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Hindustan Media Ventures Limited's

Q2 FY2015 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the HMVL Q2FY15 Earnings Conference Call hosted by Centrum Broking. As a remainder, all participant 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 the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Kedia from Centrum Broking. Thank you and over to you sir.

Ankit Kedia: Thank you. Good morning to everyone on the call. On behalf of Centrum Broking, I welcome you to the Q2 earnings conference call of HMVL. We have with us from the management, Mr. Vivek Khanna – CEO, Mr. Ajay Jain – CFO and Mr. Vinay Mittal – Chief Financial Strategist. We will start with opening remarks from Mr. Vivek Khanna followed by Q&A. Over to you Vivek.

Vivek Khanna: Thanks Ankit and good morning ladies and gentlemen. We are glad to report another quarter of growth in revenue and profits. We have seen revenues increasing by 19% with advertising revenue growth of 12%. We have seen growth across all major categories except education which may have impacted the overall growth by 2-3%. Circulation revenue grew by 11%, largely on account of growth in number of copies. We have experienced this growth due to a very strong performance in UP and UT and steady growth in our dominant markets of Bihar and Jharkhand. EBITDA grew by 20% despite raw material costs increase and high salary costs, which were on account of regulatory compliance and new hiring. We believe that both raw material costs and the salary costs have peaked for the year. Our strong IRS results and a robust growth in UP/UT along with our leading position in Bihar and Jharkhand gives us confidence that we will continue to deliver growth for our shareholders in the quarters ahead. Thank you and we are now open to take questions.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ritesh Poladia, an individual investor.

Ritesh Poladia: Please provide the bifurcation of the 11% increase in circulation revenue. How much was from circulation and how much was from realization per copy?

Vivek Khanna: Majority of the increase was on account of increase in number of copies. The estimated growth in the markets of UP/UT has continued. As mentioned earlier in Q1 FY2015, we are seeing a natural demand in these markets for our products and as a result, we have experienced a significant increase in copies in Q2 FY15 compared to the same period last year.

Ritesh Poladia: What is the current circulation per day and how much of that is subscription led?

Vivek Khanna: The current circulation would be close to 26 lakhs. Majority of our copies, about 95%, are sold on cover price. We have very few subscription copies.

Ritesh Poladia: In the balance sheet, there is an inventory increase. Is it because of the tonnage increase of newsprint or is it because of the cost pressure?

Ajay Jain: The increase is on account of both, but tonnage has gone up much more because we are now into opportunistic imports and the imports are leading to the higher inventory. We have also taken a decision to make inventory cover a little higher and therefore, the inventory has gone up in this current quarter.

Moderator: We have the next question from the line of Srinivas Seshadri from CIMB.

Srinivas Seshadri: How much tonnage was consumed in this quarter?

Ajay Jain: 21,550 tonnes.

Srinivas Seshadri: In the UP market, where you have made substantial strides as per the new IRS survey, what midyear price increases have we seen and what is the outlook for next quarter? How is the market reacting to that?

Vivek Khanna: There was a strong double digit revenue growth in Q2 FY2015 in UP/UT and it is largely on account of yields which have gone up by double digits. This yield increase is due to the IRS results and the investments that have been made over the last few years in those markets. The growth is also profitable.

Srinivas Seshadri: Between the first quarter and second quarter, have there been some pricing actions or were these more in the beginning of the year and now you will start looking at it again?

Vivek Khanna: The pricing actions were taken as soon as the IRS results came out and the manifestation of that takes place over a period of time. It is a function of when some of the deals get closed. They do not happen all at one time. It is an ongoing process.

Srinivas Seshadri: Please give some indicators on where do you see the newsprint prices headed for the rest of the year from the current levels?

Ajay Jain: Newsprint prices are softening. We believe they will continue to go down over a period of this quarter as well as next quarter. It is led by two facts; the dollar has stabilized and the international prices of newsprint itself are coming down. This will also impact the domestic newsprint prices and overall, there will be a downward trend.

Srinivas Seshadri: What are your expectations for the next couple of quarters?

