



Hindustan Media Ventures Limited's

Q1 FY2017 Earnings Conference Call

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Moderator: Ladies and gentlemen, welcome to the Q1 FY2017 results call of Hindustan Media Ventures Limited, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Naval Seth, Senior Research Analyst of Emkay Global. Thank you, and over to you Mr. Seth.

Naval Seth: Thank you. Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Vivek Khanna, CEO, Mr. Ajay Jain, CFO and Mr. Sandeep Jain, Group Strategy Officer at HT Media. I would now hand over the call to Mr. Khanna for his opening remarks. Over to you, Sir.

Vivek Khanna: Thanks Naval and good evening ladies and gentlemen. The start to this current year was subdued largely on account of certain macroeconomic concerns that led to large advertisers in one or two key sectors cutting down on their ad spends. Overall, we grew our revenue by over 10% to Rs.259 Crores. Ad revenue grew to Rs.177.7 Crores, a growth of approx. 7% and circulation revenue grew to Rs.56.3 Crores, an increase of 5.5% for the quarter.

Despite subdued revenue growth, overall EBITDA stood at Rs.77 Crores, a growth of 16.4%. Raw material cost increased by 10.7% in line with the topline growth of 10%. The raw material cost increased on account of significant increase in the circulation during the quarter. Employee cost was up 5.5% and therefore overall our EBITDA margin increased to 29.7% compared to 28.1% in the same period last year. PAT grew to Rs.48.7 Crores, up by 16.9%.

Going forward, we expect the second half of the year to bounce back and give us a strong growth on the back of good monsoons, Seventh Pay Commission payout and upcoming UP elections. We are committed to deliver profitable growth to our shareholders. Over to the question and answers session.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Rohit Radha Krishnan of Rare Enterprises. Please go ahead.

Rohit Radha Krishnan: The operating leverage story in UP has played out well. How far is it still to go on in terms of margin expansion and how are we placed vis-à-vis Jagran Prakashan?

Vivek Khanna: As far as margins in UP are concerned, we continue to grow the margins, but they are still significantly below the margins we have in mature markets of the Bihar and Jharkhand. Our growth continues to be very sound and we had a good double digit growth even in this current quarter in UP, Uttarakhand and therefore we expect that this story will continue and we will keep on closing the yield and revenue gap as well as expanding our margins in UP, Uttarakhand.

Rohit Radha Krishnan: What is the difference between us and the market leader in terms of yields in UP? And what is the level that you think is achievable?

Vivek Khanna: We are about 55% to 60% of them. Across categories, it varies. But achievable levels are about 75% to 80%.

Rohit Radha Krishnan: Can you share management thoughts on the digital strategy?

Vivek Khanna: The strategy is in place and some of the work has also started in terms of execution. . We have launched quite a few things. Our app has already been launched on both iOS as well as Android. The digital revenue has started coming in and page views are going up. But, the entire digital strategy is also focused on having a separate company, which we have announced a couple of quarters back and subsequent to all legal approvals, the same would be announced.

Rohit Radha Krishnan: Regarding the different company, is it subsidiary of HMVL or will it be a completely separate company altogether?

Vivek Khanna: It is a subsidiary of HT Media and HMVL. We can take it offline on a separate call as we have gone through this in a lot of detail earlier.

Rohit Radha Krishnan: We continue to hold a substantial portion of cash. Any outlook on that? We have been talking about acquisition. Anything that you can talk about?

Vivek Khanna: In the last call, I had mentioned that there is no imminent acquisition and I do not think that has changed dramatically in this quarter.

Rohit Radha Krishnan: So, any alternative use of the cash?

Vivek Khanna: At this moment, I do not want to say what that alternative use might be, but there is certainly no acquisition immediately.

Moderator: Thank you. We have the next question from the line of Arjun Khanna of Kotak Mutual Funds. Please go ahead.

Arjun Khanna: What would be the average realization per copy?

Vivek Khanna: Around Rs 2.22

Arjun Khanna: In terms of agency commission, how much would that be currently? What we give to distributors between what we realize and what the customer pays?

Vivek Khanna: It varies across every single market. So, it is too complicated to give you the details. But it is the same for every company. So, there is no difference between what we give and what our competitors give. Also, while we increased our cover price in many markets, on account of expansion of one our competitors in Bihar, we had to drop cover price in certain other markets as the other two existing competitors dropped prices too. Hence, you do not see any significant increase in the RPC quarter-on-quarter. Having said that, in many of the places where we had done a similar exercise few quarters back, we have actually taken up the prices and we will continue on that journey to take up prices to their original levels.

Arjun Khanna: How do we expect this number to play out for the rest of the year?

Vivek Khanna: For the second half of the year, we should start seeing this moving up.

