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Hindustan Media Ventures Limited's

Q4 FY14 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Hindustan Media Ventures Limited, Q4 FY 2014 earnings conference call, hosted by Motilal Oswal Securities Ltd. As a reminder all participants' 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shobhit Khare from Motilal Oswal Securities Limited. Thank you and over to Mr. Khare!

Shobhit Khare: Thank you. Good evening everyone. On behalf of Motilal Oswal Securities, I welcome you all to Hindustan Media Ventures Limited's earnings conference call. We have with us from the management team, Mr. Vivek Khanna – CEO, HMVL, Mr. Ajay Jain - CFO, HMVL and Mr. Vinay Mittal - Chief Financial Strategist at HT Media. We will start with opening remarks from Mr. Vivek Khanna followed by Q&A. Over to you Mr. Khanna

Vivek Khanna: Good evening ladies and gentlemen. We are happy to close the year on a robust note with strong growth in topline and earnings. Our advertisement revenues for Q4 grew by 20%, while FY14 advertising revenues were higher by 15%. Circulation revenues improved by 14% and 15% for the quarter and full year respectively, led by higher realization per copy. PAT was up 20% and 32% in Q4& FY14 respectively. The benefits of expanding our presence in UP have started coming through over the last two-three quarters. I am happy to report that UP has turned profitable this year. Besides, we have strengthened our presence in the Bihar and Jharkhand markets. While we faced significant competition in some of our markets where we have a strong hold, I am pleased to inform you that we have emerged much stronger at the end of the year. We are seeing significant opportunity in the Kanpur market and hence re-launched Hindustan in that market towards the end of last year. Overall, on the back of a strong performance in Bihar and Jharkhand combined with improving profitability in Uttar Pradesh and Uttarakhand, we are confident of delivering sustained growth in topline and bottom-line which will deliver enhanced value to our shareholders. Thank you and we will be happy to take any questions that you might have.

Moderator: The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: What was the rationale of the Kanpur re-launch and how is it helping us? Any plans for any more re-launches in the UP market?

Vivek Khanna: Kanpur is one of the largest markets in UP. Now compared to the strengths that we have in some of the other geographies in UP, Kanpur was where we were behind our competitors and hence there was a need for re-launch. The results of the re-launch are very encouraging and we see significant revenue opportunity. In terms of other re-launches, we do not have any in the pipeline over the next couple of quarters in UP.

Abneesh Roy: When do you expect margins in UP to replicate margins of a mature market?

Vivek Khanna: You have to keep in mind that this was the first year of profitability. As we continue to grow over the next two to three years, we will get the desired leverage which will get reflected in margins.

Abneesh Roy: What is the long-term target and plans for improving market share in UP especially in areas of weakness?

Vivek Khanna: Kanpur was the only area of weakness in UP, which is now plugged. We had a reasonable presence there but we wanted to make it far more significant and therefore we have gone ahead with the re-launch in Kanpur. Now, we have presence across the market and intend to become number one or two across the top ten towns of UP as stated in our strategy.

Abneesh Roy: Over what timeframe do we expect to achieve this?

Vivek Khanna: Looking at the latest IRS results, we should be number one or two across all the ten towns over the next four to six quarters.

Abneesh Roy: What is the impact of IRS results on our Q4 FY14 advertisement growth? What is the status on the results of the readership survey because there has been lot of controversy around that?

Vivek Khanna: The status on IRS is a little unclear and therefore we will have to wait and watch over the next couple of months. More than the IRS, the entire strategy that we have been following in UP is gaining market share in terms of the number of copies in UP. Over the last 4-5 years these investments have really paid off both in terms of higher yield as well as increased volumes. I would not attribute our gains in Q4 FY14 to IRS.

Abneesh Roy: Just like you gained market share in UP, DB Corp entered Jharkhand in the last few years and also recently entered Patna. Are you worried from a 3-4 year perspective that your market share loss in these markets could be substantial?

Vivek Khanna: Jharkhand is a good example because the launch happened about four years back. Now, as a number one player in Jharkhand, we have not been impacted. We continue to be number one and have recorded double digit growth this year in terms of revenues. Similarly, we recorded healthy double-digit growth in Bihar. The initial impact of Dainik Bhaskar coming into Patna has been inconsequential as these are initial days. Dainik Bhaskar is a significant player and a strong competitor. We have a strategy and we will follow that strategy but at this moment, there is no impact on us. We will continue to do what is relevant to ensure that we maintain our position in the Bihar market.

