Hindustan Media Ventures Limited's

Q3 FY2017 Earnings Conference Call

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Moderator: Ladies and Gentlemen, good day and welcome to the Hindustan Media Ventures Limited Q3 FY17 post results Conference Call hosted by Batlivala & Karani Securities India Pvt. 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. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yogesh Kirve from Batlivala & Karani Securities. Thank you and over to you, Sir.

Yogesh Kirve: Thank you. Good evening everyone and welcome to the call. To discuss the results and the outlook, we have the senior management of the company represented by Mr. Vivek Khanna – CEO; Mr. Ratul Bhaduri – CFO and Mr. Sandeep Jain – Chief Strategy Officer, HT Media. I will now hand over the call to Mr. Khanna for opening remarks, which would be followed by a question and answer session. Over to you, Sir.

Vivek Khanna: Good evening, Ladies and Gentleman. We have seen subdued revenue and EBITDA this quarter despite very healthy gains at the time of festival in October. However, post November 8th, media spends were cut across sectors which impacted revenue growth very sharply. Of course, we also had a very high base of 19% growth in Q3 of last year on account of the Bihar elections. Overall we have looked at a flattish revenue growth.

We were at the beginning of the quarter and up until 8th November looking at delivering double-digit growth despite the high base of Bihar election. But demonetization impacted us quite adversely, and therefore, the advertising revenue is down by 7%, largely on account of the fall in advertising volume post November 8th.

Circulation revenue has grown by 4.3% to 56 crores due to increased realization per copy. Other revenues are up 63% largely due to increase in interest income on investments.

Our reported Q3 EBITDA margin is at 24.8% versus 28.5% last year and operating EBITDA margin is at 17.8%. This is on account of the impact of setting up of the new digital streams entity - HTDSL which got approved by the court and because of the carve-out impact for a period of nine months. Broadly Quarter-3 of this year is not really comparable with last year because there is a one-time hit on account of carve-out. Without the impact of that, we would have seen operating EBITDA margins actually expand in a quarter where we had severe headwinds after November 8th. Raw material costs have come down by 4.1% versus Q3 last year due to lower pagination post decline in advertising volumes. The employee costs have gone down sharply and the other expenses have increased significantly due to the carve-out of HTDSL. On a YTD basis, our EBITDA margins have improved marginally to 28.9% from 28.6% in the same period last year despite this carve-out.

Similarly, PAT is down by 7.5% for the quarter and YTD PAT margins have improved to 19% versus 18.3%. As far as this period was concerned, post-demonetization, we decided to look at it as an opportunity. We have also been working on a cost optimization project with the third-party consultant for the overall group and because of these two factors, we are looking at increasing cost efficiency in the company and we will see the benefit of this going forward, especially in the next financial year.

As far as the next quarter is concerned, we see a significant upside in terms of advertising revenue from what we saw in November and December. Also, the impact of demonetization should slowly ease out. Secondly, we are looking at the UP elections where there should be increase in advertising revenue. Therefore, going forward we are saying that the impact of these two things should help us in Quarter-4 and leading into the next financial year. That is what I wanted to say at this point in time. I am happy to answer any questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Rahul Bhagadia from Lucky Investments. Please go ahead.

Rahul Bhagadia: While the advertising revenue did go down, what was the run rate in October and what happened in November and December?

Vivek Khanna: In October, we generated the highest ever revenue that HMVL had seen and even until November 8th, we were clocking very handsome growth which is why we were absolutely confident of delivering double digits in the current quarter. So the traction till November 8th was very good.

Rahul Bhagadia: Is it fair to say that after the November 8th till end of the quarter, you would have been down by somewhat 15% to 20% on the advertising side?

Vivek Khanna: Yes, November was an extremely bad month. While December was more flattish in terms of growth.

Moderator: Thank you. We take the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: From an advertising perspective, is the impact of demonetization largely over or are we still seeing advertisers' not committing to the ad spends? Can you give us some flavor on that?

Vivek Khanna: The impact of demonetization is not over yet. We expect the normalcy to return only by the end of this quarter. There are a couple of factors behind that. One, a lot of advertising budgets for the financial year, which is the operating year for many of our advertisers, were slashed and new budgets would come in starting April 1. A lot of sectors like FMCG, local retail, which, at the last point in the distribution chain used to operate on cash, saw a very significant impact and they still have to come back as far as advertising is concerned. There were certain sectors that came back immediately. For instance BFSI and Auto grew in Quarter-3. Auto growth was largely due to high spends in December. Regarding DAVP, of course, the government spends were high in Quarter-3 because of demonetization communication that they were doing. So, these were the sectors that grew but all the other sectors had declined and we are seeing that some of the sectors have slowly started coming back but the normalcy will only return by the end of the quarter. However, some of the impact of the demonetization in Quarter-4 would be offset by political revenue.

