HT Media Limited's

Q1 FY14 Earnings Conference Call

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www.htmedia.in

Moderator: Ladies and gentlemen, good day and welcome to HT Media Limited's Q1 FY14earnings conference call hosted by UBS 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 the conference call, please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Nupur Agarwal of UBS Securities. Thank you and over to you, ma'am.

Nupur Agarwal: Good morning everyone and welcome to the Q1 FY14 conference call of HT Media Limited. Today, we have with us the senior management of the Company, Mr. Rajiv Verma – CEO; Mr. Piyush Gupta – CFO; and Mr. Vinay Mittal – Chief Financial Strategist. I will now hand over the call to the management for their initial comments, following which we will open the floor for Q&A.

Rajiv Verma: Good morning everyone and thank you for joining us for the Q1 FY14 earnings conference call. Over the next one hour, we will discuss the performance of the Company and answer your questions on status of the economy, our industry, and our Company.

The macro-economic situation continues to be very challenging. One can sense despondency, and the euphoria present a couple of years ago is simply missing. The print industry has been particularly hurt with this situation and this has been further accentuated with increasing input costs primarily due to the depreciating rupee. Additionally, there is an effort across industries to contain costs and hence media spends continued to be managed and down scaled by our customers. In my opinion the print industry is going through a fairly difficult patch.

Despite these difficult conditions, HT Media has performed reasonably well. We registered a healthy top-line growth of over 10%. Our EBIDTA margins also expanded to 19% from 17%.We understand that there is cyclicality in economies and businesses. And, we are confident that this current phase of down cycle will not last forever. At HT Media, we consider such situations an opportunity and are not dismayed, and this is reflected in our Q1 FY14 results. The underlying health of our overall business is even better given the independent strategies of each business. We continue to invest behind our businesses and take long-term bets and are better poised than most of our peers to take advantage when the downturn is over.

Currently, approximately 40% of our operating profits come from Hindi business. We decided to focus on this business 4-5 years back and this decision is holding us in very good stead. Over 5% of our total top-line comes from new businesses like radio and digital and this again is something that the Company decided to focus on a few years ago. We have a very robust product pipeline and in the next couple of months, you will see the emergence of a new business, Bridge School of Management, which is an initiative in mid-career education for working adults. We remain a very liquid Company and as a result we are well positioned to lookout for acquisitions. While we have closed a few small acquisitions especially in the area of digital, we believe more opportunities are going to present themselves going forward.

We recently undertook a brand investment campaign for Shine.com. Today, Shine.com with its unique and differentiated product offerings is gaining traction and has become the second largest portal in the recruitment space as per the Comscore and Alexa Ratings. We believe that like Radio, Mumbai and Mint, this is yet another good business in the making and you will also see similar results being posted by the Company in new strategic areas like education. So I remain very bullish about the future for our Company and I think we are navigating the headwinds very well in this difficult environment.

With this I'm now going to open the floor for any questions you might have.

Moderator: 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: FMCG segment has done well during the quarter. With all issues related to TV ad inventories etc. are we targeting this sector which is large on TV and how do you see your growth from this segment six months down the line?

Rajiv Verma: A few years ago, print media industry lost one of its biggest advertising category i.e. FMCGs, to television for a variety of reasons. Over the last three years, we started to focus on FMCG segment again as it is one of the largest ad spenders. However, As FMCG companies were not finding great returns on the investments they would make in print, we created a separate division called 'solutions division' which primarily focuses on FMCG customers. Additionally, we innovated a product called IndiaOne. IndiaOne is a joint effort by few players in the market i.e. The Hindu, Anand Bazar Patrika, The Telegraph, Hindustan and Hindustan Times. These players together offer a total readership of approximately 6 crores to FMCG players. Therefore, FMCG is a strategic thrust area for us and we will continue to serve this sector. Off late, there is increasing traffic coming from FMCG players as the top FMCG players are balancing their television portfolio between print and digital portfolio and we are well positioned to take advantage of this movement.

