



## Hindustan Media Ventures Limited's

### Q1 FY14 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY14 earnings conference call of Hindustan Media Ventures Limited, hosted by UBS Securities. As a reminder, all participants' 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 this conference call, please signal an operator by pressing '\*' followed by '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nupur Agarwal from UBS Securities. Thank you and over to you ma'am.

**Nupur Agarwal:** Good evening everyone and welcome to the Q1 FY14 call for Hindustan Media Ventures Limited. Today, we have with us the senior management of the Company, Mr. Benoy Roychowdhury, Executive Director, HMVL; 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. I am pleased to announce that our performance in Q1 FY14 was very strong and robust. A 13% growth in total revenues has come from both, a 14% increase in advertising revenues and a 12% growth in circulation revenues. We expect advertising revenue growth in the current financial year to continue in the range of 12-14% which will enable us to post sustained growth over the next couple of quarters.

The growth in advertising revenues has been led by both, growth in volumes and increase in yields. We have seen a remarkable improvement in our EBIDTA, which has grown by 46% whilst PAT increased by 57%. This is a combination of growth in top-line along with strict cost controls, especially in the area of newsprint. Our strict control on raw material cost has resulted in reduction in wastage. We undertook a project specifically to look at the unsold copies that we had in the system and were able to bring down this number dramatically. Further, we have been monitoring the pagination levels extremely carefully. We have been talking about the operating leverage coming through in the past conference calls and it has indeed kicked-in in Q1 FY14. With this, we would like to open the floor for the Q&A.

**Moderator:** Thank you very much, Sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Siddharth Goenka from JM Financial. Please go ahead.

**Siddharth Goenka:** Could you give us some sense of what has been the growth in UP and Uttarakhand markets, and when is it expected to achieve breakeven?

**Vivek Khanna:** UP and Uttarakhand continue to do well for us and have delivered a better growth than the overall advertisement growth of 14%.

**Ajay Jain:** UP grew by more than 20% and has been actually driving the growth for the Company. We are almost at break-even level and by third quarter we should achieve breakeven in UP.

**Siddharth Goenka:** How has been the growth in Bihar and Jharkhand markets, because if UP has grown by 20%, Bihar growth would have been much lower given our overall growth of 14%?

**Ajay Jain:** Bihar ad market grew between 8-10% during the quarter. You have to keep in mind that Bihar is a matured market and therefore the growth engine for HMVL has been UP.

**Siddharth Goenka:** Could you throw some light in terms of yield differential between Hindustan, Amar Ujala and Jagran in UP?

**Ajay Jain:** Hindustan is running on a yield of about Rs. 450-500 in UP, whereas Amar Ujala is about double of that.

**Siddharth Goenka:** Given that Amar Ujala readership has been on a continuous decline, how much has been the reduction in yield gap between Hindustan and Amar Ujala?

**Ajay Jain:** There is a significant reduction in the yield of Amar Ujala. Besides, we have been gaining share in the UP market as a result of our increasing readership which translates into increase in revenues. This growth has come from improvements both in volume and yields.

**Siddharth Goenka:** You have guided for around 12-14% in ad growth in FY14. So is that broadly the number we can expect going forward?

**Vivek Khanna:** Yes.

**Siddharth Goenka:** Any cover price hikes on the cards at this point in time?

**Vivek Khanna:** We have taken cover price hikes regularly over the last couple of quarters and that is reflected in the 12% increase in circulation revenues this quarter. In fact, the entire growth in circulation revenues is a result of cover price hike as the number of copies has been pretty flat this quarter.

**Moderator:** Thank you. We have the next question from the line of Himanshu Shah, from HDFC, please go ahead.

**Himanshu Shah:** I believe NavBharat Times is expected to launch their Lucknow edition and their subscription schemes are also pretty aggressive i.e. Rs. 50 for five months or so. We are a close number two in Lucknow; so how do we foresee this upcoming competition and what kind of impact could this have on our operations?

**Vivek Khanna:** In our belief, the impact of NavBharat Times' entry into Lucknow on the HMTL business will be negligible because just one edition in Lucknow will not help them get too much of advertising revenues..

**Himanshu Shah:** Would it be possible for you to divulge some details on the contribution from UP to our overall business mix or advertising mix?

**Vinay Mittal:** UP market contributes around 27% to our revenue mix.

**Himanshu Shah:** What is the local vs. national contribution in the Lucknow market? Is it fair to say that our revenue contribution would be higher from local market compared to the peer average of 65-70%?

**Benoy Roychowdhury:** Lucknow is a distorted market, because it's the seat of government of UP. The entire government revenue is local in Lucknow. Hence, it has an extremely high share of local revenue compared to any other markets in UP. However, the government revenues are not sensitive to competition and their drivers are entirely different. Lucknow is also a very strong consumption market. So I would say while about 60-70% of the market would be local, but most of that would be government revenues.

