HT Media Limited's

Q1 FY2015 Earnings Conference Call

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www.htmedia.in

Moderator: Ladies and gentlemen, good day and welcome to HT Media Limited's Q1 FY 2015 earnings conference call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Bijal Shah from IIFL Capital. Thank you and over to you Mr. Shah!

Bijal Shah: Good afternoon everyone. We at IIFL Capital are very pleased to host the Q1 FY 2015 earnings conference call for HT Media. We have with us Mr. Rajiv Verma, CEO and Mr. Vinay Mittal, Chief Financial Strategist to discuss the quarterly performance. I now hand over the call to Mr. Vinay Mittal for opening remarks. Over to you Sir!

Vinay Mittal: Good afternoon ladies and gentlemen. Thanks for taking out time for this Q1 earnings call of HT Media Limited. We understand that it has been a tepid quarter with a growth of 3% in our advertising revenue. The advertising revenue is at Rs. 4.45 billion compared to Rs. 4.3 billion y-o-y. Our total revenue has grown by 3%, to Rs.5.9 billion from Rs.5.7 billion. The growth is actually 6.5% on a like-to-like basis if we take out the revenue of HT Burda from the base. HT Burda was sold in FY 2014.

There was pressure on the raw material side, with costs increasing by about 8%, mainly due to the newsprint prices, which have been higher this quarter. Apart from newsprint, the employee cost has also gone up by 19% due to hiring, increments and a charge for regulatory compliance. Consequently, with the topline not growing that robustly, the cost pressures from raw material and employee cost led to a compression in margins. But on the positive side, the effect of the good IRS numbers is slowly coming through with the yields going up by about 8%. The volume drop in advertising has been more than made up by an increase in yields.

Circulation revenue has gone up by 13%. Our Hindi business has done well by growing at 17%, which is the fastest growth amongst its peers. It has become a strong growth engine for the group. Radio has performed nicely. Its topline has grown by about 12% and EBITDA by 80%, with the operating leverage in Radio clearly coming through. Digital has performed well, with growth of about 40% and HT Mumbai has unequivocally consolidated its No.2 position in Mumbai. So there are certain positives which we take-away from the Q1 results except for the topline growth piece. I now open the floor for questions.

Moderator: We will now begin the question and answer session. The first question is from the line of Vikash Mantri from ICICI Securities.

Vikash Mantri: What has driven the movement in employee cost?

Vinay Mittal: The extraordinary bit in employee cost is a charge for regulatory compliance. Otherwise it has mainly been due to hiring and increments. For the whole year, employee cost, except for this one-time cost, would still be between 20% and 21% of the revenue on a normalized basis.

Vikash Mantri: What is this regulatory compliance? Is it something which has come up fresh? What is the nature of it? Can it come back again?

Vinay Mittal: Basically, this is related to the wage-board which is an industry wide phenomenon. A very small portion of it is recurring but most of it is one-time and it would not come back again. We are fully compliant with the regulatory requirements.

Vikash Mantri: What would be the yield improvement in the English business?

Vinay Mittal: The yield improvement in the English piece has been about 4% - 5%.

Vikash Mantri: So is there a volume decline of about 10% there?

Vinay Mittal: About 7% - 8%.

Vikash Mantri: We had very good growth in Hindi as compared to the peers. Based on the IRS results, we should have got increasingly good numbers in English as well. But, this does not seem to have translated. Do you think that there would be a gap before we catch up in the English business?

Rajiv Verma: There are a couple of things which happened here. DAVP advertising virtually stops before the elections due to the code of conduct and hence the entire DAVP piece for English dried up. In Hindi, on the other hand, political advertising was quite a lot. As a result, Hindi could recover the loss of DAVP advertising but English could not. The political advertising went into vernacular papers and not into English papers.

Vikash Mantri: Kindly explain the raw material cost trend going forward. Have we crossed the peak in newsprint prices given that the Rupee is more in favor?

Rajiv Verma: Relative to last year, it was the quarter in which the highest cost paper inventory got absorbed. Last year, in the same quarter, the lowest cost inventory paper was being absorbed because usually companies carry three to four months of inventory which can even go up to five months in case of imported newsprint. Last year, the Dollar shifted from Rs. 57-58 to Rs. 68-69 and that 20% higher cost got carried forward.

Vikash Mantri: Can we expect a decline in newsprint prices sequentially? Do we think advertising volumes will pick up?

