Hindustan Media Ventures Ltd.

"Hindustan Media Ventures Limited Q2 FY 2017 Results Conference Call"

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Hindustan Media Ventures Ltd. kotak Securities CHORUS CALL

MANAGEMENT: **MR. VIVEK KHANNA -- CHIEF EXECUTIVE OFFICER, HINDUSTAN MEDIA VENTURES LIMITED**
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MR. RATUL BHADURI -- CHIEF FINANCIAL OFFICER, HINDUSTAN MEDIA VENTURES LIMITED
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Moderator: Good day and welcome to HMVL Q2 FY 2017 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant 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 this conference call, please signal the operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

From the company, we have Mr. Vivek Khanna - CEO, HMVL; Mr. Ajay Jain - Outgoing CFO; Mr. Ratul Bhaduri - CFO, HMVL; Mr. Sandeep Jain - Group Strategy Officer, HT Media.

I would now like to hand the conference over to Mr. Vivek Khanna for his opening remarks which will be followed by Q& A Session. Thank you and over to you Mr. Khanna.

Vivek Khanna: Thank you so much and good evening, ladies and gentlemen. In the second quarter, HMVL saw a lesser-than-usual revenue growth on account of continuing sluggishness in the macro-economic environment and also due to the high base effect of Bihar elections.

Total revenue was up 7.4% vs. last year; advertising revenue grew at about 1% as compared to 18% yoy growth in Quarter 2 of the last year. Our underlying Ad revenue growth, taking into account the Bihar elections impact in the base, is about 7%. Circulation revenues grew at about 3% on the back of increase in number of copies; while other revenues grew by 61% due to the mark-to-market gains arising on fair valuation of investments.

EBITDA margins were at 32% compared to 29% in the same period last year. The raw material cost grew by 3% v. Q2 of last year, due to higher circulation coupled with an increase in newsprint prices. PAT grew by about 21% for the quarter. As I had mentioned at the end of Quarter 1, we expect the Quarter 3 and Quarter 4 performance to be better because of the festival season, good monsoons, seventh pay commission implementation, as well as the upcoming UP elections.

So, we continue to maintain that second half of the year should be a lot better than the first half of the year. Now we are open to Q&A session. Thank you.

Moderator: Thank you. We will now begin the Q&A session. We take the first question from the line of Giriraj Daga from K M Visaria. Please go ahead.

Giriraj Daga: There are a couple of questions. First, what was the volume growth on the advertising side during the quarter?

Vivek Khanna: With 1% Ad revenue growth, both volumes and yields are largely flattish. However, if we take the underlying growth of 7%, then half of it is volume driven, half of it is yield driven.

Giriraj Daga: Any particular sectors which have shown de-growth?

Vivek Khanna: Political revenue largely has shown de-growth. Education, BFSI, Real estate continue be under pressure in Quarter 2. Also, there is Bihar elections impact in the base.

Giriraj Daga: We have already passed one month of Q3 and the festive season; have we seen better traction in our business in this period?

Vivek Khanna: The underlying growth from a festival-to-festival perspective has given us confidence but I do not want to talk more about Q3 at this moment.

Giriraj Daga: Last time we spoke about Rs. 70 -80 crores of CAPEX this year, will that continue?

Ajay Jain: We anticipate maintenance CAPEX of about Rs. 15 -20 crores. We do not have any plans to expand as of now.

Giriraj Daga: Would you be able to share what were the margins in the mature markets and in UP?

Vivek Khanna: Like in Quarter 1, the margin in mature markets continues to be close to 30% and in UP market we are getting close to 20%.

Giriraj Daga: UP 20% margin is apart from other income, right?

Ajay Jain: Yes.

Moderator: Thank you. We take the next question from the line of Arjun Khanna from Kotak Mahindra. Please go ahead.

Arjun Khanna: Could you share some color on how the realization per copy is trending?

