HT Media Limited and Hindustan Media Ventures Limited's

Q2 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 Q2 FY13 earnings conference call, hosted by Motilal Oswal Securities Limited. 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 please signal an operator by pressing *0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Shobhit Khare from Motilal Oswal Securities Limited, thank you and over to you sir.

Shobhit Khare: Good morning everyone. On behalf of Motilal Oswal Securities, I welcome you all to this conference call to discuss the Q2 FY13 results of HT Media Limited and Hindustan Media Ventures Limited. We have with us the senior management team represented by Mr. Rajiv Verma – CEO, HT Media; Mr. Amit Chopra – CEO, Hindustan Media Ventures Limited; Mr. Piyush Gupta – Group CFO, Mr. Ajay Jain – CFO of Hindustan Media Ventures Limited and Mr. Vinay Mittal – Chief Financial Strategist of HT Media. I now request Mr. Rajiv Verma to give his initial remarks, thank you and over to you Mr. Verma.

Rajiv Verma: Good morning everyone. I want to take this opportunity to thank all of you for joining us on this call to discuss the performance of HT Media and HMVL for the quarter ended September 30, 2012. I will begin by giving you some perspective on the macro-economic environment, followed by Piyush Gupta , who will discuss the financial results. We will then take any questions you may have about the performance of the Company.

The overall macro environment, as you are all aware, continues to be very difficult. The quarter gone by was not only challenging for the media industry but for many other industries as well. Our customers, in the last quarter, were not at a stage where they could consider massive media consumption. While, post the recent reforms which have been announced, the mood seems to be improving, it is yet to result into any major growth in advertising consumption. In our belief, this Diwali season is going to determine how the overall media industry's performance is likely to pan out.

The recent strengthening of rupee has made things look better than they were in the previous quarters. There is a lot of work which has been happening within the Company to ensure that cost discipline continues. Also, once the downturn is over, we firmly believe that HT Media is well-poised to take advantage of the various restructuring efforts it has made. Even in this challenging environment, our total income grew by about 5% at a consolidated level and 6% for HMVL. However, our bottom line has been under pressure. Before I hand over to Piyush Gupta to take you through the financial performance of the Company, I would like to add that despite a challenging environment, HT Media has done pretty well. We are happy with the kind of efforts made towards restructuring costs and ensuring that we continue to have a strong foundation in place.

Piyush Gupta: Let me begin by giving you some industry perspective. English industry ad revenue has de-grown by 6% this quarter while Hindi industry ad revenue has grown by 1%. In this context, it is heartening to note that our English business ad revenue has de-grown by about 3% and our overall print advertising has de-grown by only 1%.

Besides revenue growth, newsprint prices showed signs of cooling off. The Canadian spot on newsprint is still tracking at about CAD 655, down from about CAD 690. I would like to mention here that we are able to procure at a better price than spot by doing long term contracts wherever necessary. In light of that, we are happy that the top-line of our consolidated business has grown at a very healthy rate of 5%. On the other hand, our bottom line has been under pressure. On a consolidated basis, we registered an EBIDTA of ~ Rs. 81 crore translating into margins of 15%, with a PAT of Rs. 33 crore and non-annualized EPS of Rs. 1.42.

Also, please note that this 5% top-line growth is on the back of last year's base which included one-off income of Rs. 11.5 crore with regards to divestment of Metro Now and restructuring of some ad for equity deals. Excluding this one-off income of Rs 11.5 Cr, our growth will be about 7%. That is summary of our financial results for the quarter. With this, I would now like to open the house for any questions that you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Abneesh Roy of Edelweiss, please go ahead.

Abneesh Roy: My first question is on the advertising front, especially on interest sensitive sectors. RBI has not yet cut the rates, but private and public sector banks have started cutting rates on their own. Given historical trends, when do you see the real-estate, auto, BFSI and consumer sectors come back in terms of advertising?

