



Hindustan Media Ventures Limited's

Q3 FY2016 Earnings Conference Call

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Moderator: Good day, ladies and gentlemen and welcome to Hindustan Media Ventures Q3 FY16 Results Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Kedia from Centrum Broking. Thank you and over to you, sir.

Ankit Kedia: Thank you, Malika. Good morning everyone. On behalf of Centrum Broking, I welcome you to the Q3 FY16 Results Conference Call for Hindustan Media Ventures Limited. We have with us from the management Mr. Vivek Khanna – the CEO, Mr. Ajay Jain – the CFO and Mr. Vinay Mittal – the Chief Financial Strategist at HT Media. We will start with opening remarks from Vivek followed by Q&A. Over to you Vivek.

Vivek Khanna: Thanks Ankit and a very good morning ladies and gentlemen. I am delighted to report another quarter of robust growth as we had a very good quarter 3. Our overall revenue grew at 13% versus quarter 3 of last year. This was led by growth in advertising revenue of 19%. Circulation revenue also grew though it was slightly impacted by cover price drop in Bihar over the last few months, which should see correction going forward. Our circulation revenue grew by 6.3% and total EBITDA grew by 27%. Operating EBITDA grew at 50%. The growth in advertising revenue was led by the festive season and Bihar elections. Also, our underlying growth of 14%-15% continues. PAT as a result of this performance has gone up by 28%. Our margins have also expanded with EBITDA margins exceeding 28%. PAT margins moved from 16.4% to 18.6%.

Going forward we look to continue this performance and deliver good value to our shareholders. We can have the Q&A session now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Could you help us with the ad revenue growth in UP and Bihar?

- Vivek Khanna:** UP growth was about 25% and Bihar and Jharkhand put together grew at about 16%.
- Yogesh Kirve:** Does UP growth include any one-offs?
- Vivek Khanna:** No, there were no one-offs. Overall volumes were up for the industry as well as for us due to the festive season.
- Yogesh Kirve:** The employee and the SG&A expenses went up again quite significantly. Please share what should we expect going forward, given that major expansion is behind us?
- Vivek Khanna:** Part of the increase in costs is due to the launch of our unit in Haldwani which included setting-up of a full-fledged office and factory and part of increase can be attributed to some statutory costs that we have had to take on account of a recent ruling on bonus.
- Yogesh Kirve:** Are these statutory provisions now in the base in the third quarter?
- Vivek Khanna:** Part of it would be in the base but part of it is also one-time as the ruling is applicable with retrospective effect.
- Yogesh Kirve:** Is it possible to quantify the amount pertaining to earlier period?
- Vivek Khanna:** We are not talking about that right now.
- Yogesh Kirve:** Can you please explain how the circulation revenue got impacted by Bihar?
- Vivek Khanna:** We had dropped prices in Bhagalpur and Muzaffarpur areas in Bihar about six months back and while our absolute circulation in terms of number of copies had gone up, the realization per copy had come down. However, we have already taken our prices up in two rounds in recent months and we are getting back to our old prices. Thus, quarter 3 had some residual effect of the low prices and circulation revenue expansion was only 6.3%.
- Moderator:** Thank you. The next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.
- Bhautik Chauhan:** What were the key drivers of growth in terms of market or individual verticals?
- Vivek Khanna:** The key drivers this time were Bihar elections and higher volumes on account of festivals. Also, festivals in the last year were slightly ahead in terms of the calendar and thus, part of the festival impact came in quarter 2 and part came in quarter 3; while this year majority of the impact came in quarter 3 leading to significant jump in volumes.
- For us, Automobiles, Banking & Finance and Education have been the key growth categories. Political ads, contributed 2-3 percentage points net of DAVP which got impacted by the code of conduct applicable both in UP as-well-as in Bihar on account of local level elections and Assembly Elections respectively.

- Bhautik Chauhan:** How many copies have we sold in Haldwani?
- Vivek Khanna:** We have launched with about 85,000 copies.
- Bhautik Chauhan:** Is the management looking for any acquisitions in the near future with the healthy net cash position of INR 6.64 billion in the books?
- Vinay Mittal:** We keep looking for acquisitions but they are far and few in print media space. We will prefer to grow inorganically as-&-when opportunities arise.
- Moderator:** Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** Can you please share the upside in this quarter's advertising growth because of elections to understand a like-to-like growth estimate?
- Vivek Khanna:** Our underlying growth would be 14%-15% excluding the impact of elections net of loss of DAVP due to the code of conduct.
- Vikash Mantri:** What is the update on our plans for Rajasthan? We set up an office in Jaipur and we had recruited a few people as well. Can you help us what was the idea there and what do we intend to do?
- Vivek Khanna:** No plans in the immediate future.
- Vikash Mantri:** You have no immediate acquisition plans and there are not many players available for inorganic acquisition even if we scan the entire Hindi market space to deploy so much cash. Also, even if we come up with any such plans then we have a comfortably low debt balance sheet and the parent's ability is also strong in terms of raising cash. Would it not make sense to distribute this cash?
- Vinay Mittal:** Vikash, I am sure the Board of Directors are seized of this fact and probably will decide at the end of the year. However, at this point of time, we are holding onto the cash and we keep looking out for any opportunity wherein this cash can be deployed.
- Vikash Mantri:** Okay. I would personally recommend that the stock is trading at a significant discount to peers, despite the fact that it has been growing faster and generating such good cash, largely owed to the company's inability to put its cash to use or to return to its shareholders. I would request you to share this feedback with the board so that the directors can re-think their decision.
- Vinay Mittal:** Sure.
- Moderator:** Thank you. The next question is from the line of Sanjay Khetan, who is an Individual Investor. Please go ahead.

