

HT Media Limited and Hindustan Media Ventures Limited's

Q3 FY13 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to HT Media Limited and Hindustan Media Ventures Limited's Q3FY13 earnings conference call hosted by IDFC Securities Ltd. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal the operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over Mr. Nikhil Vora from IDFC Securities Limited. Thank you and over to you Sir.

Nikhil Vora: Welcome all to the Q3FY13 earnings conference call of HTML and HMVL. We have with us the senior management team of both the companies - Mr. Rajiv Verma – CEO, HT Media; Mr. Benoy Roychowdhury – Director, HMVL; Mr. Vinay Mittal – Chief Financial Strategist, HT Media; and Mr. Ajay Jain – CFO, HMVL. I will now hand the call over to Mr. Vinay Mittal to make the opening remarks, following which we will open the floor for Q&A. Over to you Mr. Mittal.

Vinay Mittal: Thank you Nikhil. Good afternoon and thank you for joining us for the Q3FY13 earnings conference call of HTML & HMVL. Economic conditions have not changed much since Q2. Slowdown continues and hence, the emphasis this quarter was on maintaining tight control on costs. Also, most of the advertising growth is driven by volumes. Here, I would like to mention that we are not seeing any more deterioration in the advertising environment and certainly feel that the economy seems to have bottomed out. One of the positives that we see is that the Delhi advertising de-growth seems to have stabilized. If you recall, the de-growth in advertising in Q4 FY12 was negative 8%, for Q1 FY13 it was negative 10% and for both, Q2 & Q3 FY13, it was negative 3%. This trend seems to have stabilized and it is not deteriorating any further. We are hopeful that, going into the next year, as the economic conditions improve, so will the Delhi advertising scenario. Mumbai continues to do well for us and grew at 13%. We are clearly pulling away from DNA on the advertising front and also the brand recall. We continue to do well in our radio and digital businesses which have both grown by upwards of 25%. HH, which is our Hindi business, continues to reap the fruits of completing expansion in U.P., and leadership position across the other geographies of Bihar, Jharkhand and Delhi. Newsprint prices continue to be stable. The latest IRS reiterates our leadership position in the various markets of Bihar, Jharkhand, Delhi, and No. 2 position in Mumbai. We believe that for us to grow our advertising in

double digits, the economy needs to pick up. That concludes my opening remarks. Benoy, Ajay and I are happy to take any questions that you may have.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have the first question from the line of Shobhit Khare from Motilal Oswal, please go ahead.

Shobhit Khare: My first question is regarding ad growth in Delhi for Q4. Should we expect positive numbers for advertising in Delhi given that you are not seeing further deterioration in the environment? Secondly, if you could just indicate which segments have been lagging and which have been doing well?

Benoy Roychowdhury: We do not expect a decline in Delhi advertising any further. The growth probably would still not be very good, but we would register a flattish to marginal growth. Having said that, one can look forward to a much better performance from a growth point of view in Q4.

Real-Estate, which is an extremely large category for Delhi, has been the laggard. This sector along with Education and BFSI has been very slow this year. We are hoping that with the softening of interest rates, there will be a spurt in demand for all these sectors especially for BFSI with more activity in the mutual fund and the IPO sectors. We also believe that the softening of interest rates will lead to renewed interest in Real-Estate sector, which just a few years ago used to be the largest category in Delhi.

Shobhit Khare: How have been the trends in raw material prices?

Vinay Mittal: Raw material prices have been pretty much flat at about USD 600 per tonne. In rupee terms, we had blended rates of Rs. 34,300 per tonne in Q2 and for this quarter it stood at Rs. 34,275 per tonne.

Shobhit Khare: So, what is the reason for decline in the raw material cost quarter-over-quarter?

Vinay Mittal: The raw material cost had come down because of savings due to lower pagination levels, rationalization in circulation levels and a bit of job work.

