



Hindustan Media Ventures Limited's

Q2 FY14 Earnings Conference Call

October 24, 2013 at 5:00 p.m. IST

www.hmvl.in

Moderator: Ladies and gentlemen good day and welcome to the HMVL's Q2 FY14 earnings conference call, hosted by IDFC Securities. 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 Ms. Swati Nangalia from IDFC Securities. Thank you and over to you!

Swati Nangalia: Thank you. Good evening and welcome to the Q2 FY14 earnings call of Hindustan Media Ventures Limited. We have with us today, 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. We are happy to report yet another quarter of healthy top-line and earnings growth. Despite the full impact of the shraddh period in Q2, our advertisement revenues grew by 11%, driven by both, volumes and yields. Besides, circulation revenues increased by 15% on the back of higher realizations per copy. While these pricing initiatives have resulted in a stronger top-line, our continued focus on cost control measures has ensured further improvement in profitability. Our EBITDA grew by 18% to Rs. 42.5 crore and PAT was up by 15% at Rs. 24.9 crore. The movement in dollar had some impact on our newsprint cost. That said, we have seen a robust performance in the UP and Uttarakhand markets while continuing to grow in our strong and dominant markets of Bihar and Jharkhand. We believe that we have created a very strong brand with a very healthy balance sheet. This makes us confident that we will continue to deliver value for our shareholders by delivering growth in both top-line and bottom-line in the quarters ahead. Thank you very much. We would be glad to take any questions that you might have.

Moderator: Thank you. We have the first question from Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Could you tell us how the ad growth has been in your areas of operation?

Vivek Khanna: In UP and Uttarakhand markets we have grown in double-digits driven by increase in volume and a significant increase in yields. Bihar and Jharkhand have also grown handsomely, but in

single digits. The growth rates in UP and Uttarakhand have been faster as compared to Bihar and Jharkhand as the latter are our mature markets.

Abneesh Roy: Bihar is doing well in terms of growth compared to most of the other states. So does this imply that the slowdown is prevalent more in the Jharkhand as shared by some other players who are present there? Also, are we seeing better growth in Bihar? If so, why is that not reflected in the overall ad growth and where is the disconnect?

Vivek Khanna: You are right, Bihar is growing handsomely in terms of GDP and we expect to continue our growth in both, Bihar and Jharkhand. In Q2 FY14, we were faced with an uncertain situation with the government in both the states and that obviously impacted the advertising revenue to a certain extent.

Abneesh Roy: Could you give us some insights on how much Patna contributes to the overall Bihar advertisement. Also, we are hearing of a new player entering Bihar especially the Patna market. How relevant or irrelevant would a player be in the entire scheme of things if it just focuses on Patna.

Vivek Khanna: Patna is the largest ad revenue contributor from Bihar because all the government revenue comes from Patna. Additionally, there is also a lot of local revenue that comes out of Patna.

When a formidable player enters our market, we have to take all steps to ensure our dominance continues and we are doing the same. There is a lot of activity which is currently going on in Patna. So, we are pretty confident that we will be able to maintain our dominance in Patna and in Bihar.

Abneesh Roy: You said that government ads are based in Patna. So, if a player has leadership only in Patna, will he get a very small share of that because decision making might happen in that city, but the advertisement allocation is based on the readership profile and readership data?

Vivek Khanna: That is right. It is a function of the total copies and readership that one has.

Abneesh Roy: Could you throw some insights on your cover pricing strategy in Patna? Would it be similar to what happened when Dainik Bhaskar had entered Jharkhand?

Vivek Khanna: As far as Patna is concerned, there has been no impact on the cover price currently; however, it is a pretty dynamic situation and everyday some or the other activity is happening in the market. In Jharkhand, all the three players had cut the cover price a couple of months prior to the launch of Dainik Bhaskar. That said, there is no cover price action that has taken place in Bihar currently.

Moderator: Thank you. The next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: We see great results coming through every quarter, but there are certain necessary corporate actions related to usage and management of the capital i.e. either by managing your acquisition kitty or distribution to shareholders. We think more needs to be done on this front and we would be really grateful if some initiatives are taken by the company.

Vivek Khanna: We are hearing what you have to say. In last quarter's call we had mentioned about an internal target to achieve optimum level of cash before we take further actions on distribution. So, you should hear about developments on this going forward.

Moderator: Thank you. The next question is from the line of Ram Hegde from Primus Investment Advisors. Please go ahead.

