader in UP?

**Vivek Khanna:** The leader in any market tends to get significantly higher yields than the No.3 player. Compared to the erstwhile No.2 player, our yields were about half. I deliberately talked about the No.2 player in UP rather than No.1 player because Dainik Jagran is spread across multiple states and they typically were picking up a lot of advertising for all their editions. So, while I can certainly attribute a

certain yield to UP, I can be far more specific when it comes to erstwhile No.2 player and tell you that our yields are probably close to 60-65% of their yields.

**Jay Doshi:** Do we plan to increase circulation in UP more aggressively now, with this encouraging response that you have received from the new IRS?

**Vivek Khanna:** No. As I mentioned earlier, we have actually put in a lot of copies in UP over the last 3 to 4 years which is getting reflected in the survey now. While we have covered the width and depth in many markets, there are some markets where the depth still has to be covered and we are adding more copies there.

**Moderator:** The next question is from Vishal Shah from Allard Partners. Please go ahead.

**Vishal Shah:** Can you provide the breakup of local versus national advertisement revenue?

**Vivek Khanna:** The breakup of national to local sales is 50:50.

**Vishal Shah:** How much would real-estate contribute to the overall advertisement?

**Vivek Khanna:** Real estate in the overall scheme of things is not so big.

**Vishal Shah:** How has the advertisement yield moved over years between English and Hindi print media and is the gap in yield narrowing?

**Vivek Khanna:** The yield gap has been narrowing. The cost per thousand readership has reduced to 3-4x from 7x per earlier.

**Vishal Shah:** Do you believe that the internet would pose threat to the Hindi Print media in the near future?

**Vivek Khanna:** I would not want to call it a threat. I would rather call it an opportunity and I would like to qualify it by saying that there are a lot of technological changes that are happening, some of which we probably do not even know about. So it would depend on when some of these changes happen. There could be multiple things like changes in 4G, impact of broadband, etc. and literacy levels. So, to my mind, digital and print would be in co-existence. To sum up, we see it as an opportunity and we are working on opportunities in both these areas.

**Vishal Shah:** Are you looking at certain opportunities in the digital space?

**Vivek Khanna:** We are certainly looking at opportunities in the digital space, organic or inorganic.

**Moderator:** The next question is from Srinivas Seshadri from CIMB Securities. Please go ahead.



**Srinivas Seshadri:** The incremental cash accretion in Q3 FY14 is about Rs. 11-12 crore, while the company has made a profit of around Rs. 29 crore. Could you throw some light on this disconnect? Was it related to some investments made in cash during the quarter, either in CAPEX or working capital?

**Ajay Jain:** The working capital has actually increased by about Rs. 3-4 crore. Besides, there has been some maintenance CAPEX.

**Moderator:** We will take the final question from the line of Rohan Samant from Multi-Act. Please go ahead.

**Rohan Samant:** How do you think the ad rates would shape up with competition entering the Patna market?

**Vivek Khanna:** We have experienced a similar scenario in Jharkhand as well. When Dainik Bhaskar entered in Jharkhand, we still continued to grow and as a market leader we were least impacted. Talking about Bihar, in the near term there could be an impact in terms of yield increase in a few small categories, but there will be no yield decrease. So while other players may get impacted to a certain extent in Patna, we do not expect any impact due to a new player in the market.

**Moderator:** I would now like to hand the conference over to the management for any closing comments.

**Vinay Mittal:** Overall, Q3 FY14 was a good quarter despite higher raw material costs. With the dollar stabilizing, we expect the newsprint cost to also stabilize. The IRS has been salutary for us and the structural costs are now stabilizing. We feel that the operating leverage will come through more strongly going forward in our existing geographies. Thank you.

**Moderator:** Thank you. Ladies and gentlemen that concludes this conference.

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