Vinay Mittal: You are right that some of the banks have started cutting their interest rates. However, these sectors will take a bit of time to show improvement after the interest rate cuts happen. I hope that in the next credit policy announcement, we have a rate cut by RBI also, which should set the ball rolling and we should see some pickup in the BFSI and other rate sensitive verticals.

Abneesh Roy: How has education sector done because there has been so much of over-capacity in B schools and engineering schools?

Piyush Gupta: Entire sector is de-growing currently.

Abneesh Roy: So that will continue for some time right?

Piyush Gupta: That is our view - we would be happy to be proved wrong. However, the weightage in the second half is much less than what it was in the first half because of the admission season.

Abneesh Roy: One sector which is still doing well for the entire advertising is FMCG and print obviously has a very low share there. Do we have a strategy to increase the FMCG share of advertising spends?

Vinay Mittal: Yes. Slowly but surely, FMCG share in our total advertising pie is increasing. Three years ago we were at about 2%, which is now at about 3% to 4%. We are also making efforts to jointly market along with Hindu to target the FMCG industry.

Abneesh Roy: Could you share further details into the Hindu tie up?

Piyush Gupta: We are doing a classical code sharing with Hindu, combining their intrinsic strength in the southern market with our strength in the northern market. Most FMCG players prefer to advertise on electronic media. We are, therefore, partnering with Hindu to see how much of transition can be done from electronic to print by providing a broader offering.

Abneesh Roy: In the last three years we have been expanding our Hindi daily in UP and some other markets. However, that does not seem to be reflecting in the growth numbers this quarter. Could you give us some sense of our growth in terms of Bihar versus UP to explain the low growth?

Amit Chopra: The intrinsic advertising growth which was about 7% in the first quarter continues to be 7% in the second quarter as well. Last year, we had about Rs. 5.5 crore of one time revenue in our base, which came out of restructuring some ad for equity deals. So the growth in the first half has been 7% which we believe is better than what the industry is. Within that, local-to-local revenues continue to grow at double-digits. However, national revenues continue to decline sharply.

Abneesh Roy: Could you share some insights on Bihar versus UP. Is the overall growth in Bihar-UP very similar to the 7% number?

Amit Chopra: There is no difference in the national growth, but local-to-local growth in UP is about 20% and in Bihar it is around 10% to 15% mark.

Moderator: Thank you very much. Our next question is from Vikash Mantri of ICICI Securities, please go ahead.

Vikash Mantri: Could you give us some details on the steep increase in employee cost this quarter and will it continue going forward? Secondly, on the consumption of raw material, are we still carrying higher cost inventory with us?

Piyush Gupta: First of all let me tell you that we have had very reasonable merit increases this year, which are less than 7% for the entire group. Having said that, if we look at these numbers versus last year, you can see the impact of growth in various markets, especially Hindi. When you compare sequentially over the last quarter, we have provided for some variable portions this quarter, given some level of uptick is expected in revenues. Also, there was a one-time write back sitting in the first quarter. However, on an underlying basis we do not expect our employee related cost to go up by anything more than 6% to 7% on a full year basis with the current business construct.

Vikash Mantri: We are sitting with a net cash of close to Rs. 545 crore. While we will take a call on the dividend at the end of the year, what kind of cash the Company will be uncomfortable with after a point of time?

Piyush Gupta: At this point in time we are very comfortable with the cash reserve that we are holding. I see no reason to increase dividends just as yet because we believe that we can productively deploy this cash to earn higher return for the stakeholders.

Vikash Mantri: So, at what level will we decide to return it? Rs. 700 crore? Rs. 900 crore? Any numbers that we have in mind.

Piyush Gupta: We do not disclose these kinds of strategies on the call. It depends upon our outlook on the business and the kind of returns we can deliver to our stakeholders.

Moderator: Thank you very much. Our next question is from Pranav Kshatriya of Brics Securities, please go ahead.