Abneesh Roy: Did costs in Patna increase due to increased circulation and events to keep up the excitement in terms of readership?

Vivek Khanna: Launch of Dainik Bhaskar in Patna during Q4 led to additional marketing costs. That said, the number of copies increased during the quarter which resulted in higher newsprint cost. This has led to revenue growth in Patna. The increase in marketing costs that was incurred in Q4 is not structural. The increase in the number of copies in the market is structural and is resulting in higher local-to-local revenue and higher total revenue. This is resulting in increased readership share which is our core. We have been incurring these costs across UP, Bihar and Jharkhand and are positive that it will help us going forward.

Moderator: The next question is from the line of Prakash Ramaseshan from Kotak Mahindra Bank.

Prakash Ramaseshan: What is the yield differential between the leader and you in UP? Secondly, how do you plan to utilize the net cash of Rs. 400 crore on your balance sheet?

Vivek Khanna: The headroom for growth is very significant given our position as compared to the market leader. In our belief, we can grow by 200% in UP.

Vinay Mittal: With regards to the cash, we have doubled our efforts and have begun looking for inorganic expansion opportunities and hopefully we will be able to share some positive news. But, if nothing comes through, the board will have to decide how to utilize this cash.

Prakash Ramaseshan: Distribution of cash is the only way out as buy-back is not possible. Print media business-acquisitions take 3-4 years to give returns. Do you think the Company should pursue this?

Vinay Mittal: Yes, because it will be EPS accretive.

Moderator: The next question is from the line of Vikash Mantri from ICICI Securities.

Vikash Mantri: Could you highlight our organic and acquisition plans from a 2-3 year view point?

Vivek Khanna: As mentioned earlier, we are looking at both organic as well as inorganic opportunities. We are currently evaluating the prospects of three different markets. These are 1) MP and Chhattisgarh, 2) Punjab, Haryana and Chandigarh and 3) Rajasthan. These are the three 'Hindi' markets where we do not have a presence.

Vikash Mantri: Wouldn't it be more logical to enter Punjab and Haryana with an English paper as it is actively present across the belt?

Vivek Khanna: We cannot share details as it is competitively sensitive. The moment we finalize our plans and are ready to go, we will share the information.

Vikash Mantri: In case the Company is unable to find an acquisition target, then in how much time or at what stage would the Company decide to return cash to the shareholders?

Vinay Mittal: Certainly over the next one year.

Moderator: Next question is from the line of Srinivas Seshadri from CIMB Securities.

Srinivas Seshadri: What was the impact of election revenues on advertisement in Q4? Also, could you throw color on the sectors that witnessed high level of growth?

Vivek Khanna: The political revenue impact was almost non-existent, maybe a percentage or even less than that. The sectors which grew for us in Q4 were DAVP, FMCG, Auto and Retail.

Srinivas Seshadri: Was the growth in DAVP due to high volume in January and February coupled with the price hike?

Vivek Khanna: Yes. Both, volumes and yields were higher in January and February.

Srinivas Seshadri: What are the expected upsides from political party advertising given that political parties would have advertised during Q1 as it was the peak phase of the elections? Also, how much would you lose in terms of the government advertising?

Vivek Khanna: Well, there has been political advertising as well as loss of DAVP. But we expect to maintain the current growth rates.

Srinivas Seshadri: Can you quantify the net impact of the political advertising?

Vinay Mittal: There is a gain however it is not significant because the DAVP has slowed down. Display advertising has slowed down because of the clutter of political advertising.

Srinivas Seshadri: What would be the timeframe in finalizing the organic expansion plans? Once the decision is taken on the markets to enter, will the pace of expansion be slow give that the markets you plan to enter are fairly large sized? Would it be a broad-based role out like UP or will you be looking to expand in a small manner and then evaluate how to move ahead? Some color on the strategy would be helpful as it would have a very significant impact on the financials through the next two, three years?

Vivek Khanna: Currently the Company is looking at the right business model and the right market. With respect to UP, the Company did not invest everything in one shot. The Company opened about six to seven new units in the span of 2 -3 years.

Srinivas Seshadri: What would be the scale of the rollout?

Vivek Khanna: The decision would be taken in the first half of the year.

Srinivas Seshadri: What is the inflationary component in terms of the cost of the newsprint and how is it looking like going forward?