- Sanjay Khetan:** How much of our year-on-year margin improvement is attributed to soft newsprint prices? And what is the outlook on newsprint prices? Do we keep two or three months of inventory?
- Vivek Khanna:** About 3-4% on YTD basis.
- Ajay Jain:** The inventory is held for a reasonable time and it varies from 1-3 months depending on logistics and sources. In our view, newsprint prices should remain stable worldwide. However, strengthening of dollar can impact the prices in the coming months.
- Sanjay Khetan:** What will be the financial impact of transfer of your digital business to a new entity?
- Ajay Jain:** The stock exchanges have still not notified us of their approval although we believe that SEBI has already approved it. Once we get the approval, the application will be filed in the High Court. So definitely, the scheme shall be approved sometime next year. There shall be no financial impact of this arrangement on our consolidated P&L and balance sheet.
- Sanjay Khetan:** Will we be doing associate accounting or pro-rata consolidation for this new entity? My understanding is that your ownership will be around 43%-44%, please correct me if I am wrong?
- Ajay Jain:** Yes, that is correct. The consolidation will happen in terms of revenue as well as costs.
- Sanjay Khetan:** One last question, what will be the price of brand transfer from HT Media to Hindustan? Has the transaction been completed or is it still pending?
- Vivek Khanna:** The price is 60 crores for the purchase of HH brand from HT Media.
- Vinay Mittal:** The transaction will get completed in this quarter.
- Sanjay Khetan:** What is the current royalty you are paying to your parent company?
- Vinay Mittal:** Well this is something we would not like to discuss in the call.
- Ajay Jain:** The valuation has been certified by a Big four.
- Moderator:** Thank you. The next question is from the line of Deepan Shankar from Trust Line PMS. Please go ahead.
- Deepan Shankar:** Basis historical trends, can you share whether the advertisers tend to slow-down their spending or do they continue to spend like the current year even during rural distress? What is your outlook for the overall industry and for HMVL on ad front?
- Vivek Khanna:** When there is stress in the economy, obviously advertisers do cut down on the spending. Two years back however, when there was significant stress in urban economy and people were talking about downturn and the dollar started appreciating very significantly with the rupee

depreciating by 20% in almost no time; there was no significant impact seen in rural India. Thus, there are two different things. Firstly, advertising gets impacted by the performance of companies which are advertising and if they are not able to sell their products, then there is a cut down in terms of spending. Secondly, if there is not enough response to the advertising that the companies are doing in particular geographies or in a particular newspaper or in any media vehicle, then people move from that media vehicle to another media vehicle.

As far as we are concerned, we believe that we have continuously expanded and that we deliver a superior product and our readership continues to rise, thereby, we deliver good results to our advertisers. As a result, we are able to give better value for money to our advertisers. As yields always lag readership, we believe our yields should be higher and it is our constant endeavor to push them up. Therefore, we see no significant impact on advertising unless there is huge collapse on the macroeconomic front.

Deepan Shankar: Okay. So you mean to say that 14%-15% growth levels are possible over the next two years for HMVL?

Vivek Khanna: See I never give an outlook for two years but for the immediate future double-digit growth is certainly possible.

Deepan Shankar: Okay. Sir, can you quantify what is the gap between us and the market leader in UP and how ahead are we of Amar Ujala in the UP market in terms of yields? Will our yields be more than 65% of Jagran?

Vivek Khanna: In terms of yields, on the commercial side we are higher than Amar Ujala on an average basis. But we continue to trail behind Dainik Jagran and I think that will continue for some more time. The leader always gets a premium on yields and therefore, their yields are higher than us.

We will be 65-70% of Jagran. We are now pushing for a yield increase. The other issue is that they offered some schemes and thus, lower yields and therefore, we may be higher than 65-70% during that scheme period. Government advertising, however, is different,

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from IDBI. Please go ahead.

Rahul Maheshwari: How many copies have been sold during the quarter and what is the net realization per copy?