Vivek Khanna: In the last few quarters, there was an impact of price corrections done in Bihar and in one or two markets of UP which was necessary on account of the competitor's move. But we have already started moving cover prices upwards. Q2 realization had a bit of that effect. But going forward you will see it getting rolled back.

Arjun Khanna: Could you share what is the average daily circulation this quarter?

Vivek Khanna: We do not give out those numbers in terms of average copies for the quarter. But we had a ~1% increase in our print order compared to Quarter 2 of the last year.

Arjun Khanna: So, putting that in perspective what would explain the increase in the news print cost?

Vivek Khanna: It is partly to do with the increase in the number of copies and partly to do with the rise in the news print prices.

Arjun Khanna: So, what would be the current cost per kg of news print?

Ajay Jain: Currently it is around Rs.34,500 per tonne.

Arjun Khanna: What would be the growth vs. last year ex. Political advertising?

Vivek Khanna: It will be 7-8%. Also, the underlying growth in Quarter 2 was 7% which takes into account the base corrected for impact of Bihar elections.

Moderator: Thank you. We take the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir, if you could share what was the ad revenue growth in the UP and the NCR market?

Vivek Khanna: UP, Uttarakhand continue to do well and continue to grow in double-digits. NCR is flattish, as it has been for last few quarters. Here, I am talking about NCR local revenues, not the key accounts.

Ankit Kedia: How has been the mix between the national and local and are we continuing to see pressures on national advertising?

Vivek Khanna: Yes, in one or two geographies, we see the pressure on the national advertising. It is on account of sectors like – BFSI, where revenue comes out of Mumbai. Also, E-commerce, though not a large sector, was subdued. Real estate which is both local as well as national continues to be under pressure and Education has been flattish. Also, Automobiles growth in the last year was a lot more on account of a very large number of launches that happened. This year there have been very few new launches and therefore the advertising growth of Automobile sector has come down. A lot of these sectors are linked to national market.

Ankit Kedia: Sir, if we exclude UP and Bihar elections, then what kind of ad growth are we projecting for the remaining half or the full year?

Vivek Khanna: I think we will be close to double-digits. However, it really depends on when the UP elections are announced. But as I mentioned the underlying growth in the first-half both Q1 and Q2 has been around 7%. We are seeing a much healthier underlying performance on a festival base, when we compare October versus a similar 30-day period last year extending to November 12th (till Diwali). Therefore the overall underlying growth for the year will be close to double-digits.

Ankit Kedia: And sir, given that we have Rs. 700 crores of cash, is your next growth strategy in the existing markets to increase circulation? Do you think there is scope to add few editions in the existing market?

Vivek Khanna: Maybe not editions, but there is scope to keep increasing copies which we will be doing. As far as new geographies are concerned, there is an evaluation which we have done, discussions are on, but we have no plans of entering any new market in the current financial year. But if any such plans are finalized, we will let you know.

Ankit Kedia: Sir, our parent HT Media is doing a cost rationalization exercise, are we doing the same in the company and what could be the cost savings which we could see in the next 12 months?

Vivek Khanna: Yes, it is a group-wide initiative and it is still work in progress. Thus, it is too early to quantify savings but you will see the benefit of the same largely in the next year.

Moderator: Thank you. We take the next question from the line of Ritwik Rai from Kotak Securities. Please go ahead.

Ritwik Rai: Sir, on circulation, should one expect the copies to rise significantly in the coming quarters?

Vivek Khanna: We will keep increasing our print order. I think there is scope for us to grow in our existing markets specially in UP and Uttarakhand, while we do not have any new units to launch because we have launched all the units that we had to. There are certain pockets where we can continue to expand our presence which we will keep doing.

Ritwik Rai: Sir, can I get some broad idea wrt rise in print order… would the same be in the range of 3-5%?

Vivek Khanna: It would not be so high at the consolidated level. Our expansion would largely be in pockets of UP and not Pan-India, so certainly it would be less than 5%. But UP may be higher than 5%.

Ritwik Rai: And sir, if you could give us some idea about cost control on the other expenses in the coming few quarters?