Moderator: The next question is from the line of Atul Soni of Macquarie Capital. Please go ahead.

Atul Soni: Could you briefly comment on how the Mumbai market is doing and how do you see it going forward?

Benoy Roychowdhury: We continue to make very good progress on the circulation and readership front in Mumbai. We have finally crossed the 8 lakh readership number and that is reflected in far better traction. We have registered strong double digit growths in Mumbai revenues despite an overall

decline in the advertising market in Mumbai. What is even more heartening is that our Real-Estate and local revenues in Mumbai are growing at around 40-50%. This is an indicator of the growing acceptance of the brand among advertisers and the slowing down of some of our competitors who were also challengers to the market leader. Overall, we believe that our Mumbai story is really going along very well.

Vinay Mittal: One of the lead indicators of the strength of the brand is the local-to-local advertising and that is doing very well in Mumbai.

Atul Soni: In the Hindi business, does the 15% ad growth include any portion of the new launches?

Benoy Roychowdhury: There is no significant impact of the new launches in Aligarh and Moradabad. It would only be marginal. However, there is an impact of the change in the festive dates since the whole impact of Diwali and Dusshera has come in Q3. Hence, the numbers are slightly higher than they normally would have been.

Moderator: The next question is from the line of Siddharth Goenka from JM Financial. Please go ahead.

Siddharth Goenka: We will be ending FY13 with a negative growth in English advertising. So can you provide some guidance for FY14? Secondly, suppose you witness a lower ad growth in FY14, what would be your strategy to mitigate the lower growth? Would we resort to further cover price hikes in English?

Vinay Mittal: I would not like to hazard a guess for FY14. If the economy does pick up and grows to about 6% level, which everybody is hoping for, then certainly you will see an uptick in the English advertising market.

Siddharth Goenka: Say there is a nominal growth of 2 to 3% in ad revenues, then I believe the leader in this space will also be growing at these levels or even lower. Given that Times of India and HT almost control the entire market in English, will there be any cover price hike strategy?

Vinay Mittal: May be, it all depends on the raw material cost. If the raw material cost does start picking up then yes, certainly one will consider cover price hikes.

Benoy Roychowdhury: Throughout FY13 we have taken cover price increases in several of our markets including the biggest market, which is Delhi. We will keep looking at that as a strategy to counter the increase in costs, if required.

Moderator: The next question is from the line of Pranav Kshatriya from Brics Securities, Please go ahead.

Pranav Kshatriya: Radio business has seen second consecutive quarter with more than 25% growth. Could you give us some sense if there been any change in the way you are doing radio business or is it because of higher demand? Secondly, can you share the revenue and EBIDTA number from Burda for this quarter? Lastly, you now have significant cash on HMVL books and most of your UP expansion is almost over. So what are you planning to do with the cash now?

Vinay Mittal: We have been doing well over the last three quarters in the Radio business because all the price hikes taken in Q3 & Q4 FY12, including a 50% hike in Delhi, are gradually coming through. Today we are at par with Mirchi in Delhi pricing. Secondly, the pricing and our position in Mumbai, has also picked up appreciably over the last six months. In Bengaluru, we are now the number one Hindi station. So all this has contributed to the growth on the topline as well as helped us register a positive EBIDTA.

On Burda, we had sales of about Rs. 29 crore and a negative EBIDTA of about Rs. 1.3 crore. On your third question, I would like to take you back to one of the objectives of doing this IPO, that is inorganic expansion. We felt that there will be consolidation in Hindi and the vernacular space and therefore provide acquisition opportunities to HMVL. Although I agree that two and half years have passed since the IPO, we do feel that something should take place over the next year or two.

Pranav Kshatriya: Now that a lot of restructuring has been done in Radio and you have already taken a rate hike, can we assume a more normalized growth of 10 to 12% i.e. in line with industry's growth rate in the next financial year?