Vivek Khanna: We sold close to 30 lakh copies and our average net realization is Rs.2.15 - Rs.2.18 varying across geographies.

Rahul Maheshwari: Will our net realization be in line with the industry trend or is it lower?

Vivek Khanna: Well I think we are on the higher side.

- Rahul Maheshwari:** Can you give how much of increase in circulation revenue has been contributed by higher circulation and how much on account of higher net realization?
- Vivek Khanna:** Both are roughly 50:50 in this quarter.
- Moderator:** Thank you. The next question is from the line of Vivek Pai from Aroha Capital. Please go ahead.
- Vivek Pai:** I would like to know whether the recent issues in Amtek Auto had any impact on our debt mutual fund holdings. What is the reason for other revenues dropping?
- Vinay Mittal:** No, we have not had any impact on account of that. Other revenues include substantial portion of interest income and the yield increase in this quarter impacted the overall revenue. However, this is a phasing issue.
- Moderator:** Thank you. The next question is from the line of Ritwik Rai from Kotak Securities. Please go ahead.
- Ritwik Rai:** Sir, if you could help me with the advertising revenue growth break-up in terms of yield growth and volume?
- Vivek Khanna:** This time there was a significant increase in volumes on account of the elections as well as the festival spending and typically when you have festival spending which involves a lot of full page display advertising, the yields tend to get impacted. So, this quarter about 85-90% of increase is due to volume growth.
- Ritwik Rai:** Okay. I am just trying to understand because most of the growth has come from volume and your news print prices have fallen by 3% so, I mean raw material prices increasing by 3% means that you have consumed about 6% more news print only.
- Vivek Khanna:** Though the newsprint prices have dropped, the consumption has gone up on account of increased PO and higher pagination.
- Ritwik Rai:** Were the employee expenses in the last quarter also impacted by the statutory regulation that you were talking about?
- Vivek Khanna:** No, last quarter was not impacted by this new statutory regulation. Last quarter included hiring for Haldwani which is also included in the current quarter and will continue over the next two quarters though being smaller. This quarter we have been impacted by a statutory regulation which everyone in the industry has to comply with.
- Ritwik Rai:** Should we be looking at about 28-29 crores per quarter plus inflation based wage increases going forward?

- Vivek Khanna:** Yes. And we believe that we are still pretty competitive in terms of the efficiency that we derive from our manpower as far as the industry is concerned. We believe we have amongst the highest manpower productivity in the industry.
- Ritwik Rai:** Also on the other expenses, should we take this as a rough number because there would be some promotional activity going on somewhere?
- Vivek Khanna:** Yes, other expenses include promotional activities due to Haldwani launch and we continue to do events.
- Moderator:** Thank you. The next question is from the line of Rishindra Goswami from Locus. Please go ahead.
- Rishindra Goswami:** Yes, I just wanted to get your CAPEX estimate for this year and next year.
- Ajay Jain:** We have spent about 18-19 crores so far in this year, bulk of which went into the Haldwani launch. The full year is expected to close at about 20 crores given that there are no projects in the pipeline.
- Rishindra Goswami:** Right, so similar number next year as well?
- Vivek Khanna:** Yes.
- Rishindra Goswami:** Got you. Would you be able to share the advertising revenue mix between UP, Bihar and Jharkhand?
- Ajay Jain:** UP, Uttarakhand combined and Bihar, Jharkhand combined now roughly contribute to 40 percent of revenues each while the balance would be from Delhi.
- Rishindra Goswami:** Would that mix be similar for the nine months as well?
- Vivek Khanna:** Since UP is growing faster, so UP/Uttarakhand would be slightly lower on a nine months basis. I think it is pretty fair to assume that going forward it will be similar.
- Rishindra Goswami:** Got you. And in terms of the white spaces, are there still some gaps left in the UP market where you could launch?
- Vivek Khanna:** Well in terms of width we are present everywhere and in terms of depth there are some white spaces where we may want to go deeper. So what I mean is that though we have as many units, and offices as everyone else in UP, some of our competitors have far greater number of copies in rural markets. We believe that copies in these markets are not as productive as the copies in cities and urban markets from a revenue point of view and therefore, our endeavor and our strategy does not focus on going very deep into rural markets.

Having said that, there are certain pockets where there is good local to local revenue and we may still be lagging because of the depth issue and this needs to be covered. But it is not something which is very significant.

Rishindra Goswami: So the revenue growth in UP market from here on is largely going to be led by yield improvements?

Vivek Khanna: Yes.

Rishindra Goswami: Got you. Lastly, what is the sustainable EBITDA margin for the company going ahead?

Vivek Khanna: We intend to expand our margins by 2-3 percentage points every year going forward. I think so far our nine month performance bears testimony to this and the idea would be to ensure that we can continue doing that in the next couple of years as well.