Additionally, HT, through its digital arm, recently invested in a Company called 'Webitude' which provides digital media solutions for mass-market. On the whole, we have a fairly strong bouquet of offerings, both in print and digital, for our FMCG customers.

To summarize, I believe that the stand-off between television companies and FMCG customers is not something which will last forever nor is it structural in nature. However, there is a great opportunity for us due to the resultant shift in media planning budget to print and digital.

Abneesh Roy: So these five print players have come together only for targeting FMCG? Also, how are revenues allocated in this model? Additionally, how successful is this alliance and what is the confidence level placed on this as alliances in print have not worked that well earlier.

Rajiv Verma: IndiaOne is predominantly targeted towards FMCGs and other mass users of advertising. It is being offered for almost a year now and is working extremely well. Companies consider this product an opportunity because it is mutually beneficial for each party involved. In other industries, alliances have worked well for instance Star Alliance and World One in the airline industry. These airline alliances have stood the test of time and they work extremely well. It is not unusual for various players to come together especially if it creates benefit for all participants and as well as for the customers. I remain very optimistic because IndiaOne alliance has been now one year in the making and we are seeing fairly good traction coming from it from customers. And I expect this alliance to last longer than previously anticipated.

Abneesh Roy: Could you share your plans on Phase-III for the radio business. Could you give us some clarity on the profitability of the digital business as we have gained a good share of users, especially in Shine. Finally, what is your thought process for Bridge School Management, why are we entering this space and what is the plan?

Rajiv Verma: Unfortunately there is no clarity on Phase III regarding its timeline and contours. Honestly I'm not in a position to explain how Phase III will impact various players. In Fever 104, we have focused on cost productivity, cost management and marketing strategies for different stations and we have performed in terms of our ratings. Our Bangalore station is profitable and we are the number one Hindi station in Bangalore. We continue to rank one in Delhi as well. Overall, we are very happy that the profits in Radio are showing traction. Our profit has doubled in Q1 FY14 over Q1 FY13and we hope that a similar run rate will continue in the future. Overall, our radio and entertainment events business has done extremely well.

Moving to digital, we have been focused on this segment for the past 4-5 years and created Firefly e-Ventures. We have launched three portals under Firefly namely, Shine.com, HT Campus and Desimartini.

Shine.com is an online job recruitment portal. We entered this space because we believed that online job recruitment will have a much longer and brighter future than many other segments in the online space. This was well demonstrated by market leader.Shine.com is one of our major investments in digital and in a span four years it has become extremely differentiated. It offers referral based recruitment and leverages Facebook connections to make sure that the recruiter viewing a candidate can access the professional details of the candidate's friends, and candidates who are looking for a job get referred on the basis of their network of friends. India is the second largest market for Facebook in the world and we see this as a tremendous opportunity going forward as we have repositioned ourselves by creating a very unique product withShine.com. Today, Shine.com is the second largest site in terms of traffic, resumes, and candidates who are searching for jobs.

Our second portal, HT Campus, is an online education portal which connects students and universities, thus enabling students to select universities for higher education and universities to identify potential students. This business has been doing exceedingly well and HT Campus.com is now the most popular site for students and colleges to find respective matches for them.

Our third site, Desimartini.com is an entertainment site which allows users to rate and review movies. It crowd sources this user generated information and provides consensus ratings on movies. This site is also witnessing robust traffic.

Now talking about our foray into education, given the demographics of India we had identified education as one of the future facing businesses during our growth and strategy alignment exercise with Mckinsey.