Moderator: Thank you. We take the next question from the line of Rajeev Berlia from Edelweiss. Please go ahead.

Rajeev Berlia: What is the net cash on your books?

Ratul Bhaduri: That would be in the range of 750 to 760 crores.

Rajeev Berlia: There was a DAVP rate hike, rate revision expected in the month of January-February. Is it ongoing and you will get some benefit out of that as well?

Vivek Khanna: Yes, marginal benefit.

Rajeev Berlia: On the employee cost, why has it reduced significantly in this quarter?

Vivek Khanna: There is the carve-out of HTDSL which has happened. In that, the employee cost has moved to HTDSL for a nine-month period from April 1 to December 31st. Similarly, you see Other Expenses going up significantly because the payments that we make to HTDSL for the content has been factored in for nine-months. That is the reason I said that this quarter results are not really comparable because there has been this adjustment for nine-months which has been done in these two-line items.

Rajeev Berlia: From next quarter onwards, what will be the run rate, will it be on the similar lines?

Vivek Khanna: Next quarter onwards, there will be a small impact on HMVL as this is for nine months, so there will be quarterly impact. But in the long-term, the impact will start becoming positive because we will start benefitting from the digital company's revenue, the monetization that we will get from our digital property. We have been saying that this company is being carved-out to really exploit the growing opportunities in digital that together HT and HMVL, when we carve-out this company from both the companies, will be able to exploit the synergies by using the best of resources present in both the companies. So, that is the reason why it was done. It went through a proper court process, the court granted approval in December, and therefore, effective December 31st but actually with effect from April 1, this new company was set up and the charges that have been put in the current quarter are for a nine-month period. But going forward, it will be for one quarter and therefore the impact that you will see on HMVL will be less. Going forward, it will end up becoming a positive as the quarters go well and as we start getting benefits from the synergies due to this set up.

Moderator: Thank you. We take the next question from the line of Rajeev Agarwal from Doordarshi Value Advisors. Please go ahead.

Rajeev Agarwal: First question is on the HTDSL where we have a stake of 42.83%. I read in the note that we have paid around 75 crores for that, so just wanted to understand how that valuation was done?

Ratul Bhaduri: The valuation was basically done through an independent valuer and if you see the scheme-related documents which are present on our site, this has been approved by the creditors and the shareholders of the company and has gone through the due diligence process and has got approved by the court, and has been given effect to. So, this is an independent valuation, which has been done at arm's length.

Rajeev Agarwal: Where I was coming from was that we contributed some amount of our digital property to the company and beyond that there was also cash that was paid to the company. Is that the right understanding?

Ratul Bhaduri: There is no cash in this deal at all.

Rajeev Agarwal: It was just a straight valuation of our property around 75 crores, is that the way to think of it?

Ratul Bhaduri: That is right. So, if you look at the balance sheet movement which has been explained by the notes to account also, there was negative (-3) crores, which has gotten transferred and we have received 74.5 crores from HTDSL which basically means that 77 crores out of capital reserve is now sitting in the balance sheet. And going forward, this digital company is going to be generating synergies and will develop multimedia content and will be channel agnostic, and therefore, going forward we will be able to participate in the value creation journey of this company to the extent of 43%.

Rajeev Agarwal: The digital has been something that we have been building out and that is obviously a loss-making entity at this stage. Do we have any sort of roadmap when it turns positive for us?

Vivek Khanna: Difficult to say at this point in time. The company has just been setup and the entire process is going to begin very soon. But we should have clarity maybe in the next couple of months.

Rajeev Agarwal: In terms of just the growth rate, we talked quite a bit about Q3 and the demonetization and its impact. Is it fair to say that in Q4, we will be more or less flattish and then next year we will start seeing some decent growth? Is that the way to interpret your comments?

Vivek Khanna: Well, I would not like to put any number in terms of Q4 and next year going forward, but certainly I would say that in Quarter-3, the worst impact of demonetization has obviously been in November. December was better and going forward, hopefully, things should improve.