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

**Vikash Mantri:** Do you believe that double-digit increase in circulation will continue for the rest of the year as well?

**Ajay Jain:** We are basically in the mode of consolidation and are not increasing any print order in the near term. Our plan is to continuously increase our cover prices which will lead to enhanced circulation revenues.

**Vikash Mantri:** What is our current yield per copy?

**Ajay Jain:** Rs. 2 per copy and it increased by about 12-13% versus Q1 last year.

**Vikash Mantri:** Which sectors contributed to the growth in advertisement revenues in Q1 and which sectors are expected to contribute for the remainder of the year?

**Vivek Khanna:** Sectors that have performed well for us in Q1 include Real Estate, Retail, FMCG, Auto and Government. Going forward, we expect the trend to be similar.

**Vikash Mantri:** Will Delhi elections help in case of Hindustan?

**Vivek Khanna:** Yes, they will.

**Vikash Mantri:** We are now sitting with Rs. 340 crore in cash in books; any plan of deployment of the same?

**Vinay Mittal:** At this point in time, we are evaluating options. However, if there are no acquisitions over the next six to nine months, I am sure the board will look at a higher dividend distribution.

**Vikash Mantri:** What is the amount of cash you would like to have at HMVL level at all times?

**Vinay Mittal:** There is no specific number that we can share, but we should be reaching an optimum level this year.

**Moderator:** Thank you. We have the next question from the line of Amit Kumar from Kotak Securities. Please go ahead.

**Amit Kumar:** The other expenses have gone up by about 12% on a Y-o-Y basis and that's without any increase in circulation in the market. So what is really driving this?

**Ajay Jain:** Our marketing & sales promotion activities, events etc. are growing, and expenses for these activities were to the tune of Rs. 11.7 crore which is about 20% higher than Q1 last year. If you take away these costs from the total of Rs. 50 crore, our other costs would have increased by 10%,

which is in line with inflation. So, the overall expenses are mainly driven by marketing activities, largely in our focus markets to increase our brand visibility.

**Amit Kumar:** So the surprising piece is that with a 20% higher sales promotion activity in a reasonably bad environment, we did not see any increase in circulation.

**Ajay Jain:** These expenses are not only related to increasing circulation. It also includes marketing activities like events etc.

**Amit Kumar:** But wouldn't the whole point of doing these activities be to increase our circulation in the market.

**Vivek Khanna:** While our overall circulation copies have remained the same, we have deployed copies, particularly the unsold copies, which were not fetching us any revenue, and were able to convert them into productive copies. Hence, there has been increase in sales promotions expense on this account.

**Amit Kumar:** What we are starting to hear from the leading industry players like DB Corp and Jagran is that they have taken rate hikes; DB Corp to begin with and Jagran has followed. Could you share your thoughts on this? I know the Company has been pushing to increase yields; but have you started seeing some traction here? And could you break down this 14% growth advertising revenues in Q1 between yield growth and volume growth?

**Vivek Khanna:** About 75% of our revenue growth has come through volumes. We have seen yield improvements and we will constantly keep pushing that up.

**Amit Kumar:** By when can you expect the yield benefit, which DB Corp has been getting for a couple of quarters and Jagran is expected to get in this particular quarter, to start flowing through to us as well; and in that context isn't a 12% to 14% kind of ad growth guidance reasonably conservative?

**Vivek Khanna:** Given the current economic scenario, we believe that we have to constantly look at both, volume and yield to drive our growth and hence we are focusing on both the aspects. In certain markets we are specifically looking at yield improvements while in some markets we believe there is scope for us to grow through volume increases. So we will continue to follow this strategy.

**Moderator:** Thank you. We have the next question from the line of Srinivas Seshadri from CIMB. Please go ahead.

**Srinivas Seshadri:** Could you share your thoughts on the general trends in terms of the rupee depreciation and the consequent impact on newsprint prices and how this would translate into inflation on the newsprint cost side. Also, if you could throw some light on some of the steps you are taking to limit this impact?

**Ajay Jain:** Well, the impact of rupee depreciation has definitely been higher for imported newsprint. For HMVL, most of the newsprint consumed is domestic. Having said that, even the domestic newsprint follows the prices of imported newsprint; therefore, the domestic prices are also going up. In the current quarter, there has been an increase of about 3% in the newsprint prices versus last quarter. Now, considering the impact of rupee depreciation, the increase in newsprint prices should be about 5-7% in the near future. However, if rupee depreciates to more than Rs. 60, we will have a different scenario, which is difficult to predict at this point of time.