Rajiv Verma: Newsprint prices should decline by 1-2% every quarter. Also, volumes should be higher if the advertising environment improves. This quarter last year had the highest ever real estate advertising coming into newspapers. After that, the Dollar reset happened and the exchange rate situation worsened. The current account deficit was around 4% and therefore various economic measures came in with the sentiment deteriorating after August. Real estate advertising has still not recovered from that point although it is showing some signs of recovery. Hence we are also dealing with a higher base as far as the real estate advertising is concerned. Hopefully, the way the economic sentiment in the country is improving, advertising should rebound and will catch up soon.

Moderator: The next question is from the line of Srinivas Seshadri from CIMB.

Srinivas Seshadri: We had a call in May and at that time it was not very obvious to us that there is some kind of slippage in the English advertising piece. Apart from the election, which impacted the first part of the quarter, was there anything else which has hit the numbers? If so, how do you read the numbers going forward because clearly government advertising will come back. Would we again resume mid-single digit growth in the next quarter or do you think there are more issues which have to be addressed through two or three quarters?

Vinay Mittal: Basically, in Q1 we had this election issue where the DAVP or the government advertising virtually stopped. Another causality was the real estate advertising which has a good correlation with election advertising. The real estate advertising also comes to a low during that time, and both are yet to rebound.

Rajiv Verma: Also, I think the problem is basically in the metro cities where some of the conventional categories like education, real estate and auto have not started firing. In addition to that, we had the blackout period where government advertising was not happening due to the code of conduct. But HT Media has consolidated revenue comprising of all its various assets like radio, HMVL and others. HMVL has actually outperformed the entire industry by a fairly large margin with a growth of almost 17% which is a very healthy growth rate. The problem is specific to the English portfolio , due to the fact that some conventional categories were not advertising as usual due to the economic mood and sentiment.

Srinivas Seshadri: Would it be fair to say that we might have a sluggish Q2 on the lines of how Q1 has panned out?

Rajiv Verma: Q2 will have another phasing issue which would be the phasing of Shradh period which has a fairly large influence in the north. Q2 and Q3 are always seen in combination. It depends on the phasing of Navaratras, Shradh and the festival season. Depending on that skew, you will have to compare this year with the last year same period. We are trying to do a lot of innovations to somehow not let that impact of phasing come into play, but early days show that there is some revival happening.

Srinivas Seshadri: Also, the SG&A spends have kind of moderated on a year-on-year basis, so just trying to understand the areas where you might have reduced spending? What is the kind of flexibility in terms of spending, assuming that there are a few more weeks or months of tough times on the advertising front?

Vinay Mittal: Expenditure in other areas was not really cut, but has been controlled. It was only in case of raw material, where the inventory was at the highest cost point in this quarter, and we also had an increase of 220,000 copies in Hindi, which contributed to the raw material cost increase. On the employee piece, I have already explained the extraordinary nature of the charge due to regulatory compliance. Otherwise the costs have broadly been in line. Effort has been made to make sure that if revenue is under pressure, there is a cap on costs as well.

Srinivas Seshadri: So we can manage with these kinds of numbers on absolute basis on the SG&A front till things improve?

Vinay Mittal: Absolutely.

Srinivas Seshadri: On the digital piece, as indicated earlier, Q1 would start with a higher loss. On a full year basis, what is the outlook in terms of where we want to reach or how much losses we want to invest in the digital business?

Vinay Mittal: The magnitude is about the same as last year, which was negative EBITDA of about Rs 36 Crores and this will not increase beyond that.

Srinivas Seshadri: What is the timeline you are looking at for that business to be breakeven?

Vinay Mittal: Sometime in the next financial year.

Moderator: The next question is from the line of Jay Doshi from Kotak Securities.

Jay Doshi: Can you give us an idea of the kind of investments we would be making overall across businesses? You did mention a bit about digital, but are you going to see an increase in investments in education or any other expansions this current year?

Vinay Mittal: We will be investing into our radio business when the phase III does come up. We will also be investing into our education business, but nothing extraordinary. Studymate currently has 12 centers and we should reach about 22 to 24 centers by the end of this year / beginning next year. However, a large investment is not required because each center takes about a year to break-even and there is no capex involved. It is all on a rental or lease basis, so there will be little investment in the education business. On digital, I have told you about the negative EBITDA which is like an investment for us. These will be our focus areas to invest in.