Vinay Mittal: We are hoping for a higher number for the simple reason that we can still do a lot in Mumbai. At the same time, this is dependent on the economy reviving. We do expect to maintain a good double digit growth in radio.

Moderator: The next question is from the line of Rohit Dokania from B&K Securities. Please go ahead

Rohit Dokania: I understand that your visibility on revenue growth for FY14 is limited, but assuming that the newsprint prices stay at the current level, you should have a greater visibility on your cost increase. So can you tell us by how much percentage would you see the overall cost inflation, which includes all your cost items in FY14.

Vinay Mittal: We will continue to maintain a tight leash over costs. What you have seen in Q3, will continue in Q4 and you will see the cost increases in single digits. On the raw material front, it looks like at least for the next three to six months, the raw material prices should remain at USD 600.

Rohit Dokania: Would we see an increase in the amount of raw material that we consume next year or that would be just 2 to 3% just to augment our circulation if need be.

Vinay Mittal: If the economy picks up, you could see a 2 to 3% increase in the consumption of raw material. Otherwise on an annual basis, consumption would be at about 180,000 tonnes.

Rohit Dokania: If I look at the results of the listed Real-Estate portals, they have been showing a very healthy growth on a year-on-year basis, which are largely led by advertising revenues. But if I look at the results of the print media companies, Real-Estate is one sector which is really not doing that well. So are we seeing a structural change of Real-Estate advertising actually moving online as it happened with employment advertising probably 5 to 7 years back?

Benoy Roychowdhury: The broad answer to your question is yes, there is some movement. However, if you see the size of some of these portals, they are extremely small. So, the extent of this movement is still small and nascent. Like most classified products, internet is a good way of getting advertising revenue for Real-Estate. Internationally, especially if you see in South East Asia markets like Singapore, a lot of it has stayed on with the newspapers, because while you can give information on the net, it is difficult to get brand building on the net.

So, there is a certain part of the listings, which find it convenient to get on to the net, but you cannot build a brand like a DLF or a Unitech, or a Lodha by advertising on the net. We are cognizant of that and you will see some action from our side also, but it is not exactly like jobs that the entire thing goes on to the net overnight.

Rohit Dokania: Would we also get into a Real-Estate portal? Is that on the anvil or we just do not want to be in that space?

Vinay Mittal: We would want to be, but we are very cognizant of the fact that we first want to make Shine into something meaningful. So over the next one year if Shine progresses the way we envisage, we could certainly look at it. But clearly, there has to be progress in our existing portals to take on a new one.

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

Amit Kumar: Could you give us some broad color on how the different territories have performed in HMVL i.e. U.P., Bihar, and Delhi?

Benoy Roychowdhury: U.P. is significantly stronger. We have seen a lot of traction in local-to-local revenues in U.P. and the region has been growing at almost two and half times that of Delhi. Bihar has also done well, again on the basis of local revenue. Delhi has been very subdued since major players that advertised from Delhi like Maruti and other car companies and the banking companies have been subdued. Also, we are gaining revenue share in markets like U.P., though not in Bihar where we are pretty much at the top. That is why U.P. growth has been upwards of 30%.

Amit Kumar: Is Delhi market growing at all for Hindustan? As the English piece seems to be on a decline for the last three to four quarters, what is the case for Hindustan Delhi?

Benoy Roychowdhury: Hindustan is growing, but very marginally. I was reacting to your question, not just for the Delhi edition, but, I was talking about revenue out of Delhi, taking Hindustan as a whole.

Amit Kumar: Half of the fourth quarter is practically over; so, broadly what kind of trends do you see across English and Hindi print advertising? Could you also throw a little bit of color on Mint, because it is a budget quarter in Q4 and typically BFSI are heavy during this quarter which is important from Mint perspective?