Ajay Jain: We believe that in Q3 FY2015, the prices will move down by about Rs 2,000 per tonne and in quarter 4 FY2015, there will be a further decline.

Moderator: We have the next question from the line of Bhautik Chauhan from Span Capital.

Bhautik Chauhan: What is the cash on book at the end of quarter 2?

Ajay Jain: The net cash is 437 crores after borrowing of 103 crores.

Bhautik Chauhan: Do we see any expansion into new emerging markets by the end of this year?

Vivek Khanna: We are evaluating two important markets for expansion. We are also looking at some acquisition opportunities. All these things are in various stages and we expect some of them may fructify in Q4 FY2015 or in the first quarter of the next fiscal year.

Bhautik Chauhan: We have seen the increase in other income from Rs. 1.4 crores to 12 crores year-on-year. Is the increase sustainable going forward?

Ajay Jain: The treasury income is much higher than last year same quarter because last year had seen a RBI rate correction which brought down the yield in the quarter itself. On a regular basis, we do have a treasury income almost 8-10 crores a quarter which was not there in the quarter 2 of last year because of mark-to-market.

Bhautik Chauhan: If we exclude our other income from EBITDA, our EBITDA margins stand at 19.5% in this quarter vis-à-vis 23.5% last year. Where do we see our EBITDA margins going forward?

Ajay Jain: The margins were 21% in Q1 FY2015 and are now ~20% in this quarter. We believe our EBITDA margin will continue to grow. Although in quarter 2 there was a slight dip, it will definitely be on an upward trend. The increase in advertising revenues due to IRS results, yield etc. and expectation of lower paper prices will cause the EBITDA margins to go up.

Bhautik Chauhan: What was the average cover price for this quarter?

Vivek Khanna: The prices vary from market to market and are Rs. 3.50 on average.

Moderator: We have the next question from the line of Lakshmi Narayanan from Catamaran.

Lakshmi Narayanan: In the UP market, where our performance is exceptionally good, where is the growth coming from and who are we displacing in terms of circulation or the advertisement sales revenue?

Secondly, what is the number of editions in UP and how much have we added in Bihar and Jharkhand separately?

Thirdly, which are the key sectors that are providing us bulk of the advertisement revenues? There are a lot of e-commerce advertisements that are coming up across various regional prints. What is the advertisement mix?

Lastly, is there a perceptible increase or a change in the composition of local-local and the national?

Vivek Khanna: Over the last 3-4 years, we have increased our production units in UP and now we have about 12 production units in UP/UT. We have 7 in Bihar and Jharkhand put together. This is the total number of units. We have also increased copies over the last 3-4 years. We continue to increase our copies in the markets of UP/UT aggressively and we are seeing a steady increase in our copies in markets like Bihar and Jharkhand. We are seeing very good advertisement growth in UP/UT largely on accounts of yield. We are now getting advertising at higher price which is a function of our increased presence in terms of copies and our increased readership number. The impact on the yields of competition would be known after the results of the other publications. In terms of market share, across the majority of our categories, we have increased our market share in quarter 2 in terms of advertising volume. In terms of the key categories that have delivered growth in quarter 2, we have seen growth in autos, government revenues, healthcare and retail. All categories have grown well except education. Education is a very important category in the months of May, June, and July. Still, our top 3 or 4 categories would be government, education, auto and retail.

Lakshmi Narayanan: What about e-commerce as we are seeing lot of e-commerce ads. Do you classify that under retail?

Vivek Khanna E-commerce does not get classified in retail and it is not a very large category in Q2 FY2015 for us.

Lakshmi Narayanan: As mentioned earlier, we have 12 units in UP/UT and 7 in Bihar/Jharkhand. Does that equal the number of editions?

Vivek Khanna: There are a large number of editions.

Lakshmi Narayanan: If we exclude the sub editions, how many main editions are there?

Vivek Khanna: There are more than 100 editions in Hindustan because there are separate editions for certain districts etc.

Lakshmi Narayanan: What is the mix of local and national?

Vivek Khanna: We are steadily moving towards the 50:50 ratio of local-local and national-local advertising

Lakshmi Narayanan: The total circulation is 26 lakhs. Is this for all markets put together?