Ram Hegde: What is the size of the Bihar ad market? Secondly, what would be the size of the Patna local ad market?

Vivek Khanna: Bihar is about a Rs. 200-250 crore market; and out of that, Patna would contribute nearly 60-65%. Please note here that government is a very significant part of the ad market.

Ram Hegde: Could you give us a sense of the cover price movement in Jharkhand from when DB came in and where are they today?

Vivek Khanna: The cover prices in Jharkhand had dropped from Rs. 4 to Rs. 2 when Dainik Bhaskar entered the Jharkhand market. The cover prices of most players are back to older levels of Rs. 4.

Ram Hegde: What is your circulation in Bihar?

Vivek Khanna: About 7 lakh copies.

Moderator: Thank you. The next question is from the line of Mitul Katyal from Laburnum Capital. Please go ahead.

Mitul Katyal: Why was other income low in this quarter?

Ajay Jain: The value of securities and mutual fund investments took a hit due to change in interest rates by the central bank in July. This decline in value of investments led to a decline in the other income.

Mitul Katyal: So this additional income will come in Q4 once the interest rate reversal happens?

Ajay Jain: That's correct.

Mitul Katyal: Why has the tax rate gone up and how much are you guiding for the full year?

Ajay Jain: The tax rate in Q2 has gone up as there is a decline in interest income which is generally tax free. Going forward, since the interest income will return to a normal run rate, the effective tax rate will be back to normalized levels.

Mitul Katyal: What percentage of total advertising revenue is from UP?

Vivek Khanna: About a third of our total revenue comes from UP and Uttarakhand.

Mitul Katyal: In the last conference call you had mentioned that since we are close to breaking-even in UP, the margins will start increasing at the company level. So, is this the reason for an increase in margins or is this increase a result of cost reductions?

Vivek Khanna: It is a combination of both, growth in yields and revenues as well as cost reduction; and yes, we did say that we will breakeven in UP, which we have.

Moderator: Thank you. The next question is from Amit Kumar of Kotak Securities Limited. Please go ahead.

Amit Kumar: We have seen in the last 12 months that the top two players in the Hindi/Regional print arena have taken almost a double-digit increase in yields. Given that our growth of 11% was driven by both, volumes and yields; do you believe that there is a potential for further upside in terms of yields? Also, as the number three player, will we be able to push through a double-digit rate hike sometime in the future?

Vivek Khanna: We certainly expect our yields to increase. If you look at the UP and Uttarakhand markets, where we are the number three player, there is still significant headroom between the number two player and us, as far as yields are concerned. We have narrowed the gap significantly in terms of readership and as we continue to do that, we will simultaneously continue to increase our yields as well.

Amit Kumar: How was the growth in Delhi market this quarter and what are your expectations for the year?

Vivek Khanna: Growth in Delhi market was similar to the growth in the overall company in this quarter. Going forward, we should continue to see a similar kind of a growth rate in the Delhi market. Additionally, there will also be a marginal impact of Delhi elections on our growth.

Amit Kumar: What is the Company's strategy going forward?

Vivek Khanna: I can give you some high level strategy. I am sure you will appreciate that I cannot disclose too much in detail, because it is competition sensitive information. We had outlined a strategy of becoming a strong player in UP a few years back. That journey, in terms of number of new units

we have set up, is pretty much complete. There are certain gaps in the UP market which we will continue to fill and we will also continue to grow our yields in UP so that we maintain our growth momentum. At the same time, we are now looking at both, organic and inorganic ways of expansion beyond our existing markets.

Amit Kumar: Inorganic expansion has been on the cards ever since the IPO of the Company, but nothing has really panned out. Are you indicating that there is some opportunity that you are seriously considering or is it more of a general approach at this point of time?

Vivek Khanna: Without getting into details, I can tell you that every year there have been opportunities that we have looked at. Also, as I mentioned earlier, we continue to evaluate both organic and inorganic expansion opportunities.

Amit Kumar: What is the competition doing in UP because the number two player seems to be doing significant corporate changes in the market. Do these changes have any bearing on this player's operating performance? What is the potential of Hindustan to capitalize on these changes and the possibility of being impacted by them?

Vivek Khanna: At this moment, it is impossible to say what is happening to the number two player in UP. Therefore how the dynamics pan out will depend on the exact details of developments taking place there.

Moderator: Thank you. The next question is from line of Srinivas Seshadri of CIMB Securities. Please go ahead.