Pranav Kshatriya: What is the underlying reason for healthy revenue growth in the radio business? Secondly, what is the revenue and EBITDA from Burda for this quarter and finally, is there any Forex loss or gain in other income or finance cost in this quarter?

Vinay Mittal: We have not only restructured the business, but have also taken a price hike and done well in terms of cumes (a counterpart of readership). All these efforts started in the third and the fourth quarter of last year have now delivered results. Therefore you will find that our radio business has grown much faster than the radio industry. We hope that this will be carried through for the rest of the year as well.

Burda is a bit seasonal and therefore in this quarter, the revenue was at about Rs. 21 crore with an EBITDA loss of about Rs. 2 crore. As mentioned, this is a seasonal business and we do expect that, over the full year, it should breakeven.

Piyush Gupta: Regarding foreign exchange losses, we have zero foreign exchange losses sitting in our books this quarter. That is because all our foreign exchange imports are 100% hedged right now. Therefore, only the hedging cost is booked as a part of finance cost.

Pranav Kshatriya: Phase three in Radio will be announced any time soon. Will you still stick to the top tier cities or you would like to go deeper, especially in markets like Bihar and UP since you are expanding your Hindi business presence there.

Vinay Mittal: We would continue with our policy of sticking to the top tier cities and will not move into Tier-2, Tier-3 towns.

Moderator: Thank you very much. Our next question is from Atul Soni of Macquarie, please go ahead.

Atul Soni: I just wanted some color on the trend of how the English advertisers are behaving; is it the same or is it different across Delhi and Mumbai

Vinay Mittal: The trend of how these markets behave is about the same. However for us, the stream of advertisement revenues is different in Delhi and Mumbai because of our strengths in Delhi vis-à-vis Mumbai. We are very big in the realty sector in Delhi and advertising in realty sector picked up in the second quarter because of Noida extension opening up. On the other hand in Mumbai, contribution from real estate is very small. So, overall, advertisers perform or react in the same way, but for us, the amount of money that we extract from various advertising verticals is different in Mumbai and in Delhi.

Atul Soni: Could you share your thoughts on festive season.

Vinay Mittal: The festival season is just starting now; I think we would be in a better position to answer your question two weeks down the line.

Moderator: Thank you very much. Our next question is from Amit Kumar of Kotak Securities, please go ahead.

Amit Kumar: I just wanted to get some sense of HT Media standalone newsprint price in this particular quarter and what was it last year same quarter.

Vinay Mittal: The cost per tonne was close to about Rs. 36,000 a tonne compared to last year's price of about Rs. 34,000 a tonne on a standalone basis.

Amit Kumar: At what rate is your newsprint forex being hedged?

Piyush Gupta: It is a function of the prevailing spot rates and should be between Rs 52.5 and Rs 55 to a Dollar

Amit Kumar: Mr. Verma, you were talking about the fact that you are not really inclined to give too much out in terms of dividends and you will be looking at ventures which add value to shareholders and stakeholders. Could you in summary give us some understanding of what new ventures the Company is talking about here?

Rajiv Verma: As you know we have created two businesses of which one i.e. education is in the start-up mode and the other i.e. digital is in a semi-mature stage. We expect our digital revenues to cross about Rs. 100 crore very soon. So, that is clearly becoming a growth engine for the Company. The other growth engine which is being built is the education business. We already have six Study Mate centers running in India and soon enough our joint venture with University of Phoenix should also be up and running. We expect our initial centers to be in operation sometime towards beginning of 2013. So education and digital are two clear growth engines behind which we will be investing. Unlike media, education is a $65 billion - $70 billion industry, it is counter cyclical and the demographics are very strong. Lastly, we are always open to acquisitions in our core business and are always looking for interesting acquisition opportunities to consolidate our core.

Amit Kumar: Is there anything on the acquisition side to be discussed at this point of time?

Rajiv Verma: We are in the process of evaluating investments in few small ventures in the digital domain. However, since we are a listed Company, I will be in no position to discuss these in an open platform as I will be violating SEBI guidelines by sharing speculative information.