Ajay Jain: That is all markets put together.

Moderator: Our next question is from the line of Rohit Dokania from IDFC.

Rohit Dokania: The festival season has begun and almost 15-16 days have passed. What is the growth in Q3 FY2015? How much of growth can we extrapolate for the full year in terms of advertisement?

Vivek Khanna: We should continue to grow at double digits over the next couple of quarters.

Rohit Dokania: Has this festival season been any better in terms of volume pickup?

Vivek Khanna: The performance is varied in different markets. Certain markets are seeing much greater buoyancy than others, but the majority impact of the festival season is expected to come in next few days i.e. the week before Diwali is the biggest.

Rohit Dokania: The press release mentions a charge in terms of employee expense as regulatory. Wasn't the complete one-off booked in Q1? Is there some one-off in Q2 as well?

Vivek Khanna: In Q1 FY2015, the regulatory compliance led us to have a one-off as well as a recurring charge. The recurring charge is a relatively small amount and would be included going forward. As a result, this component is also there in Q2 FY2015.

Moderator: We have the next question from the line of Narayanan Ravindranathan from Chola MS General Insurance.

N. Ravindranathan: What is the yield increase in UP? What is the yield increase between national and local? Have yields gone up in local and national advertising in the same way or is it more driven by national advertising?

Vivek Khanna: Our total yield increase in UP is close to 16%. The yield increase in national advertising is much more than that and also, the IRS impacts national advertising predominantly. Local yields have been going up steadily even before the IRS results had come because that is a function of increase in copies and the local advertisers have been seeing our presence increasing in UP over the last 3-4 years with yields going up steadily. The local advertising will continue to grow at a steady pace rather than a quick jump due to the IRS.

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

Vikas Mantri: Out of the 12% advertisement revenue growth, what is the contribution from volume versus yield?

Vivek Khanna: 60% was in favor of yield.

Vikas Mantri: What is the contribution from national advertising in the overall mix?

Vivek Khanna: Our national advertising has typically been more than 50% of the overall but it is slowly moving towards a situation where national and local both will be contributing 50:50. Currently, national is more than 50%.

Vikas Mantri: In national advertising, IRS has helped to improve yield. Is it more than average (the average yield improvement being 7-8%)?

Vivek Khanna IRS helps to increase yield amongst national display advertisers. National display would be about 25% of the total advertising revenue. There are other sectors including government, classifieds, local advertising, tenders, events, etc., which are not a function of IRS and therefore simple mathematics does not help to arrive at a situation on yield increase. The yield increase has been in double digits in Bihar, Jharkhand and UP put together in terms of national advertising.

Vikas Mantri: Which is the segment which has seen poor or negative yield improvement?

Vivek Khanna: Education has declined and yield improvement in markets like Delhi has not happened.

Vikas Mantri: Considering the IRS results, what is the further uptick in yields we can continue to have in the next 1 or 2 years per se?

Vivek Khanna: Given our strong presence in UP, our yield is still significantly lower. It is a constant effort to keep increasing yields in UP and this will continue to give us growth over the next two years. Yield improvement is expected in Bihar and Jharkhand as well but predominantly UP is expected to grow.

Vikas Mantri: What is the plan for circulation increase in various markets?

Vivek Khanna: We had a few pockets where we had to increase our copies in UP/UT. We had done this in Kanpur at the beginning of this financial year and seen a significant increase versus Q2 of last year. There are 1 or 2 other small pockets in UP where we will continue growing copies. Secondly, there was organic demand across the state of UP/UT and Bihar which kept increasing our copies even though we have increased cover price in all the markets over a period of time. Thirdly, we had significant increase in copies in Patna city towards the end of Q3 of last year. Compared to Q2 FY2014, this year Q2 has some delta on account of that as well. As a result, there is a significant increase in copies in this year Q2 compared to last year.

Vikas Mantri: What is the overall plan for the year in terms of percentage increase of number of copies on an overall basis for Hindustan?