Srinivas Seshadri: With the impending launch of DB in Bihar, one would expect some form of retaliation from the existing players. So, how would that impact the margin profile and what kind of margin levers would we be able to pull off to protect our margins from a near-to-medium-term perspective?

Vivek Khanna: We have taken various cost control initiatives especially in the light of rising newsprint prices and we will continue with these cost control initiatives. That said, it is extremely important that we continue to maintain dominance in Patna and in Bihar and we will do so by continually investing in these markets. The Bihar market gives us good returns even as we increase our copies there. So, it is a function of investing in Bihar to maintain our dominance and deriving benefit in terms of both advertising revenue as well as circulation revenues. In terms of cover price movements, etc., we will have to see what happens over the next couple of months.

Srinivas Seshadri: Are we comfortable with defending the current margins or should we factor in some impact to the margins?

Vivek Khanna: We are comfortable in maintaining the current margins. There was a short term impact when the cover price action took place in Jharkhand due to DB's entry. However, that normalized quickly and the margins further strengthened as we grew in UP and Jharkhand. So we were able to reap the benefits of that through advertising revenue as well.

Srinivas Seshadri: When a player enters with a big-bang kind of launch, what is the kind of impact on the leader in terms of ad revenue growth in the near-term perspective? Is it material in terms of the growth rates for that particular state?

Vivek Khanna: Just to give you an example, a significant competitor entered the Lucknow market last quarter. So far, that has not had any impact on our advertising or overall revenue. That said, we are keeping a very close watch on what is happening in Patna and will continue to defend our position there.

Srinivas Seshadri: We have seen tight control on the costs i.e. both, newsprint as well as the other SG&A cost. Is this control sustainable or could we expect a sudden increase in the cost line?

Ajay Jain: Cost control is actually a part of our DNA and we are managing our costs very well. We do not foresee any significant jump in the costs, unless there is impact of some external factors like paper prices. While this could impact our costs marginally, we believe that other areas like revenue increase will actually help us in offsetting such cost increases.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Was political uncertainty the only factor which affected growth in Bihar or do you think that Prabhat Khabar is impacting our overall market?

Vivek Khanna: The gap between our and Prabhat Khabar's numbers is very significant, and therefore, there was no impact on our revenues because of Prabhat Khabar.

Miten Lathia: Is it safe to assume that the overall Bihar ad growth would be very similar to our ad growth in Bihar?

Vivek Khanna: Yes.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: What percentage of revenues do we get from Bihar and Jharkhand?

Vivek Khanna: Contribution from Bihar and Jharkhand is about 50% of our total revenue.

Dheeresh Pathak: Can you split that between Bihar and Jharkhand?

Vivek Khanna: We look at Bihar and Jharkhand in totality. I would not like to split the contribution between Bihar and Jharkhand.

Dheeresh Pathak: With the entry of the competition in Jharkhand, the understanding that we have is that there would have been a significant impact not only on the cover price of other competitors, but also on your yields. Can you just comment on that?

Vivek Khanna: We continue to grow our yields as well as our volume in Jharkhand and we have done that every quarter for the last few quarters.

Dheeresh Pathak: What is the ad market size for UP and Jharkhand markets?

Vivek Khanna: UP market is close to Rs. 900-1,000 crore for both, English and Hindi. Bihar is about Rs. 250 crore and Jharkhand is slightly smaller than that.

Moderator: Thank you. The next question is from line of Kalpesh Makwana from Quant Capital. Please go ahead.

Kalpesh Makwana: There is a significant control on other expenses. Was there any particular cost item that you reduced or was cost control maintained over all the items included under other expenses?

Ajay Jain: The other expenses include expenses like overheads, HR, promotion expenses, etc. So, when we look at controlling costs, all these items are touched upon. Expenses like sales promotions and marketing generally phase out and are therefore spread over the year.

Moderator: Thank you. The next question is from the line of Rohit Anand from Horizon Research. Please go ahead.

Rohit Anand: What is the mix of volume and price in advertisement growth?

Vivek Khanna: 60% of the growth is on account of pricing, balance is from volume growth.

Rohit Anand: What would be the contribution mix from government and private sectors to the advertisement revenue?

Vivek Khanna: The government and DAVP contributed about 17%. Other top contributors are education, automobile and garment retail.

Rohit Anand: What is the expected impact of election on the government advertisement?

Vivek Khanna: The Delhi election would be the only election in our regions of operation. This would not have a large impact on government advertising. Our footprint is larger in the states of UP, Bihar, and Jharkhand and these states are not going for elections in November. So we will see the impact of general elections in these regions later.