Amit Kumar: Could you broadly share your plans related to the University of Phoenix JV, i.e. number of centers, or plans of acquiring a university?

Rajiv Verma: We will begin with an asset light model which is what University of Phoenix has mastered in the US. They enroll 5-6 lakhs students each year. We have a 50-50 joint venture with them and the first two centers will start sometime in the beginning of next year.

Moderator: Thank you very much. Our next question is from Siddharth Goenka of JM Financial, please go ahead.

Siddharth Goenka: Has the entire impact of cover price hike come in this quarter or can we expect some flow through to next quarter also?

Vinay Mittal: The full impact of cover price hike will flow through over the new few quarters and you should see the full effect in the first quarter of FY14.

Siddharth Goenka: We did an EBIT loss of approximately Rs. 22 crore in first half in the digital business. So what kind of losses can we expect for the full year as we were earlier guiding for around Rs. 35 crore of losses.

Rajiv Verma: What you call as loss, we call as investment. Even in a challenging environment, our digital businesses are growing anything between 80 to 100%. These are businesses which will bear fruit in a very near term in my view. We are among one of the few companies in the media industry who have cracked the code on how digital businesses work. Just to give you an idea, today we are the fastest growing website in the recruitment space. We have in excess of 1 crore resumes, more than 50 lakh engaged candidates and excess of 40,000 jobs. These are all very strong parameters and it is a matter of time that you will start seeing these businesses generating profits.

Siddharth Goenka: So, would you have any timeline for your digital businesses to turnaround?

Vinay Mittal: We are seeing improvements every quarter, but if turnaround means breakeven, then it will take at least another five to six quarters before you see a breakeven.

Rajiv Verma: Please understand there are several businesses which are in incubation and as one business comes up to speed, another business would be started. We are not going to be restricting ourselves to doing one or two activities in the digital space - we will be adding more and more websites and verticals.

Siddharth Goenka: Could you share CAPEX plans for the consolidated and the Hindi business entities for FY13 and may be FY14.

Vinay Mittal: For the group, we have only one large CAPEX this year where we are adding a line in Delhi. Our normal CAPEX is somewhere between Rs. 30 crore to Rs. 40 crore on an annual basis.

Moderator: Thank you. We will take our next question from Swanand Kelkar of Morgan Stanley, please go ahead.

Swanand Kelkar: How would you compare ad revenue growth of 2% in Hindustan over the same quarter last year? Also, what are the initial feels from the festival season this time?

Amit Chopra: As we said both, in first quarter and second quarter we saw intrinsic growth of about 6% - 7%. We have not seen too much of a change in the environment at this point in time to conclude if this is going to significantly change over the next two or three months.

Swanand Kelkar: Any change in plans on the geographic expansion in Hindustan over the next twelve months. Do you plan to add any new states/cities?

Amit Chopra: For the next six months there is no plan to add any new locations.

Moderator: Thank you. Our next question is from Bijal Shah of IIFL, please go ahead.

Bijal Shah: You mentioned that there is some good 15% to 20% growth in Hindi local advertising. So I just want to understand which sectors are driving this growth; because education is not doing well and also probably real estate may not be doing well. So when we say 15% to 20% growth do we mean that entire local is growing at that percentage or some of the categories within the local are growing at a higher rate and few categories are de-growing?

Amit Chopra: I am not too sure industry is growing at that kind of level. Since we have expanded in UP, we are getting the benefit of improved rate and better market share. In Bihar and Jharkhand, the growth is more around 10% mark, while UP is more around the 20% mark. But yes, at a secular level, we are seeing slightly better traction on local-to-local than national-to-local front. In terms of categories, education has not grown that well. On the other hand, we have seen slightly better growth on real estate. Government is growing for us because we have launched more editions and therefore our rates have gone up on the government side.

Bijal Shah: So, this rate would be primarily with respect to UP and not Bihar.