Vivek Khanna: Yes, we have been doing that and even in quarter two, we have done that. We will be looking at a stricter control on cost while continuing to make any investments which may be necessary to strengthen our position in the markets of presence.

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

Aniket Thite: Sir, the debtor days have increased from 45 to 52, is this trend expected to continue?

Ajay Jain: We maintain strict control over debtor days. But the increase in government advertising has led to increase in account receivables this quarter as government payments take a little longer. Our sense is that the same should come down over a period of time specially by the end of the year as government starts releasing the payments by that time.

Aniket Thite: So, when the UP elections kick-in, will we expect the stress on debtor days even then?

Ajay Jain: No, then debtor days will come down because when the elections happen, government does not advertise.

Aniket Thite: You mentioned that the higher base of Bihar elections was not completely captured in Q2'16. Can we have a sense as to how much of it was carried on to the Q3'16?

Vivek Khanna: It was in fact slightly higher in Q3 compared to Q2.

Moderator: Thank you. We take the next question from the line of Neet Khilnani from B&K Securities. Please go ahead.

Neet Khilnani: The other income component has increased quite significantly. You mentioned this is because of the mark-to-market on your investments, is this basically because of the accounting change?

Ajay Jain: Well, accounting changes have only led to reclassification. Higher MTM gains are attributed to the cut in interest rates and decrease in yields and hence, increase in the mark-to-market gains.

Neet Khilnani: What sort of number can we assume for the full year?

Ajay Jain: It will be difficult to sustain the yields we have achieved in last two quarters. In the normal course government securities are running at about 6.5%-7%. So, it all depends on the how RBI takes action.

Neet Khilnani: Can you just elaborate on the multimedia content management undertaking mentioned in the results note?

Vivek Khanna: We had already spoken about the transfer of multimedia content from HMVL and HT Media into a new company which will actually own the entire digital content business. Right now, the shareholder approval is in place and there is an order which is expected from High Court of Patna. Once that happens, the content teams will be transferred into that company. And, the content generated will be bought by HMVL as well as HT Media from this company which will specialize in building content.

Moderator: Thank you. We take the next question from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Last quarter, we have seen that news print prices have gone up by 5-7%. So, how do we expect news print prices to be fair in rest of the second-half?

Ajay Jain: Well, first of all news print prices have not gone up by 5-7% but to the tune of 2-3%. Newsprint prices globally have stabilized now and the dollar is also pretty much stable. So, we do not expect further change in the news print costs as the current outlook stands.

Moderator: Thank you. We take the next question from the line of Govind Agarwal from AlfAccurate Advisors. Please go ahead.

Govind Agarwal: This is with regard to the costs to the multimedia company which will get transferred, the note says that the expenses incurred on this account is Rs. 11 crores for the quarter and Rs. 24

crores for the first-half. So, what is the corresponding revenue against this booked in this quarter and the first-half?

Ajay Jain: Currently, the revenue as well as the costs is part of HMVL. The costs shall be transferred to this separate company, but HMVL shall pay for services to the Content Company at arm's length. So the transaction shall be cost and revenue neutral from HMVL point of view. The new structure will result in greater synergies between digital and print.

Govind Agarwal: In terms of the ad revenue, if you can elaborate which segments are showing growth?

Vivek Khanna: We are getting growth from most segments other than the three sectors, i.e. Education, Real estate and BFSI. FMCG, Durables and Retail are doing well for us.

Moderator: Thank you. We take the next question from the line of Manish Parekh from Vibrant Securities. Please go ahead.

Manish Parekh: What is the gap between our yields vs. the leader in UP? .Has it closed down further?

Vivek Khanna: Between the last quarter and this quarter, it has not closed down further.

Manish Parekh: And between us and Amar Ujala, is there a gap or are we equal with them?

Vivek Khanna: Again in many clients we are ahead of them and in some clients, we are below them. There has not been too much movement between quarter one and quarter two.

Manish Parekh: May I know the broad perspective on use of cash, in the sense do we want to do expansion in print media only or will we be open to Radio or English print?