Rohit Anand: Now that we have broken-even in UP, what is the steady state EBITDA margins that we are looking at in the next two to three years' time?

Vinay Mittal: We would probably be in the region of 20% over the next two to three years.

Rohit Anand: You mentioned that UP and Uttarakhand contributes around one third of revenues and 50% comes from Bihar and Jharkhand markets. So, the rest would be from Delhi?

Vivek Khanna: Yes.

Rohit Anand: What would be the expected impact on our EBITDA margin should there be a 1% increase in newsprint cost?

Ajay Jain: 1% increase would translate to Rs. 2 crore in terms of newsprint and therefore the EBITDA margin would decrease by about 0.3% on an overall basis.

Rohit Anand: What is the capex plan for FY14?

Ajay Jain: Our capex plan for FY14 is about Rs. 30 crore which includes maintenance capex and capex for improving color capabilities and increasing machine capacities etc.

Rohit Anand: Do you expect the maintenance capex to be around the same level in the future?

Ajay Jain: The maintenance capex is generally not more than 1-2% of the net fixed assets value. So, the maintenance capex will be broadly in the same range unless we plan some heavy investments in assets.

Moderator: The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: Is the entire Rs. 264 crore in investments on account of investments in mutual funds?

Ajay Jain: These are basically investments in fixed income securities.

Pankaj Tibrewal: Are these parts of income funds with depreciation value or are they are part of FMPs where the accrual income will be booked once the FMP is matured?

Vinay Mittal: They are in both, FMPs and income funds. But, in case of FMPs, we need to do a mark to market. Therefore, on maturity the FMPs will not show a loss.

Pankaj Tibrewal: We have been earning a steady other income of Rs 7-8 Cr every quarter which was slightly lower this time. Will we make up for this decrease in the subsequent quarters?

Vinay Mittal: Yes.

Pankaj Tibrewal: What is the net debt or cash position this quarter?

Ajay Jain: Net cash position is about Rs. 370 crore. We have a debt of Rs. 37 crore and cash of about Rs. 407 crore.

Pankaj Tibrewal: You have Rs. 264 crore in current investment and cash of Rs. 34 crore. So where is the remaining Rs. 100 crore parked?

Ajay Jain: About Rs 95 Cr are parked in non-current investment i.e. investments which have a slightly longer maturity of more than one year.

Pankaj Tibrewal: Are those the private treaty ones?

Ajay Jain: No. We do not have private treaty investments in HMVL.

Moderator: Thank you. The next question is from the line of Amit Kumar from Kotak Securities. Please go ahead.

Amit Kumar: Could you breakdown the Bihar advertising market into national, local and government advertising?

Vivek Khanna: Majority of the advertising comes from government and local. Government is the single largest category and would be contributing between 30-40%. National would be about 15-20% and balance is local.

Moderator: Thank you. The next question is from the line of Prakash Ramaseshan from Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: What kind of cash balance would you be comfortable with for the proposed acquisitions? Also, is it possible to give the investors a plan for distribution of capital against the free cash flows you make?

Vinay Mittal: It is for the board to decide by the end of the year. That said; we are fast reaching that level where we should be comfortable with the amount of cash that we have.

Prakash Ramaseshan: We really appreciate the manner in which you run your operations and the dominance of your business. If one looks at your performance parameters vis-à-vis your peers, I think you are exceeding many of your dominant peers; however, if you look at your valuations, that actually has slipped the other way round. I think this is reflected by the fact that the distribution policy is and the equity ratio are very different from those of your peers. So, I think some corporate actions are necessary to unlock value for shareholders. This is only a thought I am giving. I do hope you can communicate this to the board.

Vinay Mittal: We appreciate it. We will do the needful.

Moderator: Thank you. The next question is from the line of Ekta Bhalja from B&K Securities. Please go ahead.

Ekta Bhalja: What is your circulation in Patna?

Vivek Khanna: It is about 1.4 lac copies.

Moderator: Thank you. As we have no further questions, I would like to hand the floor back to Mr. Salvi for closing comments. Please go ahead.

Nikhil Salvi: I would like to thank the management of Hindustan Media Ventures Limited for taking time for this call. I would also like to thank all the participants for joining in today. Mr. Khanna would you like to make any closing comments?

Vivek Khanna: Thank you everyone for joining us today. We have been consistently delivering growth over the last few quarters and we believe that despite competitive pressures in various areas, we will continue to deliver similar growth going forward. Thank you very much.

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

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.