Arjun Khanna: So in the market like Bihar, if you have dropped prices, I assume agency payment is fixed or is it variable, so the effect should be even higher?

Vivek Khanna: No it varies from market-to-market. Also, there are certain places where it is fixed to a certain point and then becomes variable so virtually every single market operates differently.

Arjun Khanna: When you mean market is it largely a state or each city has its own dynamics?

Vivek Khanna: No, it is a unit. Each of the production units may be operating differently and within that also there may be certain differences.

Arjun Khanna: In terms of advertising revenue, which sectors did well and which were weak for us?

Vivek Khanna: The sector that did well was government. This, despite the fact that one of the state governments had not given the advertising for almost two months and that also impacted our growth by a couple of percentage points. But, we had very good growth coming from government, FMCG and Auto. The sectors that did not do well are largely three - BFSI, e-commerce and Entertainment. These three sectors saw a significant decline on account of lowering of spends by the advertisers. Then, there is a large sector – education, which also saw a marginal decline.

Arjun Khanna: In terms of market share in terms of advertising, would we have lost in these markets?

Vivek Khanna: No, we have gained 1% point.

Arjun Khanna: What is the gross debt for this quarter?

Vivek Khanna: The gross debt is Rs.192 Crores.

Moderator: Thank you. The next question is from the line of Giriraj Daga of KM Visaria. Please go ahead.

Giriraj Daga: Can you share the segment-wise or sector-wise advertising revenue? How much did the government, FMCG and BFSI contribute?

Vivek Khanna: We do not give that breakup.

Giriraj Daga: If I see the last five years, the gross dividend, more or less, has been maintained while the earnings have gone up. So you must have answered in an earlier call, but can you repeat why you are not increasing the dividend?

Vivek Khanna: For the last couple of years, we have been exploring a lot of M&A and we wanted to have a war chest for that. For the last two-and-a-half quarters, there is no active discussion. But till that time, there were a lot of possibilities which unfortunately did not materialize because of valuation expectations of sellers which were not matching ours. But predominantly, that was the reason.

Giriraj Daga: Since we have not done acquisition, will you look out for a one-time dividend?

Vivek Khanna: I cannot say right now, because these are things which are discussed in the board. So, let see how things are going forward.

Giriraj Daga: What is your market share in UP and Bihar in terms of volume?

Vivek Khanna: It depends on how many player market we are talking about. Largely, we get significantly more volumes than our competitors in Bihar and we are fairly competitive in UP and Uttarakhand.

Moderator: Thank you. The next question is from the line of Mr. Naval Seth of Emkay Global Financial Services. Please go ahead.

Naval Seth: In this quarter, some of the sectors had trimmed down their ad spends. As we are sounding confident that H2 will be very strong, have we got any kind of sense from those advertisers that they will be spending higher or do you expect some new category or new advertisers to come up and advertise more - like Reliance Jio launch, etc. ?

Vivek Khanna: There are two or three things which have happened. One, in Q2 of last year, we had the Bihar election which leads to a high base. We have the UP elections coming up towards the end of this year, therefore that will impact Q3 and Q4 positively. Secondly, in the festival season also, the days are such that the entire festival season falls in the month of October, which is in Q3 and last time Shradh fell partially in Q2 and partially in Q3, but this time there shall be no Shradh in Q3. Therefore, Q3 will benefit and H2 will benefit more positively. Plus, with the monsoons and the Seventh Pay Commission, there are already enquiries which have started. Now, we expect the advertising to start coming back from September onwards, but with the high base of Bihar election, revenue growth may look subdued.

Naval Seth: On the employee expense, this quarter it was a single digit increase after almost three quarters. Can we see a double digit increase for the full year or it can be single digits?

Vivek Khanna: I expect it to be a single digit increase.

Naval Seth: What is your outlook on newsprint prices?

Ajay Jain: The newsprint prices did go up in the first quarter because of international hardening of prices. But now, they are stable. We think that although prices may go up a little, it looks that it will be range bound.

Moderator: Thank you. We have the next question from the line of Arjun Khanna of Kotak Mutual Funds. Please go ahead.

Arjun Khanna: In terms of currency used by advertisers, we are having an IRS coming out in 2016. So, till date, is the 2014 number still used? What do media planners use as currency while deciding the budgets?

Vivek Khanna: Typically, in the national markets, the currency that is used is IRS and therefore the latest IRS, which is IRS 2014 is what is used. There have been instances of companies resorting to other measures and we have recently seen some of our competitors trying to claim leadership on the basis of these other measures and another competitor talking against that. So, there are some of these other measures which keep coming on and off, but most media planners tend to use IRS.

Arjun Khanna: The new one is coming at 2016 in December-January. Am I correct on that?

Vivek Khanna: That is our understanding also at this point in time.