Moderator: Thank you. The next question is from the line of Shalabh Agarwal from Snowball Capital. Please go ahead.

Shalabh Agarwal: Sir, firstly, I missed your number on the maintenance CAPEX that you just gave on one of the previous questions. Can you just repeat that?

Ajay Jain: 3 crores to 4 crores a quarter.

Shalabh Agarwal: Okay. And the 18-19 crores that we have spent so far has primarily gone into the Haldwani expansion?

Ajay Jain: Yes, we will end up spending about 20-22 crores this year out of which about 11-12 crores would be on Haldwani and the balance would be on regular maintenance, capacity expansion, et cetera.

Shalabh Agarwal: Sure, that is very helpful. Secondly, there was a comment on how Bihar, Jharkhand combined are now broadly similar to UP and Uttarakhand combined in terms of revenues. In terms of profitability how different will these two regions?

Vivek Khanna: So profitability is still different. Our margins in UP, Uttarakhand this quarter are very-very strong but obviously they still lag behind Bihar and there is a long way to go for UP to catch-up with Bihar and Jharkhand.

Shalabh Agarwal: Bihar and Jharkhand as a region would be easily upwards of 25%-30%?

Vivek Khanna: Upwards of 30% certainly.

Shalabh Agarwal: Okay. And UP and Uttarakhand would be less than around 15%.

Vivek Khanna: Now it is moving beyond 15%.

- Shalabh Agarwal:** Okay, that is very helpful. Thirdly, with respect to the transfer of assets which we are doing, will we see savings of about 40 crores on the standalone numbers or will we have to pump in similar kind of investments for the operations of that company every year?
- Vinay Mittal:** There will be a charge back for the cost that is going and thus, it will be cost neutral in the standalone balance sheet or the P&L.
- Moderator:** Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** Can you share the reason for low tax rate for the quarter and the nine months? Also, what is the guidance going forward?
- Ajay Jain:** The effective tax rate for the quarter is 25.6% owed to treasury income being tax free by virtue of 3 year holding period shield. So therefore the effective tax rate comes lower and you will see it consistently over different quarters.
- Vikash Mantri:** Okay, fair enough. So should we end this year at 27%-28% itself based on your other income outlook which will be tax free?
- Vinay Mittal:** Yes, it will be around 26-27%/.
- Moderator:** Thank you. Next question is from the line of Sadanand Shetty from Taurus Mutual Fund. Please go ahead.
- Sadanand Shetty:** In the recent quarter many FMCG companies have expanded their operating margins due to input cost crude derivatives and they mentioned that they are reinvesting on the brand development. Are you witnessing the trend in your existing clients?
- Vivek Khanna:** There has been significant increase in advertising volume in the industry in Q3 on account of the festival season. We have also seen increase in volumes on account of Bihar elections. The volume of advertising on account of government spending went down because of the code of conduct in both Bihar as well as in UP.
- On commercial advertising, the volumes went up significantly during the festive season. Post the festive season, there was a lull but volumes seem to be coming back. The volume of advertising is certainly up. However, it is difficult to hazard a guess as to how much of that is on account of FMCG companies wanting to pump in extra margins into brand building.
- Sadanand Shetty:** If you do an analysis of the same client spend on a quarter-on-quarter basis would you not be able to get that sense of it?
- Vivek Khanna:** We do know how every sector and every client's volumes are increasing and FMCG in quarter 3 did see an increase of about 15%. However, it is not dramatically different from any other

sector. So it is difficult to say whether it is on account of them putting the extra money back into brand building or it is just festival spending.

Sadanand Shetty: Some of these companies are pretty categorical where they want to spend that bonanza that they got through crude benefits. So, clearly companies advertising across media platforms which are relevant to FMCGs might see incremental allocation of ad-ex.

Vivek Khanna: Yes, sure. So certainly the volumes are increasing.

Moderator: Thank you. Next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: What was the contribution of election plus government advertising during this particular quarter and the corresponding figure for the same quarter last year as well.

Vivek Khanna: Yes, so election plus government would be about 22%. And like I said there is 3-4% impact of Bihar elections on our results. Our underlying growth of 15% continues. So the way I derive this is by saying that election revenue net of DAVP losses gives us a benefit about of about 3-4 percentage points in this quarter. And though in Bihar, the election revenue made-up for the DAVP loss but we had DAVP losses in UP also where the code of conduct was there and where there was almost no election revenue from local level elections. Also, in our base we had Jharkhand elections revenue. Last year there were Jharkhand elections at the same time.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.

Vivek Khanna: Yes, thank you, everyone. We have seen constant margin expansion and robust revenue growth ahead of the industry for the last few quarters as far as HMVL is concerned. We believe that this performance is a result of our strategy being followed successfully for the last couple of years and it should help us sustain our growth over the next few quarters as well. Thank you so much for joining.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Centrum Broking, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.