Vivek Khanna: We will continue to drive our copy increase in UP/UT in some of those small pockets which are still left. It is not going to be very significant for the rest of this year.

Vikas Mantri: So compared to FY14, can we factor in a 5% increase?

Vivek Khanna: As we are currently running at a 10% increase and we will continue to grow, I think it will be more than 5%.

Moderator: Our next question is from the line of Kedar Wagle from Maybank Asset Management.

Kedar Wagle: If 'other income' is excluded from EBITDA, there is a decline in EBITDA year-on-year, and there has been a sequential decline in the core EBITDA whereas in the last 3 or 4 years, second quarter core EBITDA has typically been higher. Given the facts that the advertisement yields are going up, newsprint prices trending down etc, why has core EBITDA come down year-on-year and sequentially?

Vivek Khanna: There is sharp increase in raw material cost which is a function of both increase in copies and a sharp increase in the newsprint prices which have peaked in Q2 FY2015. The second factor is a significant increase in the salary cost which we believe has also peaked in Q2 FY2015. Both of these will start coming down. The copy increase which has happened over the first couple of quarters this year compared to the same period last year, its percentage increase will start coming down in Q3 and Q4 and therefore, going forward we will see an increase in EBITDA margins. Considering the sequential change, Q1 also had the election advertising, which typically comes at a higher yield and there is a 2-3% growth due to the election revenue in Q1. These are the various factors which can explain quarter-on-quarter as well as year-on-year variations. For full year, we are expecting an expansion in core EBITDA margin.

Moderator: Our next question is from the line of Yogesh Kirve from Batlivala & Karani Securities.

Yogesh Kirve: As mentioned earlier, the normalized staff cost should be around 12-12.5% of our revenues. It has come down in this quarter, but is still higher than the guidance range. Do we still reiterate the guidance for the second half?

Vivek Khanna: Yes, we do.

Yogesh Kirve: The operating costs have grown at a quite a substantial rate since Q4 FY2014. What are the expectations in the second half and in FY2016, considering the expansion plans and the outlook on the newsprint prices?

Vivek Khanna: This quarter has seen peaking of raw material cost. Firstly, cost will start coming down. If we consider year-on-year increase in copies in percentage terms, that should also start coming down because we have seen an expansion starting in Q3 of last year. Therefore in Q3 and Q4 there was a significant increase in copies compared to say Q1 and Q2 of last year and therefore the percentage increase in terms of copies will be lower as we move forward. The newsprint price should be lower and therefore the raw material increase in Q2 would have peaked. Secondly, some of the other costs like employee expenses will start coming down as they have also peaked.

Yogesh Kirve: Is there a possibility of having only a single digit increase in the operating cost in the second half?

Ajay Jain: In our cost structure, paper and production cost is the highest contributor. It is almost 50% of the total cost. These are all declining quarter-on-quarter. Therefore, the cost increase over last year should come in single digits.

Yogesh Kirve: What has been the CAPEX so far in first half and what is guidance for the full year?

Ajay Jain: The CAPEX has been Rs. 5.7 crores in first 6 months. For next 6 months, there are plans for some units, color enhancement etc. and therefore the CAPEX is expected to be higher than what we have spent in the first 6 months.

Moderator: We have the next question from the line of Jay Doshi from Kotak.

Jay Doshi: What would be the gap between the yields of Hindustan and Amar Ujala and Dainik Jagran in UP. What is the gap right now and what it used to be may be 2 years ago?

Vivek Khanna: Two years ago we were ~25%-30% of Dainik Jagran, probably even less. At this moment, we would be about 40%-45% depending on the categories, clients etc. of Dainik Jagran

Jay Doshi: How would we compare with Amar Ujala?

Vivek Khanna: We are below Amar Ujala as well, but the gap is being bridged very rapidly. We would be 70%-80% of Amar Ujala as of today.

Moderator: As there are no further questions from the participants, I now hand the floor back to the management for closing comments. Thank you and over to you sir.

Vivek Khanna: Thank you everyone and we look forward to continuously grow our presence and franchise across our core markets and deliver value for our shareholders. Thanks once again.