Vivek Khanna: As far as HMVL is concerned, we will not be in English print. That is something HT Media may do if they have to do. As far as radio is concerned, radio is housed within HT Media and while Fever has entered UP we are looking at getting synergies for both Fever as well as for Hindustan on account of the presence that we have in UP. Fever is the only station which has presence pan UP so, I think both HT Media and HMVL will benefit as a result of this. But as far as we are concerned, as a company we will expand only in vernacular medium largely print and digital at this moment.

Manish Parekh: Because HT Media is the ultimate promoter of HMVL so, is there a possibility that this cash can be used by HT Media?

Vivek Khanna: No, not at all. They are two separate legal entities. HMVL cash will not be used for anything that HT Media is doing. Even the Phase-III auctions investments have been done from HT Media only and not from the cash that HMVL holds.

Moderator: Thank you. We take the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: About the digital company, is it basically transferring or outsourcing of the cost side, and the revenue management still continues within the company?

Vivek Khanna: No, even the revenue will be housed within this new company.

Vikash Mantri: And what is the current profitability or loss from the digital side that we have?

Vivek Khanna: It is a small business right now and pretty much EBITDA break-even. It is growing and we expect it to start getting good growth, because we are building a certain base in terms of technology. So, going forward the digital growth should come through handsomely.

Vikash Mantri: So, the INR 24 crores half-year cost that we were talking about, would our revenues be similar?

Vivek Khanna: No, it would not be similar. The cost that will be transferred out is partly digital cost and there are synergies that we are driving in print and in digital by forming this company. There are also some costs which will be higher than current costs in this company. So, that is why I said it will be neutral for HMVL.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan from Rare Enterprise. Please go ahead.

Rohit Balakrishnan: Excluding the other income, the operating EBITDA margins have fallen vs. last year. What is the reason for that?

Vivek Khanna: From an optical point of view, the growth is only 1% whereas the costs have grown higher than 1%. But we expect to expand the margins by a couple of percentage points each year. We have the base impact of the Bihar election which had therefore given us a significantly higher Q2 last year, both in terms of top-line growth at 18% and high growth in EBITDA and PAT. So, if you see it over a two-year period you will probably get the underlying growth and we will keep expanding our margins.

Rohit Balakrishnan: About the digital piece, if you can just give overall rationale of having the digital assets into one company and not separately?

Vivek Khanna: So, the rationale is that instead of having and duplicating digital assets over two companies we can merge the two which will lead to much faster decision making, much greater synergies and openness in the team to work on all the properties that we have. This will make it a far more cost effective model than housing it into separate companies. Hence the idea that HT Media and HMVL will both move their digital assets into a separate company, for greater synergies between HT Media digital and HMVL digital, and also, between print and digital.

Rohit Balakrishnan: Any amount that we are planning to invest as CAPEX?

Vivek Khanna: No.

Rohit Balakrishnan: And what would be the shareholding that HMVL will have in this company?

Vivek Khanna: 43% is HMVL and 57% is HT Media.

Rohit Balakrishnan: Any update on cash that keeps getting accumulated on the balance sheet?

Ajay Jain: Well, the cash is giving returns in terms of investments in the mutual funds. As of now, there are no concrete plans in this year for any new investments. As we move forward if there is a good opportunity we will go for that investment.

Rohit Balakrishnan: What is the cash right now in the balance sheet?

Vivek Khanna: Around Rs. 700 crores net cash.

Moderator: Thank you. We take the next question from the line of Manish Parekh from Vibrant Securities. Please go ahead.

Manish Parekh: Is there room for doing a proportionate buy back?

Sandeep Jain: No immediate plans as of now. But if no acquisition was to materialize in the next few quarters, then all options of either a buyback or dividend can be looked at. The board continues to deliberate on these but there are no indications as of now.

Manish Parekh: So, are we open to distributing cash if we do not find an acquisition?

Sandeep Jain: At some point in time, that decision for sure will have to be taken.