Benoy Roychowdhury: Mint is doing well this quarter but not because of a secular improvement in banking and finance which continues to be sluggish. You are from the business, and you can count how many IPOs we can see in this quarter. So, I think, Mint is going to do well, but on the basis of several initiatives that we are going to be doing i.e. conferences, specials, etc. Overall, Hindi national markets have continued to be extremely slow even in this quarter. However, the local markets in U.P. and Bihar are pretty okay. With our growing circulation and presence in the 12 major markets, our share of the revenue pie is improving rapidly. Hence we are seeing a far better growth in our local-to-local revenues compared to some of our peers.

Amit Kumar: We have made a lot of progress in Mumbai as well as in U.P. versus the number one and two players. Could you give us some sense on what is the yield gap which still remains versus the top players in these two particular markets?

Benoy Roychowdhury: It depends on certain categories. 30% of the Hindi revenue is government, which is determined by DAVP rates. There is a significant gap between us and our competitors there. Overall, in U.P. the yields would probably be 50 to 60% of the competitors' yields. In Mumbai, there is a huge gap between our yield and that of the market leader. Though we are gaining in yields in Mumbai, but the gap still remains quite significant.

Amit Kumar: What would be required to bridge this gap from here on? Is it just more focus on sales and marketing side, or do we still need to ramp up our circulation in these markets?

Benoy Roychowdhury: I think it is just a question of getting proper reflection on readership. The copies are there and we just need to wait while the readership picks up and IRS picks up and reflects the true readership that we have in these markets currently.

Amit Kumar: What should be your true reflection on the readership in Mumbai and U.P. given the current circulation?

Benoy Roychowdhury: Not something that I would like to speculate; but, both are significantly understated.

Moderator: The next question is from the line of Aashish Uppanlawar from Spark Capital. Please go ahead.

Aashish Uppanlawar: Just wanted to understand the two notes to account in the results- a couple of subsidiaries that you have increased stakes in, namely, 33% in HT Learning and 35% stake in HT Mobile Solutions from Velti. So, what is the thought process behind these?

Vinay Mittal: Velti wanted to pursue a strategy of their own, which did not sync in with what we wanted to do. They went and purchased another competing Company called Air2Web and that is why they wanted to move out and pursue their own strategy in India. Similarly, MT Educare's focus had shifted and they wanted to concentrate on the West and South

Aashish Uppanlawar: At what price did you buy back the stake from Velti?

Vinay Mittal: Basically, we bought them back at the same price at which they entered.

Aashish Uppanlawar: At what price did you buy back the stake from MT Educare?

Vinay Mittal: We bought them at the same price at which they entered.

Aashish Uppanlawar: Given that these players had the domain experience, how is HT going to carry it alone?

Vinay Mittal: The learning that had to take place, has already taken place. We are happy with the progress that the subsidiary under the brand name of Studymate is making. You will see the progress that is being made there over the period of the next year or two.

Aashish Uppanlawar: Apart from the sales consideration, how much have the parent companies put in these ventures till date?

Vinay Mittal: In Studymate we would have probably invested about Rs. 10 crore and in Velti we would have probably invested about Rs. 5 crore.

Aashish Uppanlawar: How is the Burda operation looking going ahead and when can we expect it to be profitable?

Vinay Mittal: It is near to break-even. Even this year we continue to make some progress and next year you should see some positive developments.

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

Mitul Patel: Can you give me the cash number for HMVL?

Vinay Mittal: We have a net cash of Rs. 265 crore.

Mitul Patel: Since Mr. Amit Chopra has left to pursue other opportunities, what is the plan in replacing him at the top?

Benoy Roychowdhury: Currently I am filling in for him. I am a Director on the Board. We are pursuing a search both, internally and externally and we should be in a position to announce his replacement very shortly.

Moderator: Thank you. The next question is from the line of Mohan Lal of Elara Capital. Please go ahead sir.

Mohan Lal: Being very strong in Delhi, do you expect any positive benefit in FY14 because of the Delhi Elections in October and General elections next year?