Jay Doshi: What would be your total capex for the year?

Vinay Mittal: It should be approximately. Rs. 100 Crores.

Jay Doshi: You did mention that employee cost will go down, but can you give us an absolute number excluding one off? What would be the quarterly employee cost run rate at consolidated level?

Vinay Mittal: It would be in the ballpark of 20% to 21% of the revenue.

Moderator: The next question is from the line of Nitin Mohta from Macquarie.

Nitin Mohta: My question is on the digital side. What are the metrics that the management is keenly tracking in addition to the financial metrics to understand the progress as per plan?

Vinay Mittal: In our recruitment business, which is Shine, we are very focused in bringing our live database, which includes resumes added/refreshed in the last six months, closer to that of the market leader. So today our database is certainly the second best, better than the other two players in the market i.e. Monster and Timesjobs. Also, we want to maintain our leadership in recruitment using social platforms which is through our investment in MyParichay. That helps target the corporate segment and we are making good headway by getting marquee clients. So this is another benchmark that we are tracking . Another metric that we are following starting from the third quarter onwards is with respect to the revenue traction and making sure that the negative EBITDA keeps decreasing every quarter.

Nitin Mohta: Your thought process in terms of plans to acquire any start-ups in this sector? What is the capital outlay that you can put to use if you decide to pursue inorganic growth in digital space?

Vinay Mittal: We would be looking out for inorganic growth in something which would bolster our existing investments in the digital space, which includes Shine in the recruitment business, HT campus as the market place or lead generation engine for admissions to private colleges, and HT Mobile Solutions, which works in mobile advertising and the social advertising areas.

Nitin Mohta: Are there any plans to acquire something to get a jumpstart into a new area altogether? Can the cash be used to get into a digital domain where you are not present currently?

Vinay Mittal: We would be open to that, but at this point of time we are very focused on making our existing digital investments breakeven.

Moderator: The next question is from the line of Pranav Kshatriya from Religare Capital Markets.

Pranav Kshatriya: The margins have improved quite significantly in the Radio business. Is this a one off or can we expect this to be a regular margin?

Vinay Mittal: Absolutely regular margins. The business continues to do well now on the same basis as last year.

Pranav Kshatriya: Do you think this margin is sustainable and the revenue growth can be maintained at this level? How do you see the radio business panning out?

Vinay Mittal: We think that the business will grow, but a lot depends on the GDP growth as well. In India, the GDP or economic conditions have to improve as you just cannot sustain performance totally delinked to the Indian economy.

Rajiv Verma: Most of the radio companies, barring one or two, are seeing very difficult times. HT Media radio stations were cherry picked in four good cities and have a business model that is superior to others. We do not have a presence in many cities where there is no revenue, but there is always an overdependence on a few customers which can pose some risk at times. Overall, radio performance has been very good and we have to ensure that as the expansion happens, overdependence on a few customers should not bring down the margins.

Moderator: The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: How is the growth in Mumbai versus Delhi? Do you see the gap between you and the number #1 player in Mumbai reducing further, and what are the plans for that?

Vinay Mittal: Mumbai also had a tepid quarter and growth was flat-to-low single digit positive. It was affected by the elections and on the real estate advertising front. However we do expect it to keep growing at a much faster pace because it has got a small base. So the catch up with the competitor will happen over the next two to three years.

Abneesh Roy: We have now become a strong number #2 and gap between #2 and #3 is quite high. In that context, has the #1 player seen a big decline if you are flattish?

Vinay Mittal: The #1 player would have actually declined in volume terms by about 10% but that was because the market has declined and if you are a #1 player with a monopoly in that market you would tend to follow the market.

Abneesh Roy: What are the expectations on Mint with the IPO market picking up? Would we see new growth drivers in terms of new cities or augment existing cities to capture the IPO market?

Vinay Mittal: Currently Mint covers about 9 to 10 cities which is enough for a business newspaper. The IPO market will be a big boost to the BFSI vertical, which along with the luxury segment are the two main stays of a business newspaper in India, especially Mint. The BFSI leg was muted for the last one to two years, I expect Mint to do quite well as soon as the IPO markets revise.

Abneesh Roy: How does this presence in nine to ten cities compare with the #1 player?

Vinay Mittal: We are there in 75% of the cities that the #1 player would be covering.