Moderator: Thank you. We take the next question from the line of Depesh Kashyap from Equirus Securities. Please go ahead.

Depesh Kashyap: We talked about radio Fever entering UP market. I just wanted to understand what are the synergies with HMVL from it?

Vivek Khanna: So, when you have a different media in a certain market you can derive synergies through advertising through that media as well, for example Radio events. Any solution that we offer the client can include radio. Also, radio can offer solutions which include print as well, and therefore both companies can do benefit from that.

Print plus radio joint initiative makes us a much stronger and formidable competition to somebody who is going only with print to the same advertiser.

Moderator: Thank you. We take the next question from the line of Pawan Nahar from Religare. Please go ahead.

Pawan Nahar: Are you actually paying tax even before you book the gains under MTM accounting?

Ajay Jain: Yes, there will be some implication of tax which is a deferred tax. But, it is not a major amount. The effective tax rate is much lower at 10% - 12% and so, whatever tax you have to pay now on the fair market value basis moves into deferred tax which anyway it gets recovered over a period of time.

Pawan Nahar: So, earlier you used to give a guidance what would be your annual other income, etc., would you like to talk about that?

Ajay Jain: I think whatever gains have happened will be very difficult to sustain. But if there are rate cuts, the gains will be quite good. Currently, the government securities are trading at about 7% or so. I think we should be above 8% or so.

Pawan Nahar: Is the overall government advertisement lower or higher for you in your aggregate business?

Vivek Khanna: The government advertisements in quarter 2 have grown versus same period last year. Towards the end of the year when the U. P. elections are happening, at that point in time there will be no advertising from the U. P. government.

Moderator: Thank you. We take the next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Sir, about your plan for utilizing cash, in case there is an acquisition target, whether the target has to be in the markets you are present in or are you open to looking at a different territory or geography?

Vivek Khanna: Different territory/geography is also fine as long as it is vernacular.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: Sir, we have been talking about acquisition for almost couple of years now. While I understand these things take time, want to understand from an overall perspective that given we have looked at so many opportunities, where are we in terms of our threshold levels, in terms of doing this?

Vivek Khanna: As far as acquisitions are concerned, you are right. In the last few years we have evaluated many of them, with one-or-two we came fairly close but for whatever reason it did not happen. We also evaluated an entry into a new market almost two-and-a-half years back, bought some land also in that market but then we decided to keep it on hold and focus on our existing geographies which have over the last two years paid us good dividends. Going forward we have completed the evaluation of organic expansion, there is nothing that we are going to do this year and there is no active discussion as far as inorganic is concerned.

Rohit Balakrishnan: So, if you were to look at inorganic expansion or an organic expansion, what kind of cash will you need?

Vivek Khanna: So, the investments or the acquisitions that we have evaluated range from as low as Rs. 15 crores in one case to about Rs. 450 -500 crores in another case and therefore it is a very wide range. We were interested in both at a fair valuation of course.

Rohit Balakrishnan: And what valuation do you consider fair for an acquisition target?

Vivek Khanna: We use the usual parameters - DCF and market multiples, etc. Also, we consider the regulatory compliances that are there in the target and the cost associated with it. We have our own compliances and processes like you would expect anybody would have while evaluating an acquisition.

Rohit Balakrishnan: And what kind of multiples you would look at for a peer?

Vivek Khanna: It will be on a case-to-case basis.

Ajay Jain: Yes, also, it is not about multiple, but what we can make out of an asset in terms of costs and synergies, etc. We definitely look at the payback of five years to seven years.

Moderator: Thank you. That was the last questions, I now hand the conference over to Mr. Vivek Khanna for his closing comments. Over to you, sir.

Vivek Khanna: Thank you so much. And yes, we have had a tough quarter but we are pretty confident that going forward we are expecting things to pick-up, both from an economic point of view and macroeconomic point of view as well as from certain activities which are going to happen within our markets like the UP elections. So, thank you once again for being on the call.

Moderator: Thank you. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.