Ajay Jain: The newsprint prices for the year have gone up by about 9% versus 2012-2013 due to dollar impact. Going forward, we think the newsprint prices in Q4 have reached a level where it is not likely to increase unless and until something happens to the dollar. So under the current scenario and circumstances, we think newsprint prices have more or less stabilized and the pricing should be stable in the next year. However, in Q1 and Q2 2014-15, it will be still be higher than in 2013-2014 because the year saw an increasing trend with lower prices in the first half of the year.

Srinivas Seshadri: What are the areas where you plan to increase circulation over the next one to two quarters?

Ajay Jain: We increased circulation in Kanpur towards the end of Q4. Besides, we increased circulation in UP & Bihar as well in the second half of last year. We have made significant investments in these two markets and therefore at this stage the Company is not looking for any new market. The Company plans to continue to have a natural growth with respect to circulation and readership. There are no other re-launches or significant investments that the Company is likely to do in the next six months in the existing markets.

Moderator: Next question is from the line of Miten Lathia from HDFC Mutual Fund

Miten Lathia: There have been additional marketing costs in Q4 FY14 due to DB entering into Patna. The numbers here are pretty much similar compared to what they should have been and the trend is not showing any such blip. Would it then be logical to expect that the marketing cost should fall in Q1 next year? How much has the Company spent to defend Patna per se?

Ajay Jain: The increase in marketing cost in Q4 FY14 vis-à-vis Q4 FY13 is primarily due to increased spends in Patna. We do not expect these spends to be significant going forward. That said, there may be spends in other markets where there are plans of a re-launch, etc. So, the marketing cost would depend on when the Company actually wants to strengthen the launch. However, it should not be substantially different to what we have seen in last two quarters.

Miten Lathia: When can we expect a decision on our entry into a new market?

Vivek Khanna: The decision regarding which market to enter would be taken in the first half of FY15 and the communication regarding the same would be done during the same time. The actual date of launch may be after that, but the Company would be in a position to be ready with its strategy and therefore be ready to communicate to you in 4-5 months from now.

Moderator: Next question is from the line of Kalpesh Makwana from Quant Capital.

Kalpesh Makwana: There is an increase of 28% Y-o-Y in raw material cost, of which 9% can be ascribed to the price inflation. Is the remaining 19% from volumes? What would be the split with respect to number of copies and pagination?

Vivek Khanna: It is not 9% for the quarter. Raw material cost is equally split between pricing as well as consumption.

Kalpesh Makwana: In the answer to one of the earlier questions, you mentioned that we witnessed a 9% increase on newsprint prices?

Vivek Khanna: That was on newsprint price for the whole year. Now we are talking about absolute amount of newsprint consumed in Q4 FY14 vs. Q4 FY13.

Moderator: Next question is from the line of Subhankar Ojha from SKS Capital Research Private Limited.

Subhankar Ojha: Our payout ratio is actually below 10% and if you look at the other companies in the same sector their payout ratio are much higher. I understand that we plan to enter newer geographies, but can the Company not consider increasing the payout ratio?

Vinay Mittal: The Company has a lot of cash on its balance sheet and is actively looking to expand through either organic or inorganic routes. However, if I am unable to utilize the cash productively over the next one year, then certainly the board will have a relook at the deployment strategy

Subhankar Ojha: Is there a time frame of one year after which the decision whether to or not distribute money would be taken?

Vinay Mittal: Yes. We expect some decision by the end of the financial year?

Moderator: Next question is from the line of Jay Gandhi from Antique Stock Broking.

Jay Gandhi: What is the split between the local and national advertising revenue?

Vivek Khanna: It is about 50-50.

Jay Gandhi: How is the ad revenue split between volumes and yields?

Vivek Khanna: For the full year, it is split equally. However, the growth towards the second half of year is more on account of yield.

Moderator: Next question is from the line of Hemang Kapasi from Canara Robeco Asset Management.

Hemang Kapasi: Have we taken any increase in cover price recently?

Vivek Khanna: In some markets of UP, Bihar and Jharkhand the cover price increase was taken in Q4 FY14. We have been taking cover price increases across all our markets throughout the year.

Hemang Kapasi: What is the blended hike?

Vivek Khanna: The realization per copy has moved up from Rs.1.85 (beginning of the year) to Rs.2.08 (end of the year).

Hemang Kapasi: Any guidance with respect to advertisement? How sustainable is this number?

Vivek Khanna: We believe over the next couple of quarters, we should be looking at a similar kind of growth which was delivered in FY14 i.e. a double-digit growth.

Hemang Kapasi: Would the circulation be in the same region?

Vivek Khanna: It should continue to grow in double-digits.

Moderator: The next question is from the line of Ashish Bansal from ICICI Bank.

Ashish Bansal: The Company’s borrowing has increased from Rs. 32 million to Rs. 203 million while the interest costs have not increased consequently from FY13 to FY14? Could you throw some color on that?

Vivek Khanna: The average borrowing would be the same as last year as the current borrowings that you see are done at the end of the financial year.

Moderator: The next question is from the line of Kartik Mehta from Sushil Finance.

Kartik Mehta: What is the newspaper penetration in the geographies we are present in and what could have been the best penetrated rate in the country?

Vivek Khanna: The IRS data will provide all the numbers for newspaper penetration across various markets. Some of the higher penetrated markets are probably Rajasthan, Punjab, and Haryana.

Kartik Mehta: What is the impact of growth in number of copies and the cover price hike, in the 15% circulation revenue growth?

Vivek Khanna: We saw a 12% increase in realization per copy. The increase in number of copies is about 2% to 3%.

Kartik Mehta: Can you guide us for ad growth for the full year?

Vivek Khanna: We expect it to be at about 14 to 15%.

Moderator: The next question is from the line of Sachin Verma who is an individual investor.

Sachin Verma: Could you share the growth in advertisement across UP, Bihar and Jharkhand?

Vivek Khanna: UP grew upwards of 20%. Bihar and Jharkhand also grew in double-digits.

Sachin Verma: What was the free cash flow during the year?

Vivek Khanna: Free cash flow for this year was Rs. 84 crore

Sachin Verma: What was the capex for the year?

Vivek Khanna: Rs. 40 crore.

Sachin Verma: How do you see the margin stabilizing in UP market?

Vivek Khanna: UP has become profitable this year compared to a loss last year. So, there has been a significant swing despite adding copies. We recently added some copies in Kanpur but beyond that there are no plans of increasing copies. We expect that you should see about 6 to 7 percentage point increase in our margins in UP every year.

Vinay Mittal: Just to clarify, we expect the blended margins in UP to be around 24-25% at the end of three years.

Moderator: The next question is from the line of Shobhit Khare from Motilal Oswal Securities.

Shobhit Khare: Were the newspapers not able to maintain their market share of election advertising this time because of the increased usage of digital, TV or radio mediums?

Vivek Khanna: There are two kinds of advertising that you see. There is political party advertising and there is also local advertising that happens in a constituency. Local advertising in a constituency does come to newspapers. Party advertising is a function of what various parties think and their internal outlook in terms of what they feel will happen to them in the elections. Having said that, there has been advertising across television, digital and print and we have also got our share of advertising.

Moderator: The next question is from the line of Yogesh Kirve from B&K Securities India Private Limited.

Yogesh Kirve: It was mentioned that the raw material cost increase of about 28% during the quarter was contributed by prices and quantity equally. However, our circulation has gone up by 3 or 4%. So, is the increase mainly on account of the pagination or we are missing something?

Vivek Khanna: There is pagination increase as well as an increase in the number of copies.

Yogesh Kirve: Has the pagination gone up particularly in the Q4 or was it present in the previous quarters as well?

Vivek Khanna: There was a pagination increase in Q3 on account of higher advertising volume due to the festival season.

Y**ogesh Kirve:** The revenue growth seems impressive considering that election did not contribute much. Could you throw some light in terms of growth in UP and Bihar markets?

Vivek Khanna: The growth for the full year was significantly higher in UP. The Company grew at 20% plus in UP. For Q4 FY14, the trend is pretty much similar. Bihar and Jharkhand also had very significant growth in terms of advertising revenues which is in fact higher than the year average, so high double-digit growth.

Yogesh Kirve: Is it mainly driven by the yields considering the yields were more back-ended?

Vivek Khanna: In Q4 there is significantly higher contribution of yields. It is about 7% volume and 13% yield contribution.

Yogesh Kirve: What are the drivers behind the increase in the yields of about 13%? Did the IRS data pertaining to UP contribute or does it pertain to something else?

Vivek Khanna: The yield increase is a function of a couple of things. One, it includes the same client giving higher yield. It is also a mix change. Some of the higher yielding categories contributing more was a function of both the things. The Company has been pushing its yields from the beginning of the year because of the investments done in UP and was borne out by the IRS results as well. This is something which we do both, at the local level as well as at the national level. Advertisers tend to try out new publications and if they get the response, then they are willing to give higher rates also. This has been happening with the Company over the years as advertisers have come to us in UP and seen that the response is very good, they are willing to give higher rates for their advertising.