Arjun Khanna: Will our circulation per day be roughly 2.8 million?

Vivek Khanna: It would be close to that, may be slightly higher.

Arjun Khanna: What would be our capex expectations for this year and can we see some increase in the number of editions?

Ajay Jain: We will have normal maintenance capex within the year in the range of Rs.20-25 Crores. There is no plan to have a new unit so spending will be towards adding color capacity, print capacity etc.

Moderator: Thank you. The next question is from the line of Prasunjeet Paul of Paul Asset Management Private Limited. Please go ahead.

Prasunjeet Paul: How are you planning to utilize the cash so that it can generate better return on the investment?

Sandeep Jain: We continue to use cash by deploying it in various instruments, primarily debt based mutual funds etc., and that gives us a return which is reflected in our financial statements in terms of interest income or income from investments. But obviously, we deploy all the cash that is available in risk-free instruments.

Prasunjeet Paul: Do you have any plans to utilize that cash to set up a new plant or to expand the capacity or to enter a new market in the near future?

Vivek Khanna: While we have evaluated most of the other markets, the timing of that would be a bit sensitive to reveal in terms of where we enter and when we enter, but certainly, we have evaluated all the other geographies where we could potentially make an entry.

Moderator: Thank you very much. The next question is from the line of Lalaram Singh of Analysewise Investments. Please go ahead.

Lalaram Singh: Do we expect further margin expansion in Uttar Pradesh? Currently, at what EBITDA margins are we operating and can it go still higher?

Vivek Khanna: It can go definitely go higher. We are at double-digit EBITDA margins and there was a time five or six quarters back when we had turned positive. However, most of our mature markets have margins upwards of 35%. So, there is still a long way to go in terms of margin expansion in UP.

Lalaram Singh: Is it fair to believe that we would mostly use this cash for expanding our business either organically or inorganically rather than distributing to shareholders?

Vivek Khanna: I do not think we have ever said that. What we have said is that, for a long time, we had a lot of acquisition plans. We had also plans of entering a new state where some work had started. So, we then decided to defer it for some time. Also, when we decide to enter the new geography could be a bit sensitive, so I am not talking about it right now. It is not happening in this quarter. That would certainly be one way of utilizing capital and there could be other routes as well. Ultimately, once we have an approval from the board, we can then talk more about the timings and what we are going to do.

Lalaram Singh: It is most likely that we will be using that for expanding our business. That is what I believe.

Vivek Khanna: Again, I am saying that it could be both the alternatives. At this moment, it is not fair for me to say anything more. Once a decision is made by the board, I can say something.

Lalaram Singh: Lastly, a bookkeeping question. If we see other investments in mutual funds, there is a mix of regular as well as direct plans. Is there a reason why we do not have all the investments as direct plans thereby saving commissions?

Ajay Jain: We have moved to direct plans gradually. First of all, we pay a very marginal commission on the indirect plans. We get value added services which are worth more than the commissions being paid.

Lalaram Singh: When you say value, it is more related to investment or more on the corporate advisory side?

Sandeep Jain: In terms of selection of investment.

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

Shalabh Agarwal: You mentioned something about reduction in cover prices in some of the markets. In which markets you had to reduce the prices?

Vivek Khanna: There are certain markets in Bihar where we had to drop cover prices.

Shalabh Agarwal: Is it Patna?

Vivek Khanna: No, it is not Patna. In Patna, we have taken up cover prices. These are certain new geographies where Dainik Bhaskar is entering and our other competitors drop the prices first, so therefore we corrected our prices a little bit. But it is something similar to what we had done in some other districts in the middle of last year and we have, in fact, started going back to increasing prices in those markets already. So this could be a two quarters phenomenon.

Shalabh Agarwal: So, the competition has also started taking the prices up in those earlier markets where they tried to enter earlier last year?

Vivek Khanna: Yes. I must say that we have probably taken up more.

Shalabh Agarwal: What will be your average cover price as of now? Will it be around 3.5?

Vivek Khanna: Around 3.7 or so.

Shalabh Agarwal: You also mentioned that in one of the states, the government did not advertise for two months. Any specific reason why we did not get the advertisement for two months from that government and have we started getting it?

Vivek Khanna: I would not know the reason actually. There are things which happen sporadically and they have resumed it now. So these are things which are not regular and therefore this was one off that happened for two months. So it impacted us to a certain extent but anyways, that is over now.

Shalabh Agarwal: Any change in the competitive intensity in Patna market which has led to any softening of our advertising rates or any discounts that we have started giving on the advertising rates in Patna?

Vivek Khanna: No.

Shalabh Agarwal: Nothing has changed materially from what we have been having right?