Based on the insights from this exercise, we have created Bridge School of Management which largely operates in a virtual learning environment. It is a capital efficient learning model for working adults, where they receive online education with flexibility of time and availability of good content and teachers online. We also offer this program in a blended environment mode, where students can visit our centers to receive this education. The first two centers' pilot will take off in the month of August or September in Delhi. We have created this business in partnership with Apollo University. Apollo operates a similar model in US and recruits almost 400,000 students a year, thus providing us with the know-how and technology required to run this business in India. We believe this business has huge potential. Once the pilots are launched and adopted by the market, we will look into scaling this business.

Abneesh Roy: You mentioned that Shine.com has become the second largest player. So is it now ahead of the number three and number four players in terms of revenues?

Rajiv Verma: Not in terms of revenues yet. But all the operating parameters are very strong, including high revenue growth.

Vinay Mittal: To add to what just Rajiv said, we are performing better than the number three and number four players in softer parameters like the live database, time spent on the site, customer adoption, etc. We can see an analogy to print where you have the readership coming through first and revenue follows. In same way, we think the revenue in Shine should follow now.

Rajiv Verma: I'm sure some of you may have seen our marketing campaign called "YarTu God Hai". It has been very well received by the market and we believe that Shine is ready to receive further investment in marketing and brand building. It is now ready for takeoff, given the kind of velocity we are seeing in customer adoption, revenue and traffic on our site.

Moderator: We will take our next question from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: What is the strategy for the Company given the elevated level of competition in the English print space?

Rajiv Verma: In English, the competitive intensity is coming down. In Mumbai, there were three players earlier and it is our belief that the market is now becoming a duopoly. In Hyderabad and few other markets as well, the competition is declining. Further, in the last 2 to 3 years we have not seen new entrants in the English print business. In fact, post the down cycle in 2008, the behavior in the industry changed with no significant launches of new English newspapers in both metros and other cities. Though, there were some players who were far more aggressive and misinterpreted the entry barriers. Taking this into account I believe that the competition has actually receded.

There has been some action in vernacular dailies. This action was initially led by Hindustan, our Hindi print business. The largest vernacular language in India is Hindi and the largest market for that is UP. This is where HT launched a massive aggression and its result is visible today. Hindustan is now a strong business that generates very good profits. In fact, it achieved an EBITDA of Rs. 48 crore during Q1 FY14. This business was losing money five years ago and post listing we have seen encouraging results coming out from here. To summarize, in vernacular there is some action, however, I do not see competition increasing in English.

Nitin Mohta: With strong cash in your books, have you identified areas where you want to venture out? Does the Company have boundaries in terms of which sectors you would want to put additional investment into and if you do not find those attractive enough, will you start returning cash back to shareholders?

Vinay Mittal: We are very clear that we want to grow in digital and education sector. There are many print companies worldwide which have moved into education successfully. We feel that there is a great correlation between the print industry and education sector and hence most of our investments would be in these areas. This is apart from the fact that we do want to grow in our print business which is our core business through the inorganic route. Also, we are ending our specialized printing JV with Burda and not planning on entering any new sectors.

Nitin Mohta: Is there a hurdle rate that you evaluate when trying to get into these new ventures?

Vinay Mittal: Our decision is based on the benchmark that we should reach breakeven in the 4th-5th year of starting a new business.

Moderator: Next question is from Siddharth Goenka of JM Financials. Please go ahead.

Siddharth Goenka: The losses from the digital business have expanded to around Rs. 17 crore for Q1 FY14. What has led to this and what is the guidance for FY14?

Vinay Mittal: We have launched a marketing campaign and released a television commercial for Shine in Q1 FY14 which led to higher losses from this business. The confidence we developed over the last one year and the positive reaction received from the social recruitment product launched in February led us to undertake this marketing campaign. We do not expect the EBITDA loss for FY14 to exceed the EBITDA loss of Rs 30 Cr in FY13. We are seeing an aberration in this quarter but it will even out over the year.

Rajiv Verma: We believe that the product is getting well accepted given our increase in revenues and customer adoption. This is similar to HT Mumbai, where the gestation period was 4 to 6 years. Even in online business, we have invested for some time now and are confident that this business is going to be cash positive in the near future.