Benoy Roychowdhury: These will definitely be beneficial to us. Political advertising especially in such hard fought campaigns is quite heavy. Having significant presence both, in Hindi and English in Delhi will benefit. However, it is impossible for me to speculate the impact at this stage. I think there would be an impact for both, the General Elections and for the Local Elections. However, the counter issue whenever there are elections is that Government advertising totally stops for a period of about 2 to 3 months. Therefore, I think we will get a better idea closer to the Elections.

Moderator: Thank you. The next question is from the line of Apurva Prasad from ITI Securities. Please go ahead.

Apurva Prasad: Could you help me with the average cover price and the copies sold in HMVL for the quarter?

Ajay Jain: The average cover price would be around Rs. 3 and we sold about 23 lakh copies.

Apurva Prasad: What was the newsprint cost?

Ajay Jain: Hindi newsprint is averaging around Rs. 32,000 per tonne. This is the blended price of different categories.

Apurva Prasad: What would be the composition of domestic and import?

Ajay Jain: It will be about 90-95% domestic and about 5-10% imported.

Apurva Prasad: In terms of sectors, which segments were seen to be leading the growth and which were lagging? Are there any trends that we are seeing there?

Ajay Jain: Automobile, DAVP, Government spending, Local to Local advertising are driving the growth for Hindi. Obviously, as Benoy said earlier, sector like Real-Estate is lagging behind.

Moderator: Thank you. The next question is from the line of Zaharah Sheriff from Fedwinteg Knowledge Services Pvt. Ltd. Please go ahead.

Zaharah Sheriff: Can you give us a sense of what is your vision for the Education space? How do you view yourself a couple of years down the line and what kind of capital allocation do you expect to make into that space over the medium term?

Rajiv Verma: Let me give you a little perspective on why we thought Education was a good space for our company to enter into. As you all know Education is roughly USD 75-80 billion industry in India, compared to all the media segments put together like television, print, radio, etc., which is at about USD6-8 billion. So, firstly it is very large in terms of its size. Secondly, if you look at the demographics of this country, almost 500 million people are under the age of 25. So, it is a huge opportunity for any Company. We have enjoyed the trust of our readers who have grown with the paper for over 80 years and the brand has been there as part of their life. Therefore, what we need is core competencies to build these Education businesses, for which we have reached out to some of the best in this business. Mahesh Tutorial, people living in Mumbai would know, is a very successful company. Apollo Global, which is our partner for the higher education business, is the largest profit making education player in the world with almost 4 lakh students enrolling in a year in the USA. With these partnerships, we have created business models that are not capital intensive, because capital intensive models are not scalable. These are highly scalable innovative models which have worked in other parts of the world and we are extremely optimistic that these businesses are going to be tremendously value creating for the Company in the coming years.

Zaharah Sheriff: Apollo started out focusing on the working professionals in the US if I am not mistaken. Is that again a focus area that you will be taking on or is Apollo also going to try something new here?

Rajiv Verma: Working segment i.e. working adults is clearly one of the segments, but we are also going to be looking at freshers and various other segments wherever we can offer innovative / blended models comprising of online as well as offline learning.

Zaharah Sheriff: What is the timeline that we are looking in terms of this vision starting to get deployed and show something meaningful enough for you to report on?

Rajiv Verma: Studymate model that we created with the help of Mahesh Tutorial, is already up and running for the last 4 years. The pilot has been running extremely well in Delhi and we already have 6 centres that have been operating and we will now start thinking about a scale up strategy for Studymate. Apollo's two centers should start somewhere around June this year.

Zaharah Sheriff: What would be the timeline for the scale-up of those?

Rajiv Verma: As soon as we start to get some initial results which show us that the model is working well, we will take the decision to scale it up.

Moderator: Thank you. The next question is from the line of Gaurav Jalan from Avant Grade Management Pvt. Ltd. Please go ahead.