Amit Chopra: Yes more in UP than in Bihar and Jharkhand.

Bijal Shah: In Bihar also we are seeing 10% to 15% kind of growth. So if that is largely volumes then which are the categories driving growth there?

Amit Chopra: We are seeing better traction from the real estate sector in Bihar and Jharkhand. We are also witnessing improved traction from government and retail segment in these markets.

Bijal Shah: What was the ad for equity provision made during the quarter?

Piyush Gupta: we had made a provision of Rs. 5.9 crore in Q2 FY12.

Bijal Shah: We have seen meaningful increase in provision in the last five to six quarters. Do you expect it to come down from current levels of around Rs. 20 crore for the full year?

Piyush Gupta: If you look at the complete picture of our ad for equity investments, the total provision today is not in excess of 15% of the gross value of investments. Given the current macro economic circumstances, we are comfortable with the current level of provisioning and I think it will come down once the economy starts to improve.

Bijal Shah: Does the EBITDA investment guidance for the digital business which was somewhere around Rs. 30 crore to Rs. 35 crore remain unchanged or should we factor in any revision in that number?

Piyush Gupta: No that guidance remains.

Moderator: Thank you very much. Our next question is from Rohit Dokania of Batlivala & Karani Securities, please go ahead.

Rohit Dokania: If I look at your consolidated segment results, on a sequential basis, the total printing and publishing revenues has gone up from Rs. 460 crore to about Rs. 479 crore- that's an increase of Rs. 19 crore, whereas the ad on a sequential basis has dropped by Rs. 8 crore and subscription revenues have probably grown by Rs. 4 crore. So what is leading to this incremental Rs. 19 crore – Rs. 20 crore of revenue on a sequential basis?

Piyush Gupta: This primarily refers to job work orders which we have undertaken in the idle capacity hours.

Rohit Dokania: Does this also explain the Rs. 17 crore – Rs. 18 crore incremental costs in raw materials.

Piyush Gupta: Yes, it does.

Moderator: Thank you very much. Our next question is from Dinesh Harchandani of JP Morgan, please go ahead.

Dinesh Harchandani: Looking beyond the festive season, what is your view on a sustainable pickup or at least a bottoming out of the advertising cycle?

Rajiv Verma: Advertising environment is difficult for everyone and that is for all of us to see. But at HT we are trying to find innovative ways of serving our customers because we realize that our customers' business is hurting at this point in time. We are trying to package our print advertising along with digital to improve responses. We have also come up with a very innovative product called 'IndiaOne' where three of India's largest media companies have come together to create a product package under a single platform to attract advertisers. In addition to that, our Hindi business is also expanding its reach in Tier-2 markets. Combined with our English business, makes it far more interesting for an advertiser to get customers across various geographies in large towns and small towns put together. So while it may be a difficult environment, I have very little doubt that HT Media will continue to outperform the industry by giving customers a great value proposition.

Dinesh Harchandani: This quarter the English markets have declined 6%. Is this the worst you have seen in the past few years or do you think growth rates can decline further?

Rajiv Verma: I do not have these numbers with me currently but declines of this magnitude in the past five – six years would not be unusual. There is also a bit of a skew that happens depending on when the festival season starts. So, we should not read too much into that. I do believe that this is a difficult environment for all of us to see, but it does not mean that advertising is going to disappear. The turnaround is going to happen, the economy is going to come back and eventually advertising will see pick-up.

Dinesh Harchandani: What is the element of pricing decline in the market decline?

Rajiv Verma: It varies anywhere between 5 to 10%.

Dinesh Harchandani: Are your clients paying you the same rate which they were paying four to six quarters back?

Piyush Gupta: It is very tough to generalize. I can only give you a high level answer that pricing for the entire industry is under pressure.

Moderator: Thank you. Our next question is from Ram Hegde of Primus Investments, please go ahead.

Ram Hegde: What was the revenue booked on private treaty this quarter and also the cost attached to it?