Siddharth Goenka: Which sectors have contributed to growth in the Delhi market this quarter?

Vinay Mittal: The sectors which have done well are Government, Durables, Telecom, Real Estate and Retail.

Siddharth Goenka: Was the growth volume led or did we witness some yield improvement? Going forward, what is the focus of the Company?

Vinay Mittal: 80% of growth was due to volume growth. Going forward, our focus would be to take the yields up.

Siddharth Goenka: What is the strategy for that?

Vinay Mittal: Through ad rate hikes and putting a floor to the advertising rates.

Siddharth Goenka: Are we also likely to take up cover price hikes?

Vinay Mittal: Yes, if the dollar exchange rate remains this way, part of the burden will have to be passed on to our advertisers and also the readers.

Moderator: Our next question is from Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri: The English circulation revenue has grown pretty well this quarter. Could you throw some color on what led to this growth?

Vinay Mittal: It was primarily on the back of realization improvement.

Srinivas Seshadri: Was the circulation volume stable year-on-year?

Vinay Mittal: Yes, they have been stable.

Srinivas Seshadri: Net cash balance has dipped from approximately Rs. 700crore to Rs. 680croredespite generation of nearly Rs. 80 crore of EBITDA. Could you throw some light on where was this money invested?

Vinay Mittal: The working capital cycle becomes shorter towards the end of March with government payments coming through. The working capital extends a little bit during the first two quarters and you will see this happening every year.

Srinivas Seshadri: I believe this has happened mainly on the English side, so is there any issue there? Because, Hindustan appears to have generated some incremental cash on a Q-o-Q basis as well.

Vinay Mittal: It happens across the board. In Hindustan, it was mostly because of the top-line expansion; but the working capital cycle as explained above is a phenomenon in print.

Srinivas Seshadri: So one should expect the second half to kind of again reverse in terms of better working capital?

Vinay Mittal: Absolutely.

Srinivas Seshadri: The inter-segment revenue eliminations have gone up from a run rate of Rs. 2-3 crore to around Rs. 5 crore. So just wanted to understand the nature of this transaction?

Piyush Gupta: We have been supporting some of our subsidiary businesses like Shine and Bridge School of Management through advertising in our print businesses. For Example, as mentioned earlier we did a marketing campaign for Shine. This is reflected as part of inter-segment revenues.

Srinivas Seshadri: Would that get reflected to some extent in higher print advertising revenues?

Piyush Gupta: No. At a consolidated level that is all eliminated hence does not show up anywhere.

Moderator: Our next question is from Amit Kumar of Kotak Institutional Equities. Please go ahead.

Amit Kumar: Could you give me a sense of the financials of Burda in Q1 FY14 and when is the sale expected to be concluded?

Vinay Mittal: The sale is in the FIPB stage and we expect to get an approval soon and should be concluded in Q2 FY14. In terms of financials, Burda had revenues of Rs. 22 crore and an EBIDTA loss of about Rs. 4 crore.

Amit Kumar: WhileBurda's revenue has been more of less stable on a Q-o-Q basis, the EBITDA losses have shot up. Could you share the reason for this?

Piyush Gupta: Most of the revenues in Burda are from independent job works from both overseas and onshore markets. In Q1 FY14 the margins on these job works have been less than in Q1 FY13 and the paper cost has increased slightly. Therefore, you see a decline of approximately Rs. 2crore in EBITDA versus Q1 FY13. We do not expect this to be a trend going forward because we hope that in Q2 FY14, we would exit this investment.

Amit Kumar: What was the CAPEX for Q1 at a consolidated level?

Vinay Mittal: About Rs. 30 crore.

Amit Kumar: Could you please share the ad for equity revenues and provisions for this quarter?

Vinay Mittal: The revenues for ad for equity were about Rs. 9 crore and we had provisions of about Rs. 5 crore.

Moderator: Our next question is from Vikash Mantri from Kothari of ICICI Securities. Please go ahead.

Vikash Mantri: How much revenues have we booked from the IndiaOne initiative?

Vinay Mittal: We would not like to share the specifics besides mentioning that it is now gaining traction. We launched this initiative about a year back and it takes about 6 to 9 months for a new concept to take root.

Vikash Mantri: How are the revenues shared?

Vinay Mittal: It is shared based on readership calculated by a third party. This is the most objective way.

Vikash Mantri: What investments have we planned in the education business for the next 2 to 3 years cumulative?

Piyush Gupta: The education business is a very capital efficient model. Between the current and next year, our investments inclusive of loss financing will not exceed Rs.15crore.

Moderator: Our next question is from Ram Hegde of Primus Investments Advisors. Please go ahead.

Ram Hegde: Could you just give some color on the newsprint consumption and cost?

Vinay Mittal: We consumed about 43,250 tonnes of newsprint and the average rate was about Rs. 34,100 per tonne.

Ram Hegde: Would you be carrying any inventory?

Vinay Mittal: We have inventories for the next 3 to 4 months.

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

Vinay Mittal: The size of the book is about Rs. 285 crore.

Ram Hegde: In the opening remarks you mentioned that there was some pickup in Durables, Real Estate and Retail. You also mentioned that the macro environment still seems to be challenging; so how do we read this performance from Delhi especially; is this one off sort of a growth or do you see things getting a little better from here on?

Vinay Mittal: I would think it is a not one off growth. There have been a lot of actions that have been fired over the last six months in Delhi. For instance the India One package, separate editions in Gurgaon and Noida.

Rajiv Verma: The growth that HT is witnessing is on the back of innovations that were pursued and the investments made on the brands across different businesses. Mumbai is the case in point; we are witnessing robust growth in Mumbai because the brand is now entering into a maturity phase and increasing its readership, hence more advertisers like to use it. Similarly in Hindi, I had highlighted the investments made over years and as a result, Hindi today has become a very strong growth pillar for the Company. Likewise, in Delhi, a lot of activity happened. We looked at the micro markets in Noida and Gurgaon and now a lot of growth is coming from these markets. In addition there are initiatives like IndiaOne. Suffice to say that all the innovations that Company pursued during last 2 to 3 years as well as investments made on our brand are improving our business.

Ram Hegde: On the newsprint, if one has to look at the next couple of quarters, what sort of inflation do you see creeping in from here on?

Rajiv Verma: We will continue to see a very challenging environment in the next couple of quarters depending on how the dollar behaves. I believe no one can forecast dollar's movement. The truth is that we have been very prudent in our procurement strategy and are well hedged. On the cost side we put in our efforts to improve cost efficiencies and productivity and were able to deliver a good performance with only a 1% increase in the overall raw material cost. Besides, we also took precautions given the fact that the dollar is likely to be volatile. So for this year we will be well covered.

Moderator: Our next question is from Prakash Ramaseshan of Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: We are absolutely aware that in a very challenging environment the Company has taken great initiatives and done extremely well. We also understand in these environments, the growth is going to be bit subdued but we know that you are building a platform for great growth going forward. A level of disconnect the investors have is that we are unclear on the dividend policy. Why does the Company have extremely large cash reserves for potential acquisitions when some of that can actually be tied up by undrawn lines from banks or even undrawn private equity lines? So if that part can be addressed by the management and the board, I think it would go a great way in valuing the Company appropriately from a capital market perspective.

Rajiv Verma: We all know that currently the economy is going through a downturn and that economies are cyclical. So this downturn will be followed by an upturn. In a downturn, we believe cash and liquidity is one of the best ways to hedge our position. We are very fortunate that during the good times we had foresight and maintained liquidity as it provides us the ability to rise through the downturn without resorting to raising liquidity and cash from the market which many of our peers and competitors are doing. Secondly, we can be far more aggressive relative to companies with liquidity constraints and this provides us with an opportunity to be offensive in our market strategy and gaining market share. In addition, we are well positioned to pursue inorganic growth opportunities as and when a good quality asset presents itself. We are also well positioned to finance and scale our organically built growth engines namely digital and education businesses. While I understand the desire on part of investors to look at returns in the form of dividends, Company has enough opportunities to deploy these cash reserves into and build an even greater asset for everyone who has reposed their confidence in the Company as its investors. Despite this, if we don't find enough use for this liquidity, then obviously it will be returned back to the shareholders in the form of dividend. But we believe there are enough opportunities for the Company and maintaining liquidity reserves in down cycles creates good opportunity. Also at times like these, there are unnecessary price wars and liquidity helps us secure our markets.

Prakash Ramaseshan: Beyond what level of cash would you start to payout dividend substantially?

Rajiv Verma: These are ongoing discussions at the board level as well as at the strategic level on what would be the best way forward. As and when something new is to be reported, we will certainly share it with you.

Moderator: Our next question is from Amitabh Sonthalia of SKS Capital and Research. Please go ahead.

Amitabh Sonthalia: You have a buyback which is going on and you have bought back about 20% of that and Company seems to have stopped at this percentage. Is the thought process to just keep buy back at the minimum level because the current market prices are much below the maximum buyback price, or do you intend to fully complete the buyback?

Vinay Mittal: Absolutely, we intend on completing the buy back.

Amitabh Sonthalia: Are you just slowing down the purchases because you want buyback to last longer? Did you announce the buy-back with the maximum price to ensure price stability during the buyback period or was it to actually buyback the shares, which means that if the shares are available below the maximum price then ideally you should complete the buyback sooner? Is there a target price or timeline that you want to complete the buy back in?

Vinay Mittal: The idea to do the buyback was to put the money to better use and to return it to the shareholders not in the form of dividend but through the buyback. I would not like to comment on the target price or timeline as such. The buyback is designed to be spread over a reasonable time period, neither too short nor too long. So we will complete the buyback sooner than later.

Amitabh Sonthalia: But you are confident of utilizing the entire amount that you have earmarked for the buyback?

Vinay Mittal: Yes.

Moderator: Our next question is from Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri: Is the CAPEX of Rs.30 crore towards roll-out in the NCR?

Vinay Mittal: Part if it was to complete that NCR roll out and part of it was for up-gradation.

Srinivas Seshadri: What is the target CAPEX for this year and next year and what are the major elements on those?

Vinay Mittal: The planned CAPEX for this year is Rs.100 crore.

Srinivas Seshadri: Will there be any Capex in FY15 also?

Vinay Mittal: Normal maintenance CAPEX of close to Rs. 30-40 crore every year.

Moderator: As there are no further questions from the participants, I would now like to hand the conference back to the management for closing comments.

Vinay Mittal: Thank you ladies and gentlemen for taking out the time for this call. Just to reinforce what Rajiv stated in the beginning of the call, all the new businesses that we had launched in the last 5 to 7 years have started performing. Therefore the drag on the P&L and burden on Delhi has reduced significantly. For instance, Mumbai has consolidated its #2 position both, in readership and revenues. Its top-line grew at about 26%. HMVL as you all know grew at 14%. Radio has done extremely well with 15% growth in revenues and 100% growth in EBITDA. Digital business grew at 41% with Shine growing at about 81% and should grow in the range of 75-100% by the end of FY14. This has led to an overall advertising growth of about 10% and circulation growth of 16%. With the continued emphasis on cost, we have been able to deliver a 20% growth in EBITDA. One big headwind that remains is the dollar rupee rate. But with all our businesses performing well, we are pretty confident that we should be able to mitigate the impact of dollar-rupee in this year and come out stronger. Thank you.

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