With regards to the mitigating steps, as Vivek mentioned, we have already started steps like pagination control, reducing the inventories of unsold copies, reviewing whether we need all our supplements, etc. We are also looking at redistribution of copies so that we re-allocate them properly. We have taken these cost control measures to curtail our newsprint cost despite increasing newsprint prices.

**Srinivas Seshadri:** When you say that 5-7% could be the inflationary impact, how much of it could be mitigated through these kinds of steps? Would it take out 2-3% from that? Could you give some broad sense on what could be the net margin impact on this?

**Ajay Jain:** Well, I think 2-3% would be a fairly good estimate of that. However, these initiatives have just been initiated and we will try to do as much as possible.

**Srinivas Seshadri:** As you mentioned, the domestic newsprint goes up with the lag, so would you say this 5-7% increase would be more of a second half expectation or even in second quarter results you might see a fairly strong increase?

**Ajay Jain:** This is our view for the year, assuming that dollar remains at about Rs. 59-60. So, yes there is a lag and the impact on domestic newsprint prices is delayed by one quarter. In Q1 FY14, we have taken a 3% hit on the pricing. This may go up in Q2 and so on for the remaining quarters, depicting a lag in the increase in domestic newsprint prices.

**Srinivas Seshadri:** Most of the print players are seeing a kind of revival in the top-line and a good increase in the profitability. So again, typically competition picks up in this kind of a cyclical environment. From that perspective, could you give us your sense on the possibilities of DB Corp

coming into Bihar? Also, what strategies do we have in place to protect our leadership position and financials?

**Vivek Khanna:** We are closely monitoring what DB Corp is planning to do in Bihar and we have our strategies in place. I do not think I will be talking more about our strategies on the call right now, but we are certainly getting prepared for whatever is likely to happen in terms of competition.

**Srinivas Seshadri:** In case the launch happens, should investors be prepared in terms of marketing or cover price kind of actions, which may affect financials materially?

**Vinay Mittal:** Yes. It will all depend on their entry. If their entry is certain, you will see a bit of cover price action and marketing activity and the cost of doing business will go up a little bit. But it all depends on when they plan to enter. At this point of time, it is not imminent.

**Moderator:** Thank you. We have the next question from line of Mitul Patel from Laburnum Capital. Please go ahead.

**Mitul Patel:** You mentioned earlier that the breakeven in UP will probably happen at the end of this year. So is the margin expansion a result of us getting closer to breakeven? Also, can we see higher margins from next year onwards, since UP contributes 27% to overall revenues?

**Ajay Jain:** You get high operating leverage when substantial investments in the business are reflected in the top-line growth and we are witnessing that in UP. To answer your question, sales growth and break-even will help us achieve higher EBITDA and margins in UP.

**Mitul Patel:** What kind of margins can we expect for the balance nine months and probably next year?

**Vinay Mittal:** We do expect to turn positive in UP towards Q4, and we will certainly break-even for the full year FY14. We should achieve margin of about 10% in FY15 which should increase to 20% in FY16.

**Mitul Patel:** What is the tax rate guidance for the year?

**Ajay Jain:** The tax rate should remain in the range of 27-28% throughout the year. We do not expect a significant change in the tax rate.

**Moderator:** Thank you. We have the next question from the line of Gaurav Jain from Altavista Capital. Please go ahead.

**Gaurav Jain:** The ad revenue growth in the Q1 FY13 was 6%, and this year it has gone up to 14% while most of the economic indicators have probably worsened. So why is it that you are seeing a revival in advertising revenue growth?

**Vivek Khanna:** Like I mentioned, we have grown on account of both volumes and yields. This is a function of our expansion and strong presence in UP over the last couple of years. Also, UP is really starting to kick in and will turn positive in second half of the year. So, gradually as we start getting higher revenues from UP, you will see more benefit coming through for the Company.

**Vinay Mittal:** Also, Government sector which contributes about 20% to our advertising revenues is doing well for us, partly because of this being an election year i.e. state elections and general election.

**Gaurav Jain:** So out of the 14% ad revenue growth, how much of this is coming from government and elections?

**Vinay Mittal:** There was no election in Q1. But what will happen is, in a run up to the election, you see a bit of higher government spending which is part of DAVP but not pure election revenue.

**Gaurav Jain:** Does this create a headwind as we go into FY15, where the election or the government is spending in run up to elections will be absent next year?

**Benoy Roychowdhury:** There are two impacts of elections on government revenue. One is, sometimes there is a heightened activity by the local government. However, close to the elections, specifically around three months before the election, all government revenue stops. At that point of time you do get some advertising from political parties. So ultimately, net-net, you do get some positive tailwind because of election. At different point of time, these activities play out differently. So initially there is an increase then there is a drop in government revenue and then finally all the political parties kick in with their advertising. So net-net you will get an increase.