Abneesh Roy: In terms of circulation growth in the next one or two years, both for Mint and English excluding Delhi, where is the requirement for increasing circulation in existing geographies?

Vinay Mittal: Because of competitive play, you would see some copies getting added in Mumbai because that is where we will do a bit of catch up with the leader. Mint will also see additional circulation as the BFSI vertical starts doing well. Having said that, structurally the cost for all businesses are in place and if the economic conditions do become more favorable, I expect the operating leverage to play out in my new businesses which is basically the Mumbai piece in addition to a mature business like Delhi, which has had lower consumption demand for the last two years.

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

Rohit Dokania: Can you give me the circulation numbers for all brands?

Vinay Mittal: Circulation numbers for all brands are broadly constant with Delhi at about one million copies Mumbai at about 400,000 copies. For Mint, we would be circulating around 130,000 copies and Hindi would be at 2.5 million.

Rohit Dokania: Given the way our radio piece has performed over the past two to three years, what kind of investments could we see as far as phase 3 options are concerned?

Vinay Mittal: We are in the process of forming a strategy on this. Probably, I would be in a better position by the next quarter’s call to be able to give some color on it.

Rohit Dokania: Is there any limit or we do not mind overspending if we decide on a strategy?

Vinay Mittal: I do not think we would go overboard. In terms of cities ideally we would like to go from four cities to about 10 cities.

Rohit Dokania: What are the expectations in terms of the average newsprint price for FY 2015 relative to FY 2014?

Vinay Mittal: This was the highest quarter in terms of newsprint prices, but I do expect them to slowly start fading off by 1% or 2% every quarter. I do not see the newsprint prices hardening in the coming quarters.

Moderator: The next question is from the line of Yogesh Kirve from B&K Securities.

Yogesh Kirve: What share does the government account for in total advertisement on a normalized basis?

Vinay Mittal: Total in terms of government would be about 18 odd percent.

Yogesh Kirve: Does HT Mumbai have positive EBITDA margins as of now?

Vinay Mittal: We are breakeven.

Yogesh Kirve: What could be the likely margin for the full year? Is it safe to assume a 5% - 10% number?

Vinay Mittal: It is quite linked to the way the economy pans out. We are breakeven and all set to grow if the economic tailwinds are there.

Yogesh Kirve: Does the Rs. 100 Crores capex that we expect for this year include the radio auctions ?

Vinay Mittal: It does not include the radio auctions.

Moderator: We will go to the next question which is from the line of Govindlal Gilada, an Individual Investor.

Govindlal Gilada: My question is with regard to fixed maturity plans. We have got substantial investments there and in the recent budget, norms for long term maturity were changed from 12 months to 36 months. How will it impact us going forward as we have to pay tax on our one year investments?

Vinay Mittal: Some of it will be restructured; some of it was in long term plans already. I will not be able to give you an exact impact on the call please.

Moderator: The next question is from the line of Chauhan Bhautik from Span Capital.

Chauhan Bhautik: Thanks for giving me an opportunity. What would be our net cash position?

Vinay Mittal: Net cash position at the end of June would be around Rs. 960 Crores.

Chauhan Bhautik: What would be the total size of the Ad for Equity assets in terms of real estate and equity?

Vinay Mittal: Total assets would be about Rs. 295 Crores.

Chauhan Bhautik: This is not included in the net cash right?

Vinay Mittal: Yes it is not be included in the net cash.

Moderator: The next question is from the line of Himanshu Shah from HDFC Securities.

Himanshu Shah: Have the anomalies in the last IRS been resolved in terms of data discrepancy?

Vinay Mittal: Presumably yes because as soon as the next one comes out it indicates that some of the anomalies should have been set right.

Himanshu Shah: When should we expect this data?

Vinay Mittal: We should expect this over the next one month.

Himanshu Shah: With respect to our company, are there any specific plans on a second round of buyback?

Vinay Mittal: We cannot do a buyback before one year from the completion of the first buyback. The earliest it can be done is in February and March 2015.

Himanshu Shah: But does this remain on our radar as something we are looking at?

Vinay Mittal: Absolutely.

Moderator: The next question is from the line of Bijal Shah from IIFL Capital.

Bijal Shah: My question is linked to the IRS. Now that you have seen substantial improvement in our performance in UP, can you give us some idea with respect to the revenue share of Hindustan in UP and where do you see this going forward in a couple of years? What kind of yield growth can we see and what is the difference between us and the leader at this point in time.