Vivek Khanna: No. Certainly when we go to four competitors from three, there are changes which happen in the market. If a strong player enters, the number three in the market gets impacted the most. Then, there is typically discounting and the fight for volumes between the third player and the fourth player. Therefore, at times, we do have to take short-term hits in terms of volume, but over a period of time it stabilizes. So, there is nothing which is very alarming there and nothing dramatic has happened in Q1. If you were to look at our local revenues, they have not been fairly impacted and they continue to grow well. It is revenues from certain categories, like I mentioned, the BFSI sector, e-commerce and Entertainment, none of which are local sectors, which have seen a significant reduction in the ad spends.

Shalabh Agarwal: We track the advertising rates from one of the online sites, ReleaseMyAd.com and it seems that there was a significant reduction in the advertising rates in Patna. . They are ad rates aggregators across publications including radio.

Vivek Khanna: No dramatic changes have happened.

Shalabh Agarwal: What is the gross cash on the book including the financial investments after the first quarter?

Vivek Khanna: The net cash is Rs.670 Crores and the total investments are Rs.860Crores, so the borrowing is Rs.190 Crores.

Shalabh Agarwal: Any specific reason why this borrowing is going up?

Ajay Jain: We get buyer's credit. We need working capital for our operations and we get cheaper money. So, that is the reason it is worthwhile borrowing for those activities where cost of borrowing is lower than the cost. It is an arbitrage.

Shalabh Agarwal: Are all these borrowings in domestic currency or not?

Ajay Jain: It is a combination. It is in dollars also for the imports. So, there is a buyer's credit available for the importers and in that case, you borrow in dollars and pay as per 9 months or 12 months, whatever the credit period allowed.

Shalabh Agarwal: And how much will be buyer's credit out of Rs.190 odd Crores broadly?

Ajay Jain: 50-50.

Shalabh Agarwal: And balance is all working capital? Is that a correct understanding?

Ajay Jain: Yes, working capital.

Shalabh Agarwal: We are saying that working capital is coming at the lower rate than probably the returns that we are getting on our investments?

Ajay Jain: Yes, they are long-term investments, which are locked in and are actually getting the higher rates. That is an arbitrage and that is the reason we continue to do that.

Some of these investments may be locked up in FMPs etc., which have a tax friendly option which are redeemed after three years. So, for that reason one may want to hold the investments and rather cover up the requirements of cash through debt.

Shalabh Agarwal: When is that cycle of three years getting completed? When would we be able to sell it without the tax implication of short-term capital gains tax?

Ajay Jain: It is rotational because obviously all the tax has not been built on a particular day, so it is happening over a period.

Shalabh Agarwal: Is there a bulk amount, which gets released after a certain period?

Ajay Jain: It is on an ongoing basis and it is continuous. We have a very active treasury that keeps a track on it and make decisions.

Shalabh Agarwal: Is there any reason to believe that this Rs.190 Crores will further go up if there is further arbitrage opportunity available to the company?

Ajay Jain: It is a decision which is taken from time to time. It all depends on what the requirements are. It can go down to 100, it can go up to 250. It is very difficult to give a comment on whether it will go up or not.

Moderator: Thank you. Next question is from the line of Aniket Thite who is an Individual Investor. Please go ahead.

Aniket Thite: The other income in this quarter has shot up by 70% odd. Is this one off?

Ajay Jain: The other income mainly comprises of the treasury income, the investments, interest and return on investments and the reasons are the mark-to-market adjustments which have happened due to interest rate correction or reduction. So, our corpus is growing. Also we see the interest rates going down, so the interest income should either remain at same level or ideally go up.

Aniket Thite: So you expect this 20 odd Crores other income to be maintained or do you expect it to be volatile?

Ajay Jain: I think by and large it should be in that range, it should be range-bound.

Moderator: The last question is from the line of Debangani Niyogi who is an Individual Investor. Please go ahead.

Debangani Niyogi: We have seen a lot of companies these days which are coming up with buyback and creating shareholder value. Are there any plans for your company also? Can you expect a buyback or things like these in the near future so that shareholder value is enhanced?

Ajay Jain: We have no specific plans as of now. But as we discussed already, I think the board is very much aware about the cash that we are holding and obviously if no acquisitions or organic expansion plans materialize in the next quarters, then obviously there would be options which could be examined. The buyback is a possibility but we have not been considering that option as of now.

Debangani Niyogi: If this does not happen in the next quarter or two, should we expect something on the shareholders front during this fiscal?

Ajay Jain: I think it is very difficult for us to say but obviously the board is very conscious of cash balances that we are maintaining and I think it is a call which eventually the board will take.

Moderator: Thank you very much. That was the last question. We now like to hand the conference over to Mr. Naval Seth of Emkay Global for closing comments.

Naval Seth: I would like to thank the management once again. Thank you everyone for the participation.

Moderator: On behalf of Emkay Global, that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.

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