**Gaurav Jain:** Is there a way to quantify this opportunity for FY14? How much would the extra government and election related spending be?

**Benoy Roychowdhury:** Yes, we can quantify this however it's not a number we would like to share.

**Gaurav Jain:** Did you have a volume & yield growth last year as well?

**Ajay Jain:** Last year, we actually had de-growth in yield, although the volumes did go up.



**Gaurav Jain:** Why did we have de-growth in yields? Was it because you had taken price cuts in last year and are coming back to normal levels this year?

**Ajay Jain:** As you know, there was economic pressure last year which resulted in lower yields in Q1 FY13. This was applicable to all the players in the market.

**Benoy Roychowdhury:** Also, last year a lot of bigger players were putting a lot of pressure in the market to get higher volumes which led to an overall decline in yields for print in general and especially for Hindi.

**Gaurav Jain:** What is the Capex plan for the year?

**Ajay Jain:** We have planned a Capex of Rs. 25-30 crore for upgrading our facilities.

**Moderator:** Thank you. We have the next question from the line of Apoorva Prasad from ITI Securities. Please go ahead.

**Apoorva Prasad:** What was the average newsprint price for the quarter?

**Ajay Jain:** The newsprint price for the current quarter was Rs. 32,370 per tonne.

**Apoorva Prasad:** What was the import content overall in the raw material?

**Ajay Jain:** It would be 2-3%.

**Moderator:** Thank you. We have the next follow-up question from the line of Amit Kumar from Kotak Securities. Please go ahead.

**Amit Kumar:** What is your sense of the plan of Bennett and Coleman and NavBharat Times in the UP market? Is it specific to Lucknow? Because I think they have already launched their regional language editions in Maharashtra and West Bengal. They are planning to do that in Tamil and now Hindi as well. So it is a pan UP play or is it a Lucknow specific play?

**Vivek Khanna:** We certainly know at this moment that they are entering Lucknow and we keep hearing of their plans for other markets as well. The important question is how will they grow and how it will impact our business. We don't see any impact right now because you really have to scale up a Hindi business to really start getting significant advertising revenue and one or two editions do not make any impact. In terms of why they want to do that etc., there are various hypotheses which I won't like to get into on the phone call.

**Moderator:** Thank you. We have the next follow-up question from the line of Srinivas Seshadri from CIMB. Please go ahead.

**Srinivas Seshadri:** Within the UP market, what would be the share of local revenues vs. national?

**Vinay Mittal:** 40%.

**Srinivas Seshadri:** Would it be a similar number on the local side or would it be kind of inverted for the Company level?

**Vinay Mittal:** It would be about the same at about 40%, but that is likely to start going up over the next two years.

**Moderator:** Thank you. We have the next question from the line of Prakash Ramaseshan from Kotak. Please go ahead.

**Prakash Ramaseshan:** Despite reporting performance in line or better than you peers, actually we are seeing a valuation differential between you and other players in the business. And we think some of that actually is because of the fact that the market is not clear about the allocation of cash. Could you share your thoughts around that and some clarity on how you wish to build your acquisition kitty if at all you have an acquisition coming up? Keeping all in cash actually is not optimal from a capital efficiency perspective. We think even as the Company is doing extremely well, it is not resulting in financial returns to investors, because of capital efficiency issues. So could you comment on that?

**Vinay Mittal:** I will reiterate that we wanted to build up a bit of a cash pile to look at acquisitions and we are looking at a couple of acquisitions. Also, we are fast nearing the amount of cash that we would like on our books. So by the end of this year, I am sure the Board of Directors will take a call on the deployment of cash if the acquisitions do not come through.

**Prakash Ramaseshan:** Any thoughts around building lines from private equity and banks, which can be kept unutilized and those can be used for acquisitions and the cash can be used more optimally because that maybe also an efficient way of being able to keep a kitty for acquisitions.

**Vinay Mittal:** Sure, that's another way to line up liquidity. But at this point of time, we have not looked at that. As I just said, this probably will go as an input in deciding towards the end of this year on the capital allocation strategy.

**Prakash Ramaseshan:** I think if the capital allocation strategy is communicated clearly to shareholders, would certainly help the shareholders, and we believe will reflect positively in the prices of the stock as well.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the floor back to the management of Hindustan Media Ventures for closing comments.

**Vinay Mittal:** Thank you, ladies and gentlemen for taking out time for this call. Just to reiterate, from our Company's point of view, we feel that these were good set of numbers in spite of the economy not being in the best of health. We do hope to carry on with this top-line expansion and the leverage coming through on the bottom line throughout this year and hopefully build on this with even a better performance in the years to come, especially if the Indian economy starts picking up. Thank you.

**Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of UBS Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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