Vinay Mittal: We should be at about 20% to 22% of the advertisement market in UP. Yields have already gone up by about 20% because of the new IRS. Over the next three years, we should catch up and see an increase in yields. I should see an advertising growth in UP at a CAGR of at least 20% for the next three years.

Bijal Shah: What is the growth assumption for the market? How much growth over the market rate are we expecting?

Vinay Mittal: Assuming the market growth rate is around two times the GDP growth, it should in the region of about 12%, if the GDP growth is around 5.5% to 6%.

Bijal Shah: Against that, can we expect a 20% growth?

Vinay Mittal: Yes.

Bijal Shah: Second question was on radio. Now that the government has changed, have you heard anything new? When do you think the radio auctions will be held or will there be an inordinate delay similar to what we saw last time?

Vinay Mittal: According to the papers, the government has shortlisted three possible companies which will conduct the auction. The government seems to be active on it and if they finalize on the auction partner, I do expect some movement over the next two to three months. We should see a lot of progress by October end.

Bijal Shah: Will our strategy be similar to what we did last time, wherein we restrict ourselves to very few markets where we think a large part of radio revenues would be generated? Are we planning to change strategy probably because our Hindi portfolio is doing very well? Would you like to go into smaller towns?

Vinay Mittal: No, I think we are very clear. Ideally we would like to be picky. About eight to ten markets would be a good way to go forward in radio.

Moderator: The next question is a follow-up from the line of Srinivas Seshadri from CIMB.

Srinivas Seshadri: On the Delhi side, we had this plan of doing satellite additions in the NCR area. I just wanted to get some idea on the progress. Out of 1 million copies, what percentage would be going into satellite editions at this stage and what is the local market monetization which is happening in those markets?

Vinay Mittal: Srinivas, out of the 1 million copies probably about 10% copies are the ones which get distributed in the satellite towns of Noida and Gurgaon and those additions have now been there for the last one year and are doing decently well. I would not be able to give you the quantum of advertising that comes up from this separate geography, but they are doing well for us.

Srinivas Seshadri: In terms of local advertising, has it picked up or do you think this is the stage when it will start picking up?

Vinay Mittal: Local advertising has also not picked up because the metro markets have been very slow. Most of the de-growth or flat growth is because of the metro markets of Delhi, Bombay and maybe Bangalore and Chennai. The consumption has been constrained in the metro markets for the last two years. As the GDP growth rebounds and the feel good factor flows through to the ground level reality, I think the metro markets will be the one which will surprise on the upside.

Srinivas Seshadri: On depreciation, is there any one off or is this is the new level of depreciation based on the revised guidelines?

Vinay Mittal: Rs 4.3 Crores will be recurring and Rs 4.78 Crores is one time

Moderator: The next question is a follow-up from the line of Rohit Dokania from IDFC Securities.

Rohit Dokania: Given the kind of capital that is flowing into online Real Estate portals, are we seeing an early shift of real estate advertising from print to online?

Vinay Mittal: I will be able to answer this better once the economy is back in shape to see whether this fall in real estate advertising is actually because of the economy or because of real estate portals. I personally do not think that it is totally due to real estate portals and a major part of it would be linked to the economy. Over the next one year, we would certainly get an answer to this.

Rohit Dokania: What would be the overall growth in real estate advertising in print over the past two to three years on a compounded basis?

Vinay Mittal: There has been no growth.

Rohit Dokania: But online ventures would have probably grown in the range of 30% to 50%, although the base would be small.

Vinay Mittal: It is not that the online portals do not have an effect. Just that the slowdown in print is primarily because of de-growth in real estate advertising and not entirely linked to the internet.

Rohit Dokania: What are your views on the 49% FDI limit in media companies?

Vinay Mittal: We welcome the news.

Moderator: As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Vinay Mittal: Thank you again ladies and gentlemen for taking out time. As closing comments, I would like to reiterate that as the economic environment improves, we should see operational leverage coming through. All the structural costs are in baked in; therefore we should not see incremental cost being attached to the marginal revenue coming in. The surprise package should be the English markets led by the BFSI, real estate and the DAVP pickup. Raw material prices have also started softening albeit slowly. Employee costs should normalize. All in all, I do think the worst should be over provided the economic tailwinds do come through. Thank you.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference.