

Hindustan Media Ventures Ltd.

“Hindustan Media Ventures Limited Q4FY17 Results Conference Call”

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Hindustan Media Ventures Ltd.  **ICICI Securities**



ANALYST: MR. VIKASH MANTRI- ICICI SECURITIES LIMITED

MANAGEMENT: MR. VIVEK KHANNA – CHIEF EXECUTIVE OFFICER – HINDUSTAN MEDIA VENTURES LIMITED

MR. RATUL BHADURI – CHIEF FINANCIAL OFFICER – HINDUSTAN MEDIA VENTURES LIMITED

MR. PIYUSH GUPTA – GROUP CHIEF FINANCIAL OFFICE – HT MEDIA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Hindustan Media Ventures Limited, Q4 FY2017 results conference call, hosted by ICICI 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 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 now hand the conference over to Mr. Vikas Mantri from ICICI Securities. Thank you and over to you sir!

Vikas Mantri: Good afternoon everybody, we at ICICI Securities pleased to invite you to the Q4 and FY 2017 result conference call of HMVL. We have the senior management of the company with us represented by Mr. Vivek Khanna, the CEO, Mr. Ratul Bhaduri, CFO, Mr. Piyush Gupta, Group CFO. Over to Vivek Sir for initial remarks!

Vivek Khanna: Thank you and good afternoon ladies and gentlemen. Firstly, you might find a little bit of an echo because this call has been done through a mobile phone, as all landlines in the entire building are down.

Moving on, the current year was a difficult year not just for us but for the overall print industry. We all know the reason, demonetization. Many sectors saw a slowdown. However, we had embarked on a cost saving exercise plus newsprint prices have been pretty stable and because of which that there has been marginal growth even in the current year and in the current circumstances.

We closed the year with a revenue growth of 4.8%. Overall revenue has crossed 1000 Crores for the first time. As far as quarter four is concerned, quarter four grew at 2%. Q4 had Ad revenue growth of 3% on a base of 15% growth and for the full year the growth was 0.7%. The growth in the quarter was entirely due to yields, because volumes due to demonetization continued to be down not just for us but for the entire market. Circulation revenue increased by 5.5% for the quarter and slightly more than 4.5% for the full year. This is due to a combination of both increases in copies as well as higher realization per copy.

EBITDA grew at 3.9% for the quarter and 6.1% for the full year thanks too stable newsprint prices and the various cost initiatives that have just started to kick in towards the end of the year.

Raw material cost de-grew by about 6.3% versus quarter four last year, primarily on account of lower pagination. We did increase the number of copies in the market.

As far as our reported EBITDA margin for FY2017 is concerned it stood at 29% versus 28.7% last year. For quarter four it was 29.5% versus 28.9% last year.

In terms of the current year, we have seen early signs of recovery in this year and we believe that with all initiatives' that we have taken in terms of yield improvement plans as well as on the cost side we should ensure that we get back to growth that we have seen earlier and we continue to deliver returns for our shareholder. Thank you so much and I am open the floor for questions.

- Moderator:** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Sonali from HDFC Securities. Please go ahead.
- Sonali:** Good afternoon Sir. Thank you for the opportunity. Sir my first question is with respect to situation the ground is you seeing some visible signs of the impact of demonetization behind us?
- Vivek Khanna:** Yes, clearly on ground there are signs of demonetization coming down and things settling. There are certain sectors where it has already settled and some other sectors where I think it will take another month or two to settle down, but clearly the signs are there.
- Sonali:** Sir could you please give us a highlight as to which sectors do you feel have come out of the impact and which would take a little bit more time for the impact to settle in?
- Vivek Khanna:** See a combination of demonetization and RERA means that I think real estate continues to be in a bit of flux and I am not sure when it will really settle down. Things like consumer durables, FMCG are showing signs of settling down. So I think some of these large sectors are okay, but as I mentioned there are sectors like real estate which continue to be a question.
- Sonali:** Sir my second question is with respect to quarter four for our print advertisement, which are the main sectors which contributed to our growth?
- Vivek Khanna:** Our growth was largely led by the election revenue that we got from UP as well as from auto. You can understand the impact of demonetization meant that most of the other sectors had any way slowed down and when an election happens, display across the board especially local to local also tends to go down significantly. So, a combination of both demonetization and UP elections meant that most sectors would be sharply down. However, revenues from UP election which held to offset those losses.
- Sonali:** Sir in my third and last question is with reference to the cost initiative that you just mentioned in your starting remarks. Sir could you please throw some light as to giving us a part as to where you expect the EBITDA margins to go in post your costing initiative?
- Vivek Khanna:** You know we always maintain that our endeavor would be to keep growing our EBITDA margins by 2% every year. The initiatives that we doing are to ensure that it happens irrespective of how long the demonetization impact lasts and it is because of that we have been able to grow margins this year as well. So we would continue to increase our EBITDA by at least 2%. Cost initiative and a bounce back of advertising revenue should help increase it by slightly more but certainly 2% is what we track.
- Sonali:** This is very helpful. Thank you for answering my questions. That is, it from my side.
- Moderator:** Thank you. We have the next question from the line of Keyur Shah from 'Emkay Global. Please
- Keyur Shah:** Can you give me bifurcation for digital media and print media for Ad revenue and expense wise?

- Vivek Khanna:** As far as digital media is concerned, that is part of HT Digitaland not part of HMVL anymore and therefore I would not be able to answer that question. Maybe you can ask that question in the HT Media analyst call.
- Keyur Shah:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Couple of questions. Sir what was the government side Ad revenue in the quarter?
- Vivek Khanna:** We do not give break of the absolute amount that we got from government but you can imagine because of code of conduct in UP that revenue had also declined in quarter four.
- Giriraj Daga:** But what was the growth in overall UP?
- Vivek Khanna:** If you look at full year, UP continues to grow at good double digits for us.
- Giriraj Daga:** But rest of the market is declining then?
- Vivek Khanna:** So most of the markets were flat and one of the market had declined, yes.
- Giriraj Daga:** Just to understand that we had digital part and we have shown in notes to account that we had a revenue of last year 42 Crores pertaining to that MMCN?
- Vivek Khanna:** Yes.
- Giriraj Daga:** So as a like-to-like comparison if I have to make, I have to do other expenses last year 230 Crores minus 42.7 Crores?
- Piyush Gupta:** Just let me just walk you little back on the HT digital matter. When the HT Digital scheme was filed with the courts for approval, the revenue principles had not been finalized while the organisation and cost structures had crystallised. Accounting standard required such costs to be therefore shown in a particular manner. In the current year, post approval of the scheme the impact is correctly shown in the financials. This note touches upon only the corresponding costs for the previous year and not the revenue. So you will need to consider both revenue and costs for appropriate comparison.
- Giriraj Daga:** What is that at cash level gross and net?
- Vivek Khanna:** Net Cash level we got 846 Crores of net cash sitting on the balance sheet as on March 31.
- Giriraj Daga:** Getting on the large traction on earning also but look at a dividend for last six years like now 1.2 rupees per share. So any discussion pertaining to as we want to reward our shareholder or you just want to keep the cash handy for some acquisition?

Vivek Khanna: In the interim given the uncertainties in the overall ecosystem, board has taken a view that it will be prudent to conserve cash as of now and if the board decides to review this that at a later point in time we will be the first to come to you on this.

Giriraj Daga: Thank you.

Moderator: Thank you. The next question is from the line of Srikanth PVS from Spark Fund Advisors, please go ahead.

Srikanth PVS: My questions have been answered thanks.

Moderator: Thank you. Next question from line of Rajgopal Ramnathan, Individual Investor. Please go ahead.

Rajgopal Ramnathan: Thanks for the opportunity. I happen to be an individual investor in HMVL now for past three years. I have couple of questions. In fact, you already have answered one which was relating to the cash position. Now when I go through your capital allocation for the past 4-5 years or so, I consistently see that the financial performance continues to keep getting more and more solid and for some reason or the other you seem to be making a lot of investments in debt funds. So your business in some senses is appearing less to be a newspaper and more in the sense of debt fund of funds. Any opinions on that?

Piyush Gupta: Rajgopal, this is Piyush Gupta this side. Good afternoon. You know I think that is a fair question. Do you know right after going public about five years ago most of cash has been accumulated by upgrading performance? We have been kind of conserving this cash for organic growth. Though we have not officially announced yet but we are further deepening up our presence in core markets of Uttar Pradesh and Bihar and that is where we will be using a reasonable amount of these funds this year. What we believe in terms of our ethos is that a minimum cash level is required given the volatility of the revenue operations in this entity. As you have seen post demonetization by the state of profits when the revenues' have suddenly slowed down. Had it not been for political revenues' in the fourth quarter, the performance would have really taking a bit of a beating. So we will be investing cash at HMVL level behind organic activities which we are doing as we speak right now. Next quarter you will see a lot of cash will be basically going in. We at any given point in time, obviously look at various opportunities both organic and inorganic on increasing the footprint or increasing the depth of the business. Most of the cash is reserved for that and at the right time we will use the cash. I totally hear your point, right now it looks like high level of funds but most of the funds are going to be utilized in the business as and when the needs arise. That is what our ethos and thinking is and we believe will be able to add a lot of shareholder value.

Rajgopal Ramnathan: What was the capex during fiscal 2017?

Piyush Gupta: There was hardly any capex. It was about Rs 14 Crores of capex in HMVL this year.

Rajgopal Ramnathan: I hear your point on this front but I just want to belabor this somewhat because now on a

consistent basis assuming that you are not probably generating the same PAT as this year and probably an average of what you have delivered in the last three of four years or so, still you would probably be generating cash of at least 150 Crores. So is it capex plan somewhere in the region of 500-600 Crores or so in the next couple of years that you require to conserve so much cash?

Piyush Gupta: It is not only about capex. Most of the investment which happen in newsprint investments is to finance the initial losses in the business whenever you are either increasing a footprint or going deep in to our existing footprint. Also, capex definitely will be never close to the number you are saying but financially the short-term losses where the free cash flow will come only with the lag of two to three years is really the thing that needs to be financed because we are continuously evaluating these opportunities organic and inorganic. That is the reason we are conserving cash.

Rajgopal Ramnathan: I think this needs to be articulated a little better because the amount of cash you seem to be preserving one can agree with the logic that you present but give they rollout that you plan?

Piyush Gupta: Just to give you a perspective and this is the last comment, I will make. I hope I am able to convince you but obviously there can be differing point . If there is an inorganic opportunity, which presents itself to expand our language newspaper business the cash will fall way short of going after that opportunity. So clearly on a standalone constant basis it looks like a big number but if you just evaluate with the last transaction which might have happened for much smaller assets and if you just use those evaluations methodology of the bigger assets which we will be running for if that opportunity present itself then most of the cash would be utilized there.

Rajgopal Ramnathan: Are you referring to inorganic opportunities?

Piyush Gupta: It could be organic and inorganic both. Inorganic we always evaluating options which are presented to us and we are not shying away from that as long as they make fiscal and economic sense.

Moderator: We will move to the next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Thanks for the opportunity. Sir, I am looking at the audit bureau of circulation data and it suggests that our circulation has moved about 2.6 million so which seems to have grown by about 8 odd percent over the last year so is that a fair number in term for 8% growth?

Vivek Khanna: Our actual circulation is much more. I would not read too much in to the data of ABC because what some of our competitors have done is that they have converted their second product in to the same mass set and shown numbers which seem quite bizarre in terms of growth but we have expanded our copies across both UP and Bihar, Jharkhand market and as Piyush was mentioning in response to an earlier question that is something we will continue to do because we believe that we have opportunities in our whole markets to continue to grow.

Yogesh Kirve: I was looking at this growth number of 8% because our circulation revenue growth has been

lower than that?

Vivek Khanna: No I will not look at that because our actual profit growth in the full year was not 8%. There were certain copies which not have been qualifying under ABC earlier that copies may have always being there. When they qualify under the ABC guidelines then that is how they get reflected in ABC. The number of copies in the market are much more then what ABC shows at this moment for us. I would not look at ABC and just say that the the copies have gone up. ABC reflection typically always comes with a lag and increase in copies do not get reflected immediately. It depends on multiple factors like the schemes that you are running etc., because ABC has certain set of guidelines.

Yogesh Kirve: What has been the underline growth you are saying is 5% to 6%?

Vivek Khanna: As I mentioned that we have grown our circulation revenue in this year by close to 4.6% which is the combination of both copy increase as well as slightly higher revenue per copy.

Yogesh Kirve: Going ahead any sort of guidance what we can look forward to in terms of number of copies?

Vivek Khanna: Yes, we will be increasing our copies significantly. In fact, we have already started doing that in the current quarter and that is required from a competitive context because as I mentioned that there have been certain initiatives done by our competitors wherein they converted their second product, changed its name and converted it and sold it as same as the mother brand. We have also looked at market segmentation opportunities that have come about as a result and we are therefore following a certain strategy on the that basist. Therefore, some of the cost initiatives that we have done will help us in ensuring that we can keep increase in the copies without impacting our margins.

Yogesh Kirve: My second question is again regarding the operating expenses and there has been bit of a discussion already. Just I wanted to know if you look at the employee and other expenses as a total which is about 95 Crores during the quarter and in the last year it was 88 Crores. Is this sort of reflection of underlying increase in the cost or we have to make some adjustments?

Vivek Khanna: As we explained to you there is combination of couple of factors. When HT Digital was carved out the premise of HT Digital is that we will be sourcing content from HT Digital for which we will be paying money to HT Digital which is going under our other expenses. Some of the erstwhile employees of HMVL have moved to HT Digital because which the cost of employees would have come down. Now a combination of the two tends to increase the overall expenses and we had mentioned in the last call the quantum of impact for three quarters that had come through. If you recall that number was around 18 Crores. In this quarter also there is an impact of one quarter that would be there and therefore some of the things that you are seeing is a result of that. Now as HT Digital revenue is continuing to grow we will start getting the benefit of that on the bottomline. As we had explained in great detail in the quarter three conference call, that initially there is a negative impact to us but over a time period it will even out etc., once the revenues of the digital business start growing and we start getting our share of that.

- Yogesh Kirve:** Going ahead in terms of the employee and other expenses what should we build in, is it fair to assume our inflation increase of 6%-7%?
- Vivek Khanna:** Nothing out of the ordinary. You know you have seen how we typically track on our expenses growth and nothing out of the ordinary should be there.
- Yogesh Kirve:** That is all from me. Thanks.
- Moderator:** Thank you. Next question from the line of Deepesh Kyshap from Equirus Securities. Please go ahead.
- Deepesh Kyshap:** I wanted understand the raw material prices for your company because one of our peer has reported newsprint inflation of around 6% but you have actually reported decrease in raw material cost. I want to understand how it was and what is the outlook on the news print cost of this is going forward?
- Vivek Khanna:** As far as the current year is concerned, I will answer that and then Ratul will take on the outlook. We have had pretty much stable newsprint price marginal increase, but we booked certain cost initiatives and cutting out unproductive pagination as part of our cost initiatives, because of that there has been a decrease in consumption and the combination of the two has led to a drop in raw material cost. That is as far as quarter four is concerned. Now as far as the newsprint price outlook for next is concerned Ratul is answering that.
- Ratul Bhaduri:** We have demonstrated in this quarter and the full year also even if there are changes which are happening in the external environment if there are movements in the prices in both the domestic as well as the imported varieties, we try to offset and mitigate that through our control on pagination and by doing a sharper deployment between the mix of domestic and imports. So that effort will continue and I think you should be able to factor in a very secular trend line from what you see over the last three to four quarters in relation to the revenue. We do not see too much of the hike in this.
- Deepesh Kyshap:** Can you help me how months of inventory you keep with newsprint?
- Ratul Bhaduri:** May be could have been 4 and 5 weeks on an average between domestic and imports put together.
- Deepesh Kyshap:** 4 to 5 weeks. Carrying on from the last question one of peer was asking you what is the number of copies. Can you help me in the absolute number of copies you have in circulation correctly?
- Vivek Khanna:** We do not give out the absolute number but we are at an all time high right now.
- Deepesh Kyshap:** Thank you so much.
- Moderator:** Thank you. Next question is from the line of Ankit Kedia from Central Broking. Please go ahead.