Yogesh Kirve: Did the newsprint prices go up in Q4 FY14 from Q3 FY14 or were they largely stable?

Vivek Khanna: Q4 was roughly at par with Q3.

Moderator: The next question is from the line of Srinivas Seshadri from CIMB.

Srinivas Seshadri: As the wage bill of Q4 FY14 was more or less similar to the previous quarter, would there be any impact going forward in the forthcoming financial year?

Vivek Khanna: Q4 and Q3 were similar. There would be normal increments that will happen in the new year and therefore there would be some impact on account of that.

Srinivas Seshadri: Will the 'Majithia Wage Board' notification have any likely impact as well?

Vivek Khanna: We are fully compliant with respect to the 'Majithia Wage Board'. That is something we have checked out and the impact of that is still being estimated.

Srinivas Seshadri: With the kind of wage increases which happen this year, will the inflation path be the same next year?

Vivek Khanna: Yes more or less.

Moderator: The next question is from the line of Neelesh Surana from Mirae Asset Management.

Neelesh Surana: The operating margins have increased from 15.9% two years ago to 20.7% without taking into account other income. As the markets like UP have become more profitable it will go to 24% to 25%. Is there a base operating margin in mind above which you would like to invest into new markets?

Vinay Mittal: The Company has two options when it decides to enter a new market. It can either invest very heavily at one go or stagger it over a year. For us, it is very important to protect the particular margin level that exists in our business. Therefore if we are entering a new and a large geography, we would enter it in a phased manner like we did in UP. The Company did spread its investment over three to four years so that the present margin is maintained even if a dip is experienced for a quarter or two.

Neelesh Surana: Is there a certain number that would be maintained, above which the Company would be making newer investments into new geographies?

Vivek Khanna: The Company will try and maintain the existing margin structure. The strategy would be to try and invest over a period of time. However, there is no fixed criterion of making new investments once a certain margin is reached.

Neelesh Surana: So you would like to keep the base margins sort of stable?

Vivek Khanna: Yes.

Moderator: The next question is from the line of Kartik Mehta from Sushil Finance.

Kartik Mehta: Now that the newsprint prices have stabilized, UP has turned profitable, ad spend in Patna is not expected to be high and the decision regarding the new organic growth would be taken in the first half of FY15; so is it fair to assume that your margins could expand in FY15 versus FY14? If so, could you give a ballpark number?

Vivek Khanna: Yes. The margins would expand. However, I would refrain from talking about the number because there are a lot of moving parts with respect to growth in the economy, how the new government actions are taken into account, our decision on expansion etc., but certainly you will see a growth in margins.

Moderator: The next question is from the line of Prakash Ramaseshan from Kotak Mahindra Bank.

Prakash Ramaseshan: If we are saying that we are going to invest gradually in new markets whilst ensuring that margins stay protected, then the use of cash can only be for new acquisitions because the existing cash flows that we are generating plus the fact that we are going to stagger the investment would take care of the organic route

Vinay Mittal: As mentioned earlier, a call will be taken by the board a year down the line as to whether the inorganic has taken place or not.

Prakash Ramaseshan: Even if Rs.400 crore stays on the balance sheet, with any incremental cash generated, may be a decision can be taken as to higher payouts given that the payout ratios of the Company are much lower than the industry, again, just a thought from us as investor.

Vinay Mittal: Sure.

Moderator: The next question is from the line of Vikash Mantri from ICICI Securities.

Vikash Mantri: You suggested that the planned expansion would be done in a phased manner. Why do we prefer a phased manner rather than a large one shot investment?

Vivek Khanna: Let us take the example of UP. Now UP has 12 different production units. The choice really is to enter all 12 at the same time which involves significant investments upfront. There is dilution in terms of focus because then you have to focus equally across all 12 geographies. Our experience in UP has shown that if you take two or three cities at a time, establish them and then move to the next, it always tends to give good returns. Having said that, we are studying some of the new geographies that we were earlier not very familiar with and may or may not follow the same strategy as of UP; but we have seen so far that the strategy has given us good returns.

Moderator: That was the last question from the participants. I would now like to hand over the floor back to the management for the closing remarks. Over to you Sir

Vivek Khanna: Thank you for all the questions. We have had a good year FY13-14. We look forward to delivering a similar performance in the year ahead. Thank you.