Rajeev Agarwal: You talked about how the raw material cost is down because of number of pages went down which was because advertising went down. Are you seeing any up-pick in the advertisement, and therefore, our content cost going up?

Vivek Khanna: While we are certainly seeing an improvement in advertising in some sectors, one of the factors of course is that till the 14th, there was this period of Kharmas and therefore, lot of advertising starts post that. However, we are also looking at cost control measures across the company, across various cost heads. As I mentioned, it is a group wide project that we have embarked upon, and therefore, what we will see in Quarter-4 and more importantly next year will probably be a far more efficient organization.

Rajeev Agarwal: Anything that you would talk about from a margin perspective? How much of margin difference we will see because of this?

Vivek Khanna: No, not at this point in time. I think that is something that we will see when we get into the next year.

Rajeev Agarwal: What is your sense on the impact of demonetization on the print industry in general?

Vivek Khanna: The print media industry was impacted across the board. Now, the results of various companies are going to be a function of a variety of things. One is going to be of course the base that they had. Last year, post Bihar elections, we also had some of our competitors which were not getting any government advertising. So there are various factors that go in terms of quarterly results. But clearly in terms of November, everyone was very badly impacted and volume of the industry was sharply down.

Rajeev Agarwal: Is it fair to say we did not actually lose market share and we understand that the overall industry was impacted because of this?

Vivek Khanna: Yes.

Rajeev Agarwal: Lastly, I know we have talked about cash, when do we expect some sort of a decision about what we want to do with the cash?

Ratul Bhaduri: Well, I think, as we have dealt on this in the past also, this is clearly something for the Board to decide.

Rajeev Agarwal: Do we have any timeframe around that?

Ratul Bhaduri: No, not really.

Moderator: Thank you. We take the next question from the line of Shallabh Agarwal from Snowball Capital. Please go ahead.

Shallabh Agarwal: First question is that we have seen a big impact on the volumes in the month of November and probably December also. Did we see a higher competitive intensity also because of that where other companies or other smaller players might have become a little more aggressive in terms of their advertising yields to get more volume from the market?

Vivek Khanna: Yes, we did see that. In certain sectors, some of our competitors did go after volume by dropping prices. So, we certainly saw that in Bihar and to a lesser extent in UP.

Shallabh Agarwal: Did we also have to resort to moderating our yields to compete with them?

Vivek Khanna: We decided not to engage for a marginal 0.5% or 1% short-term gain on account of that as it would have a more damaging impact in the long term. In fact, our yields have actually gone up in this period, but that is also due to the fact that some of the low yield advertising categories completely disappeared, while of course we also had a very high election base and that comes at a higher yield, but despite that our yields have moved up in November and December due to some of the low yield categories not advertising.

Shallabh Agarwal: If the competitors keep the yields low, because once the yields are low, it might not be too easy to increase them again. So, do you think that it will have a sobering impact on our yields maybe going forward or may be the increase that we might have planned for the next year might get deferred?

Vivek Khanna: Well that will be a function of what everyone does in various markets. But in the immediate term when volume returns, we do not expect too much of an impact of that. Also, it was not across the board, there were just a few sectors which were spending a little bit of money like education was spending in Bihar. So, there were one or two sectors where some of our competitors dropped prices and therefore there was a marginal impact on education share in Bihar, but we decided not to do that.

Shallabh Agarwal: Earlier, in one of the states, I guess the government revenues were not doing well. So have those revenues picked up back to the normal rate?

Vivek Khanna: That was in Quarter-1 in Delhi. In Quarter-2 it was back to normal, and in Quarter-3 the government advertising has been very healthy. As I said, on account of the evangelization that had to be done post demonetization, there was a lot of advertising that came from the government in Quarter-3, so Quarter-3, DAVP has been very good.

Shallabh Agarwal: What will be the percentage of government revenues overall in our advertising business broadly?

Vivek Khanna: Normally it is not very large. It is 13%-14%. In Quarter-3 it was slightly higher because the other categories were subdued, so in percentage terms it was higher.

Shallabh Agarwal: On circulation, in Quarter-2 you had mentioned that some price correction was there because some competitors had decreased prices and you had started taking them back. So, are the prices back to their earlier levels or are there still certain low priced editions?