Gaurav Jalan: If you look at the last 5-10 years in the industry, there has been a lot of expansion by the larger players into new markets. Do you see this trend continuing and if not, where will the growth for the industry come from? Is it purely going to come from a growth in yields? Could you share your thoughts on this?

Rajiv Verma: HT Media is the only Company which grew in the market of Mumbai and perhaps in the U.P. belt. Apart from that quite honestly, I do not know of any other successful examples of companies having grown in a manner which was financially prudent and successful.

Gaurav Jalan: Dainik Bhaskar has also done a lot of expansion by going into new markets and growing their business.

Rajiv Verma: I would not know whether that is something that happened successfully in the recent past.

Gaurav Jalan: Broadly, in the future, do you see companies expanding into new markets or do you think everyone is going to stay within the regions that they are in? Also, will that mean growth is going to come from yields?

Rajiv Verma: This industry is subject to volatility and it does depend on the economic environment. As we all realize that with India growing at 5%, it is very difficult for the advertising industry to do exceptionally well. We should also understand that the economy has some good years and not so good years. Currently, the economy is going through some not very good years but, I do not think it will remain like that always. As the economic picture in India improves, you will see traction in advertising and this is the time when you will start seeing the industry performing very differently.

Gaurav Jalan: Let us say 10 years from now, do you see HT Media & HMVL pretty much present in the same region and geographies you are today, or do you see your footprint significantly larger?

Rajiv Verma: 10 years from now we see ourselves as a very strong, very large news company, with a very strong portfolio of brands. A company respected by readers as well as the advertisers. Our expansion strategy is something which will depend on the opportunities that we find in the marketplace.

Gaurav Jalan: What are your capital expenditure plans in both Hindustan and HT Media for FY13 & FY14?

Rajiv Verma: We are just in the process of doing a major capital expansion in Delhi and with that, I think our capital needs for the next couple of years would be almost met.

Vinay Mittal: After that it will be just normal capex of Rs. 30-40 crore per year for the consolidated entity.

Moderator: Thank you. The next question is a follow-up from the line of Rohit Dokania from B&K Securities. Please go ahead.

Rohit Dokania: In terms of circulation, how much are we as a percentage of the leaders in both U.P. and Mumbai?

Vinay Mittal: In terms of circulation, we are around 60% of TOI in Mumbai.

Rohit Dokania: How is it in U.P.?

Rajiv Verma: Depends whom you call as competition, but a little over 70% as compared to Jagran.

Rohit Dokania: Could you give us details regarding the contribution in revenues from partnership for growth model and is there any diminution that we have taken in that?

Vinay Mittal: As we have said in the past, we continue to limit the revenue contribution from partnership for growth model to below 5%. The contribution was at about Rs. 12 crore this quarter. The effort now is firstly, that all deals will have some cash component of 25-30% and secondly, to divest some of the investments, so that the quarter is cash-neutral. In doing so, we generated Rs. 13 crore of cash this quarter

Rohit Dokania: Where do we book the profit that we get from divestment? Is it a part of other income?

Vinay Mittal: It is a part of other operating income, under capital gains.

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

Ram Hegde: How much revenues have we generated from the private treaty for the first nine months and also the cash?

Vinay Mittal: We have generated Rs.26 crore of revenue and Rs. 45 crore of cash.

Ram Hegde: What is the size of the private treaty book now?

Vinay Mittal: About Rs. 292 crore.

Ram Hegde: Where did we start at the year?

Vinay Mittal: We started the year at Rs. 323 crore.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Vinay Mittal for closing comments.

Vinay Mittal: Thanks a lot for taking out the time. Before I close, I would like to reiterate that at this point of time, cost control continues to be our main focus. In addition, we are trying to ensure that we break-even in Mumbai in the coming year. Our properties like Hindustan and our digital and radio businesses continue to do well and if we get the tailwinds from the economy, then certainly I think you will see much better rise in profitability. Thank you.

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

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