Ankit Kedia: Could you quantify the impact of elections in the quarter was it a positive 5%, if I exclude elections would have been posted on decline in Ad revenues?

Vivek Khanna: If you remove elections, then you have to add back what would have come as DAVP and display. So it becomes very difficult to quantify but net there is always a certain positive of elections. It would have been maybe a couple of percentage lower maybe flattish kind of revenue plus. But it is very difficult because the way we were getting certain revenues from certain sectors in the past, had that continued it may still been 3%. Had demonetization not happened it would have been double digits and so on and so forth. There are lots of factors.

Ankit Kedia: Sir, last few questions, you said that we will have an aggressive circulation in the existing markets as well, so could you just elaborate the strategy that we have for key markets of UP, Bihar and Jharkhand. Where do you see the gaps in these because in last 3-4 years we have seen UP expansion being very aggressive and now we have stabilized, so again if we are going for expansion will it be in Tire II, Tier III cities and interiors or will be in the bigger cities and how much percentage of circulation could actually grow over next two years?

Vivek Khanna: If you look at Bihar we have a very significant lead over the number 2 player and other than two or three districts where there is very marginal gap in all the districts we have a very comfortable gap. So other than two three districts we will pretty much be okay in Bihar, so only in the few districts we will be doing some work. Jharkhand again by and large pretty much under control, just a few districts here and there. So largely the focus on expansion will be in UP. Now while we have expanded our presence in UP significantly, as I mentioned there are opportunities that have emerged to segment the market which is not expected to impact our margins even in the short run and when we see opportunities like that we would certainly like to tap them but to answer your question yes UP would continue to see a double digit growth in circulation in the current year.

Ankit Kedia: Is it safe to say that the margins in UP which has crossed 20% plus couple of quarters back will remain despite this expansion happening and the add growth will be double digit in UP next year as well?

Vivek Khanna: That is what we believe.

Ankit Kedia: In the Delhi market for last couple of years we are seeing a decline in ad revenues which is reflecting in the HT results as well on the English. So what is happening in Delhi market and what different are we doing now to arrest the downfall?

Vivek Khanna: Our revenues in Delhi did not decline this year. However, you are right that Delhi is not seeing the same kind of buoyancy. If you remove the demonetization impact the kind of buoyancy that one sees in UP we would not see it in Delhi which is a function of multiple things, the maturity of the market, the kind of investments that we ourselves have put in UP etc., etc. So as far as Hindi is concerned we still believe that we will continue to see growth even in Delhi. But not as much as we would see in markets like UP.

- Ankit Kedia:** Sir, in your opening remarks one of the question you answered, one of the markets we saw a decline. I was wondering which was that market if not Delhi?
- Vivek Khanna:** Yes, that is not Delhi that was Bihar and largely it is on account of the huge election base we had last year in Bihar. Even if you look at two years CAGR we have got good growths in Bihar. Last year was Bihar election which saw a massive jump. Without demonetization we would probably have continued to see growth in Bihar but the election revenue base and demonetization meant that Bihar did not see growth.
- Ankit Kedia:** That is helpful Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Ray enterprises, please go ahead.
- Rohit Balakrishnan:** Can you please give an outlook on the ad markets in Bihar, Jharkhand and UP?
- Vivek Khanna:** As I mentioned, in my opening remarks we are seeing normalcy return in some of the sectors or rather most of the sectors. We have also seen a reasonable start to the year both in terms of local revenue as well as national revenue and therefore, I believe that if you look at this year ahead we should see pretty much the kind of normal buoyancy that was there before demonetization to return. Now there is of course this factor of GST which is just getting clearer in terms of rates between yesterday and today and the impact of that is something that we will have to see, but without that I believe that with good monsoons predicted across and with a certain bounce back on account of demonetization getting over, the ad revenues roll should be good in this year.
- Rohit Balakrishnan:** In terms of UP would it be fair to say that the marginal expansion has broadly been played out because already we are 20% plus there?
- Vivek Khanna:** Absolutely.
- Rohit Balakrishnan:** I think Bihar and Jharkhand are much better than UP so that kind catching up will not perhaps happen?
- Vivek Khanna:** Bihar has been the large market for us in the past. Now UP, Uttarakhand in terms of total revenue as I had mentioned earlier here is larger than Bihar, Jharkhand but in terms of profitability yes you are right because of the investment that have been going on in UP. Our margins have gone up from when they were negative very high rate to 20% plus margin and they will continue to grow. Now when they catch up with Bihar probably in a couple of years down the line but too soon to say that they will be at the same levels of Bihar because our investments will continue and we will continue to increase our margins. That has been our strategy to invest while increasing margins rather than do a one shot in one year. So we will continue to follow our strategy and keep increasing our presence on ground, add strength in the market as well as our margins.
- Rohit Balakrishnan:** Sir UP, if I have to draw for UP now growth would be largely driven by the top growth in the

market is that fair to say?

Vivek Khanna: Did you say growth would be largely driven by topline growth? That is true in any market. The growth is always driven by topline growth.

Rohit Balakrishnan: I am asking about the bottomline.

Vivek Khanna: The bottomline, Yes, topline will drive the bottomline.

Rohit Balakrishnan: Any update on the cash which keeps on getting piled up in the balance sheet?

Vivek Khanna: In response to an earlier question, Piyush had mentioned that because of the uncertainty following demonetization we are obviously keen that we conserve some cash. Parallely as I have been saying earlier and Piyush mentioned again today that between organic and inorganic expansion or rather certainly as far as organic expansion is concerned some of the cash will be utilized and we are always on the lookout for inorganic opportunities and if such big opportunity would come this cash may not actually be sufficient but we are always on the lookout for good inorganic opportunities provided the valuation is fair and there is a strategic fit. We believe that that is a good way of expanding our business and there are opportunities in the market so we are looking at those.

Rohit Balakrishnan: If I want to go back to few of the previous conference call 3-4 years back you mentioned on that smaller sum was perhaps was good enough for acquisition and that was perhaps what would we keep on the balance sheet and rest would perhaps be an X amount. So I think we have already crossed that amount quite substantially?

Vivek Khanna: So couple of years back what we have said is that there is certain minimum that we would like to keep above which we will utilize for acquisitions etc. Now that minimum of course remains and yes we crossed that threshold on the cash that we have right now. Now certainly there is an opportunity that we feel we should invest behind in our core markets and therefore this cash will come in most usefull for that and we will be utilizing some of it. Parallely there are inorganic opportunities that has come to us in the past and I am sure will come going forward as well and some of this cash could then get utilized there. So there is of course minimum threshold which has been the crossed and above that the cash that we have we will be used for both organic and inorganic expansions.

Rohit Balakrishnan: What will be the minimum threshold in your mind?

Vivek Khanna: We have already crossed that some time back and we had mentioned it many years back so I think we are beyond that.

Rohit Balakrishnan: Well there is any thoughts on the payout ?

Vivek Khanna: The board always looks at it. I would not debate that and that it is something that the board will come back depending upon normalcy returns and how the opportunities are at that point in time.

- Rohit Balakrishnan:** Thank you.
- Moderator:** Thank you. Next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** In terms of M&A may I know you're thinking around what is the right value according to you in the since while you look out opportunities so saying that the correct value is not available. So you have some good opportunities just thought it is good share thoughts about what is the anchor which you have used while looking at valuation at targets?
- Vivek Khan:** I have answered your question many time. You know the usual methods are always looked at things like discounted cash flows, things like strategic fit etc., what you would expect anyone to look at prudently is something that we also look. Market multiples, performance, adherence to the government standards that we have etc., etc., so multiple factors that are always looked at.
- Lalaram Singh:** Please quantify a range which has the multiple?
- Vivek Khanna:** There is always strategic aspect that comes on it and I would not like to quantify because if suddenly I say something which is higher than what the seller is expecting, I will have a problem.
- Lalaram Singh:** Thanks.
- Moderator:** Thank you. Next question is from the line of Raunak Kotecha, an individual investor. Please go ahead.
- Raunak Kotecha:** Thank you for taking my call. I wanted to know as to your expansion plans in Madhya Pradesh and Rajasthan organically?
- Vivek Khanna:** Yes, what about it.
- Raunak Kotecha:** Are you planning to expand in Madhya Pradesh and Rajasthan soon?
- Vivek Khanna:** No comments on that right now.
- Raunak Kotecha:** My question is to the valuation of the company it is very low so it makes a very good idea to acquire the Company share and buyback of shares?
- Vivek Khanna:** As I said earlier buyback is something that we too evaluate from time to time and I cannot give you further details but we will definitely evaluate given the share prices.
- Raunak Kotecha:** Jagran Prakashan has bought back at 20 PV for enterprise value 20 earning and yours is probably 5 or 6 so vast difference. May be to the better idea to buyback other than put into fixed deposits into debt funds.
- Vivek Khanna:** Well thank very much. I think that is a great idea. We will definitely evaluate it but we part from

it right now I think those are the things that we will evaluate and then we will come back.

Raunak Kotecha: Thank you very much.

Moderator: Thank you. Next we have a call of question from the line of Rajgopal Ramnathan. Please go ahead.

Rajgopal Ramnathan: I hope you can hear me. I do not actually wish to belabor the same point but given that HMVL currently trades at P of around 10-11 X and when you are potentially evaluating an acquisition or an inorganic expansion would you be comfortable paying a valuation which is much higher than where you are trading?

Vivek Khanna: It basically depends upon the value that we kind of look at. I think it will depend on the operating returns that we can get out of the acquisition so really our own share price and stock price will be less of a determinant vis-à-vis the potential opportunity which is represented.

Rajgopal Ramnathan: What do you think you need to do ensure that your appropriately value?

Vivek Khanna: You tell me. I think you know we should be valued but to have appropriately give the margin profile which has been expanding of course except for the cash which is sitting there which we are using for other strategic purposes. I think the market is currently not fairly valued in the company which you yourself have said. But all these options of dividend and buyback and organic, inorganic expansions are perpetually being discussed at Board level and we will keep on doing that and there will be combination of all of these.

Rajgopal Ramnathan: No I think fundamentally the problem that you seem to be having in terms of wanting to communicate your logic is that having created such a large cash pile the signal that you are sending out is you need to deploy this somewhere and for some reason or the other we are not clearly in a position to see proof that you are in a position deploy that profitably and that is one of the reasons why your valuations are getting hampered?

Piyush Gupta: That could very well be the reason but this cash is currently not just cash which is sitting on the balance sheet even if you were to evaluate it on any parameters. Currently it is not the depletive but it is accretive for the last two years regularly so I think that logic theoretically sounds right but does not hold when you actually do the numbers.

Rajgopal Ramnathan: But does not generate ROE?

Piyush Gupta: At the end of the day what I am saying is that cash is working and giving you a EPS that is something at this point in time!

Rajgopal Ramnathan: It is suboptimal?

Piyush Gupta: Why do you say suboptimal?

Rajgopal Ramnathan: What returns are you generating, you are generating around 9-10% on your cash right?

Piyush Gupta: Post tax.

Rajgopal Ramnathan: Post tax correct so the base business actually generates more than 20?

Piyush Gupta: Exactly but there is a strategic reason why this cash is sitting in there so you know at the end of the day tomorrow if for strategic reason as I have explained earlier if we have to deploy cash to get this thing most of the cash will get utilised.

Moderator: I am sorry to interrupt Mr. Ramnathan but in the interest of time we have to take that as the last question. I would now like to hand the conference back to Mr. Vivek for closing comments.

Vivek Khanna: Thank you so much. Thank you ladies and gentlemen. As I have mentioned in my opening remark which has been a tough year but we believe that the worst is behind us and we are looking forward to getting back those as demonetization impact waves off and as things return to normalcy. So thank you once again for joining us. Have a nice day.

Moderator: Thank you very much on behalf of ICICI Securities concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.