Vivek Khanna: The price drop had happened in Bihar when we had a competitor entering. We have moved back close to those levels but not every single edition is back to that level. But we have taken up our prices in Bihar and also in UP, Uttarakhand and Delhi, which is why our revenue per copy is at its highest level so far.

Shallabh Agarwal: What will be the average realization in the current quarter for the price per copy?

Vivek Khanna: It has gone up by about 5% from Q3 of last year.

Shallabh Agarwal: What was Q3 of last year?

Vivek Khanna: We can have that discussion separately in terms of revenue per copy.

Shallabh Agarwal: Sir, regarding certain specific points in cost, the 11.2 crores of impact at PAT level because of HTDSL carve-out. Can you just explain what is it all about as this transaction was supposed to be neutral in terms of the margin impact.

Ratul Bhaduri: If you want to go through the details of the scheme, those documents are available on our site but I would be happy to share a summary. There are some employee costs, which have moved out and then there is a cost of sourcing content which has been charged back into HMVL by HTDSL. The impact that you see is basically for the nine-months period which has impacted this particular quarter, and therefore, if you just look at this quarter, probably it will not be very meaningful, so it is certainly better to see the nine months' result.

Shallabh Agarwal: What we understand is there was part of employee cost which was taken out for nine months, which is why the employee cost is down. The whole part of that is shown in other expenses because that is what the other company has charged us and what they have charged probably is more than the employee cost because there would be some other expenses also. The charge back is around 63 crores which is what we have shown extra, right?

Ratul Bhaduri: Yes, that is right.

Shallabh Agarwal: But overall, whatever the cost which has been taken out and whatever the delta cost which has hit back to us should have been broadly similar. But it is not similar and that is why we have 11.25 crores of impact. What is that 11.25 crores which has a led to a higher cost?

Ratul Bhaduri: If you just apply the effective tax rate which is appearing on the financial results and also if you were to calculate, it will be something in the region of about 17 crores at the PBT level or at the EBITDA level. That charge back which is coming from HTDSL is in line with the scheme at the rate of 8% of the Ad and the circulation revenue, which has been approved by the shareholders and finally blessed by the court.

Shallabh Agarwal: Do you think HTDSL will require more investments going forward given the stage where we are in terms of monetizing our digital revenues?

Ratul Bhaduri: No, I think as explained earlier also, the carve-out is out of both HT Media as well as HMVL into this HTDSL setup and that is basically to give it sharper focus and to make it a more nimble organization, to be able to do capital resourcing going forward on its own and thereby create value for the stakeholders in general. Therefore, we will be able to participate in the value appreciation to the extent of 43% as we speak, apart the capital reserve which is sitting in the balance sheet. You need to see it in totality.

Shallabh Agarwal: Do you think we will require more investments in HTDSL going forward?

Ratul Bhaduri: No, not as of now. If we have any further visibility on that, we will get back to you in due course.

Shallabh Agarwal: In the annual report, it seems our imported newsprint has gone up significantly over the last two years. Any specific reason for that? Was that more cost effective or it is of much better quality? Any comments on it.

Sandeep Jain: You are right. At some point in time, the imported newsprint was costing us lesser than the domestic newsprint and obviously was of a better quality. So, for a limited period we were swapping and using imported instead of domestic, which obviously meant that the mix for those quarters went up in favor of imported.

Shallabh Agarwal: Is that the reason why, because for sourcing newsprint we pay charge to one of our associate companies where it is shown under related party transactions, so that has also gone up significantly from what we paid in 2015 to 2016. So, is that also related to that?

Sandeep Jain: Basically, the related party transaction is about the value that the related party adds to the entire process of sourcing of newsprint and primarily it applies to the imported newsprint and obviously if the imports were to go up then what we pay to them as service charge also goes up to that extent. But obviously when we decide whether to source domestic or imported, it is on a total cost principle.

Shallabh Agarwal: Do we think this number will broadly remain the same going forward or will there be an uptake going forward again?

Sandeep Jain: You are meaning in terms of cost of newsprint?

Shallabh Agarwal: No, in terms of what we pay to that associate company?

Sandeep Jain: I think, in all probability, we would probably go back in terms of mix and may be start sourcing more from domestic. So, if the import comes down, then the charge also comes down.

Moderator: Thank you. We take the next question from the line of Vivekanand S from Ambit Capital. Please go ahead.

Vivekanand S: Just building on what Shallabh had asked on the HTDSL impacting the P&L on a quarterly basis. the other expense plus employee cost has increased from 90.7 crores to 103.4 crores. So are we saying that of this increase, the 11.25 crore is a one-off. Is that a correct inference?