Vinay Mittal: The revenue that was booked in this quarter was Rs. 7 crore and a provision of approx. Rs. 6 crore was booked. Please note that the provision of Rs. 6 crore is in the context of the investment of Rs. 314 crore.

Ram Hegde: Have you started seeing some sort of drop in newsprint consumption levels given the cover price increase you have undertaken?

Piyush Gupta: Well not too much. The increase in cover prices is not having any significant impact on our circulation. Our print order has gone up by nearly 2 lakhs copies over the last one year.

Ram Hegde: Given that probably Mumbai has been growing better than Delhi and also Mint would have done well; what is the sort of decline that Delhi has seen versus first quarter? Has the decline improved or is it worsened in Delhi?

Vinay Mittal: It has significantly improved. If you recall the last two analysts call, it was about negative 8% in Q4 FY 2012 and negative 10% in Q1 FY 2013. It is now down to negative 3% Y-o-Y this quarter.

Moderator: Thank you very much. Our next question is from Aashish Upganlawar of Spark Capital, please go ahead.

Aashish Upganlawar: What is your outlook for the overall business for the next two to three years? While we have good profitability from our Delhi business in HT, most of the other businesses are in a gestation phase. We are also starting new ventures in education which would be probably loss making for some time? So, how do you look at the business from a three-year perspective on profitability and what would contribute to improving the overall margins of the consolidated entity?

Vinay Mittal: For most of our new print businesses like Mint, Mumbai and expansion in Hindi, a major part of the circulation has been done, which is the bulk of the cost. Since all the costs have got baked in, we are just waiting for some tailwind in the economy to drive higher profitability from these businesses. It is not only Delhi which is contributing to the profitability, but Hindi is increasingly doing so and Mumbai and Mint will do so as soon as some tailwind comes in the economy.

Aashish Upganlawar: Where do you see your margins going from 16% - 17% over the next few years?

Vinay Mittal: As the younger properties, which include Mumbai and Mint gain traction and revenue increases, it will fall to the bottom-line and therefore margins of 16% - 17% will trend upwards and move towards 25% to 30% over the next three years.

Aashish Upganlawar: Can one interpret that the quantum of new investments will not deter the overall profitability improvement?

Vinay Mittal: Yes, that is right, because all the expansions made in the last three – four years were supported by only Delhi's profitability. Today, Delhi, Hindi, Mumbai, Mint are increasingly contributing and therefore our expansion into digital and education certainly will not impact the upward trending profitability graph.

Aashish Upganlawar: How do you see Mumbai progressing and what would be the probable loss that you would have this year?

Vinay Mittal: It is approx Rs. 18 crore and moving forward we expect it to keep improving because Mumbai is performing well.

Aashish Upganlawar: Have cover prices been increased in Mumbai as well or we continue to run the same schemes?

Vinay Mittal: The scheme price itself has gone up. It is today at Rs. 499 for a one year subscription.

Moderator: Thank you very much. Due to time constraints that was the last question. I will now like to hand the conference back to Mr. Vinay Mittal for closing comments.

Vinay Mittal: Thank you gentlemen for your time. Given the economic slowdown, our emphasis in Q2 has been on controlling costs and trying to balance the yield versus volume equation on the advertising front, while continuing to grow. Some of the positive takeaways in Q2 have been as follows: Delhi's advertising growth is now a negative 3% compared to negative 8% in Q4 FY 2012 and negative 10% in Q1 FY 2013. The realty sector has picked up in Delhi. Mumbai has grown positively at about 10%. Radio and digital businesses have grown handsomely and have beaten the industry averages with radio growing by about 30% and digital by about 80%. Newsprint is trending downwards. The IRS results have reiterated our position in our respective geographies. All of this confirms the strength of the brand and our positioning. I am confident that our profitability and financials will look even better as the macro-economic environment improves. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited, that concludes this conference call. Thank you for joining.