Ratul Bhaduri: I would not say that it is the one-off because these adjustments will keep happening going forward based on the contours of that scheme. It is only that it has been bundled in this particular quarter for the last three quarters basis the court decision and the effective date of the scheme which was December 31st. This is why you see the particular number. However, hazarding a guess on what number will be hitting the P&L going forward or neutralizing, I do not think we will do some crystal ball gazing on that.

Vivekanand S: Secondly, on the advertising environment, in the three big markets, UP, Bihar and Delhi, is there anything that you want to call out? Is there any distinction in the growth rates in the key markets or all markets got impacted similarly due to demonetization?

Vivek Khanna: Well, all markets did get impacted, but we still saw a positive impact overall in UP because UP has been, for the last many years and many quarters now, growing ahead of the other markets. So while the entire table came down, UP was still keeping its head above water.

Vivekanand S: Lastly on the HTDSL and your digital plans, can you help us understand how you will propose to monetize the content on platforms like Facebook and because a lot of news content consumption is now starting to happen on third party apps and platforms. Any color if you could provide on how you propose to monetize and how should we see this business?

Vivek Khanna: There is an entire strategy that the HTDSL team has put together which they will be going in for implementation. It is a separate team which would be executing that. They are the experts in digital monetization as well as product development. The reason why we put together this team is because we believe this is something that will help drive revenues for HT Media and HMVL going forward and that is the reason both of us own a stake in it, so they would surely be doing everything that you expect a good digital company to do whether it is social, whether it is any other aspect that you mentioned, syndication, etc.,.

Moderator: Thank you. We take the next question from the line of Ritwik Rai from Kotak Securities. Please go ahead.

Ritwik Rai: On HTDSL, you mentioned it will be producing multimedia content. As of now the content would remain the same? Or is it that the company will be creating any video content or will the content be the same as what you and HT have right now?

Vivek Khanna: The content would certainly get enhanced going forward. Whether it happens from tomorrow or it happens a month down the line, we first have to wait and see but it could be everything across the board that you would expect a good digital company to do.

Ritwik Rai: Then I suppose that would require some additional investments, right?

Vivek Khanna: I do not think so because there is a digital setup that the two companies have invested in the past. We are now combining the muscle of the two to make it a more formidable organization. So, regarding the question that - did the two companies have video capability? Yes we did.

Ritwik Rai: Okay, I was not aware of that. In the current nine month, there has been an additional hit of about 11 crores to the P&L, so this would be broadly the annual run rate if I were to analyze it, would that work out to be an okay number for estimation purposes?

Sandeep Jain: Yes, I think that is an okay number to estimate but you have to keep this in context of the fact that there is also 77 crore capital reserve which has accrued in the books of HMVL. Obviously over the next quarter and next year, this impact will get minimized because more efficiency will be built around the news gathering processes etc, and hence this impact would only come down.

Ritwik Rai: About the cost optimization effort that you are talking about, have the cost relating to such consultancy been expensed in this quarter or are they yet to come?

Vivek Khanna: This is an ongoing project being done across the group and this project almost extends till the middle of the current calendar year and I do not want to get into the financial contours of the agreement. All that we can say is that we will probably be seeing the benefit of this on an overall basis going forward.

Ritwik Rai: The expenses would be proportional over a period of time until they are working with you?

Sandeep Jain: The way you have to look at it is that the overall savings that will be generated as part of this project will be large enough to take care of the smaller portion of the consultant expenses.

Vivek Khanna: Therefore, if you were asking me if there will be an additional hit coming forward on account of this, the answer is no.

Ritwik Rai: Are you in a position right now to give some broad idea of what kind of cost initiatives are included as part of this project? Would it be in terms of reducing your circulation or would it be in terms of reducing your staff cost? Any broad idea on what you would be doing will be helpful.

Vivek Khanna: All aspects of the group's operations have been looked at. There are certain things which are already in public domain in terms of the actions that have been taken, but yes, we are looking at manpower. We are looking at wastages in other areas like overheads etc which will make us leaner. As far as our circulation is concerned, in HMVL, we are not looking at cutting our circulation.

Ritwik Rai: On your ad yields, could you give us an idea of how much have they declined or what would be the breakup for the yield growth and volume de-growth?

Vivek Khanna: The decline is largely due to volume contraction. As I mentioned, volume contraction also happened in some of the low yield areas, and therefore, yields did go up but we also had the Bihar election in our base which typically comes at a higher yield. So in Bihar, therefore, the yields also came down. In other states, the yields went up, largely on account of the low yield advertising volume going away at this point in time, but overall the large impact of the decline is due to volumes.

Moderator: Thank you. We take the next question from the line of Vivekanand S from Ambit Capital. Please go ahead.

Vivekanand S: I wanted to understand the CAPEX plans for the next year or so, both on the expansion of our editions and on the digital side?

Ratul Bhaduri: Well, in terms of the CAPEX plans, we are pretty much invested in expanding our printing capacity and making them more state-of-the-art in terms of the color prints etc., but that is more in line with what our core business is, so there is nothing which is out of the ordinary in this. Future numbers, of course, we are not in a position to share with you.

Vivekanand S: What has been the CAPEX in the first nine months?

Ratul Bhaduri: Probably in the range of about 6-7 crores. This quarter we do not have a balance sheet, so we will not be able to give you the numbers right now.

Moderator: Thank you. We take the next question from the line of Dipesh Kashyap from Equirus Securities. Please go ahead.

Dipesh Kashyap: Last year in the annual report, you mentioned making a loss of 27 crores in the digital business. This year as of Q3, your share of profit is nil, so is it fair to assume that the revenue on quarter is similar and this is right now break even?

Sandeep Jain: It was in Q2 of this year and not in last year annual report. The loss has not been consolidated as of now. Probably at the year end it will be consolidated and the impact would be minimal, it will not be substantial. But we do not have visibility of that number as of now and I cannot give you a projection for the entire year that is what I mean.

Dipesh Kashyap: Regarding the cost optimization project that is going on, has it impacted the employee cost in this quarter as well?

Vivek Khanna: Not really, to a very marginal extent only and more due to some efficiency but most of the impact will come going forward in the next year.

Dipesh Kashyap: What will be the fair estimate for the employee expenses going forward? Will it be in the similar range of 25-30 crores or it will be less going forward?

Vivek Khanna: As I mentioned, this is a project which is ongoing and it goes on for another couple of quarters more, so the true impact of this and how much will it be, we will get to know only then, but certainly it would result in a far more leaner organization.

Dipesh Kashyap: Regarding the HTDSL transaction that you have done, the employee cost has fallen from 30 crores to 6 crores in this quarter, so just going forward how much we should think about the employee expenses?

Vivek Khanna: This transfer which has happened is a nine-month impact, I am sure you can calculate the quarterly impact and then see what would be the run rate without any of our cost initiatives and right sizing initiatives. On top of this, we will have some right-sizing benefits going into next year.

Moderator: Thank you. We take the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: My question is on HTDSL carve-out. I want to understand whether there is a long-term impact of the carve-out on the EBITDA margin profile of the company because on a YOY basis, if you compare the margins, it has come down from 25% to 18%.

Ratul Bhaduri: I think it will not be right for you compare the quarter margin number, because the adjustment has actually been for the nine months. So, if you look at the nine months' number, we are looking at 24.2% in the same period last year and 21.2% in this particular year.

Lalaram Singh: This is for nine months, you are saying.

Ratul Bhaduri: That is right, and if you were to. for the time being, adjust it back for this particular HTDSL charge, then we are talking of 24.2% for nine months of 2015 and 23.7% in this particular year, so that is about 0.5% and that is after taking into account the headwind that the business has faced in this particular quarter through demonetization, the Bihar political revenue base which was there that Vivek had explained, etc.

Lalaram Singh: This 23.5% is after adding up those 11 crores, the impact, which you have mentioned?

Ratul Bhaduri: Yes.

Lalaram Singh: That assumes that 11 crores is a one-off, but I believe you said that it is not a one-off, I did not exactly understand the nature of that cost?

Ratul Bhaduri: The magnitude of this, what you see in this particular quarter, is probably one time because this is actually a hit for three quarters. But going forward, you will have these quarterly charges, but to what extent, we will have to see as we go.

Lalaram Singh: But this should not be very material you want to say?

Ratul Bhaduri: Well, I do not think we will comment on that particular part. Our aim would be to focus on the core business which is lying in HMVL and to be able to extend the EBITDA margin in that particular business and also to participate in the value of the accretion, which will be done in HTDSL, so both these put together would be what the HMVL value will be.

Lalaram Singh: Second question is around capital allocation. Now, I think we all know that our company is perhaps the most undervalued in the media sector, with such high return ratios from capital generation and I believe the management also understands that. So don't you think that assuming we will not have an acquisition target, if we increase the payout ratio which will just change the perception we have? Don't you think the management should do something around capital allocation?

Vivek Khanna: Well, I do not think what I personally think has any significance. I mean your guess is as good as mine, it is something which the Board takes a call on and when the Board does that, we will come back to you on this and there is a multitude of options which the Board can look at.

Lalaram Singh: Is there a discussion around increasing dividend payout?

Vivek Khanna: If there was, we would have already communicated that as of now.

Moderator: Thank you. We take the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: In one of the earlier questions, you mentioned the charge back to HTDSL is 8% of Ad and circulation revenues, could you please elaborate more on that?

Ratul Bhaduri: That is coming out of the charge back which is the result of arms' length pricing which is present in the scheme document if you see.

Ankit Kedia: Going forward if Ad revenue and circulation revenues increase the chargeback could be higher?

Ratul Bhaduri: Yes, in absolute terms as it is percentage linked.

Ankit Kedia: If our ad and circulation revenue, not to do anything with HT Media, grow at a higher proportion, charge back to us would be higher?

Ratul Bhaduri: I suppose, because these are two separate listed entities.

Ankit Kedia: In that context, what was the revenue for HTDSL for nine months given that in the last year, they never had any operations and revenues were nil?

Ratul Bhaduri: You are talking about the HTDSL revenue?

Ankit Kedia: For nine months.

Ratul Bhaduri: That we will see when we consolidate the results because this time if you see the standalone and the consolidated numbers are the same because the consolidation happened on December 31st. So as we go forward into the future quarters, we will be able to see that difference.

Ankit Kedia: You also mentioned something on the tax rate. The tax rate in this quarter is only 18%, compared to typically the 27%-28% tax rate which we have, so what is HTDSL got to do with the tax rate?

Ratul Bhaduri: Again, it will not be right to see the tax rate for this particular quarter because as you know, following the accounting standards etc, we do the tax computation for the full year and then what has been actually paid out by way of taxes etc, is carved-out and therefore, the balancing figure is not in the quarterly result. So, if you see the tax rates on a nine-month basis, I think they are pretty much trend-line. If the difference is coming, it is coming primarily out of the 80-IC deduction which we have claimed on our press in Dehradun and the balance would be coming out of mutual fund income, which is at a much lesser rate than the marginal rate.

Ankit Kedia: So the nine month tax rate could be the directional tax rate for the full year at least if not next year?

Ratul Bhaduri: Yes, 22-25%.

Moderator: Thank you. We take the next question from the line of Yogesh Kirve. Please go ahead.

Yogesh Kirve: Sir, I wanted your outlook on the government ad revenues that we can expect in the state of Uttar Pradesh from two to three years' perspective. I understand our market share in government expense is lower than that there is in the non-government part of the business, so could we see a major uptake considering that we have been there in UP for quite some time now?

Vivek Khanna: Our government share is not lower than competition.

Yogesh Kirve: If we look at our market share in the non-government business and compare that with the market share in the government ad spends, specifically in the UP, is it same or there is little more catch up that we could do?

Vivek Khanna: At this moment, there is a code of conduct, so therefore for the current quarter the government advertising would be subdued. As far as we are concerned, we monitor the market share across categories and we have certain benchmarks. I think we are doing well as per those benchmarks in UP as far as government advertising is concerned.

Yogesh Kirve: Fair enough, and from a longer-term perspective are there any expansion opportunities that we could consider in an existing market or as well as new market?

Vivek Khanna: There are certainly a lot of opportunities that I have spoken about in the last few calls and I had also mentioned that whenever there are plans, we will let you know. Obviously at this moment, there is a short-term impact which has happened on account of demonetization. I had also mentioned last time that in the current financial year, we are not looking at any new market. Let the impact of demonetization get over, let us return to some normalcy and then we will let you know if we are looking at a new state or some other expansion.

Moderator: Thank you. That was the last question. I now hand over the floor to Mr. Yogesh Kirve for his closing comments, over to you, Sir.

Yogesh Kirve: Thank you. We would like to thank the management of HMVL for taking time out for the call. We would also like to thank all the participants for joining in.

Vivek Khanna: Thank you so much.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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