"HT Media Q1 FY16 Results Conference Call"

July 16, 2015

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Moderator: Ladies and gentlemen good day and welcome to the HT Media Q1 FY'16 Results Conference Call, hosted by ICICI 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 touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikash Mantri of ICICI Securities. Thank you and over to you Sir.

Vikash Mantri: Good morning everybody. We at ICICI Securities are pleased to host the Q1 FY16 HT Media Results Conference Call. From the management, we have HT Media being represented by the CEO, Mr. Rajiv Verma and Mr. Vinay Mittal, the Chief Financial Strategist. Over to you sirs.

Vinay Mittal: Good morning ladies and gentlemen. Thanks for taking out the time for our Q1 results call.

The ad revenue growth has picked up. Though the uptrend is not that strong, it is still positive news. The ad growth remains in mid-single digits at 5% and if we normalize for the election revenue in the base it was 7-8%. Mumbai grew at a healthy rate of 19%. Hindustan (which is HMVL) grew by 7% and excluding the impact of elections which was present in the Q1 last year, it grew by 15%. HT Delhi grew by 4% which was heartening, radio was almost flat with 2% growth, Mint grew by 3% and digital grew by 29%. Circulation growth was 6% and our interest income de-grew as there were marked-to-market adjustments on our mutual funds. Overall EBITDA decreased by 16% mainly because of de-growth in interest income. Our PAT de-grew by 24%.

On the expenditure side, raw material costs came down by 5% as raw material prices continued to be benign. The employee cost grew by 11%, advertising and sales promotion grew by 36% mostly on account of the TV commercial for Shine and other promotions undertaken in our print business. Other expenditure was higher at 21% as expenses grew in all residual expense heads. In 2015-2016, we do expect a revenue uptrend while all the cost heads should normalize. Raw material prices should continue to remain benign; also we continue to enjoy good IRS numbers. If the expectation of the uptrend in the economy comes through, we look forward to a better topline growth and margin expansions. Now we can open it up for questions please.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

Vinod Malviya: Sir, Can you help me with the revenue of Shine for this quarter? And is Shine part of the standalone only?

Vinay Mittal: Revenue of Shine for this quarter is Rs. 10 Crores. Yes, Shine is part of Standalone.

Vinod Malviya: Sir second question is related to the cash component. If I look, the same has come down by Rs. 86 Crores on a consolidated basis and if I remove HMVL from it, it is down by Rs. 115 Crores. Can you please share the breakup of where the cash has been utilized during the quarter?

Vinay Mittal: The cash has come down by Rs. 80 Crores with respect to March'15. But if you notice from the other quarters on a like-to-like basis it has gone up. It will always go up in March because the government pays up as well as many of the debtors pay up, thus increasing cash.

Vinod Malviya: Are there any deposits which you have given for the radio also?

Vinay Mittal: No not really.

Vinod Malviya: Sir, was there any provisioning for ad-for-equity during this quarter?

Vinay Mittal: Yes, Rs. 4 Crores.

Vinod Malviya: Sir, on the digital side, in the last quarter you said that even this year you would be making some 50 Corers of loss. In the first quarter itself, we have Rs. 24 Crores loss at the EBIT level; so, do you still maintain that loss will be around Rs. 50 Crores or will it be higher than that?

Vinay Mittal: We still maintain that it would be around that level

Vinod Malviya: So in the next three quarters basically the losses will be lower than the first quarter.

Vinay Mittal: We are hoping to do that.

Vinod Malviya: Okay that is all from my side, thank you.

Moderator: Thank you. Next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

Bhautik Chauhan: Couple of questions from my side. Could you throw some light on advertising scenario in terms of revenue and margins across key cities and across different advertisement segments?

Vinay Mittal: As I said in my opening remarks, the advertising has been strong in Mumbai with a growth of 19%. HT Delhi has grown by 4% and for Hindustan growth has been 7% despite a very strong election base of last year excluding which growth is 15%+. Digital has grown by 29%.

Bhautik Chauhan: Sir, if you split it in different advertisement segment in terms of education, FMCG, etc?

Vinay Mittal: Contribution of automobile was 8% which was better than same quarter last year; the other good performing segment was FMCG which now accounts for 11%. DAVP of course has done better, because of elections last year wherein DAVP stopped for a month for CoC adherence. Real estate continues to be a laggard at 6% - 6.5% contribution and education at 15% is little lower than last year.

Bhautik Chauhan: Sir, my next question pertains to other expenses; it has increased by 24% from Rs. 173 Crores to Rs. 215 Crores year-on-year, so any specific reason for that?

Vinay Mittal: It has increased more so because of the advertising and sales promotion on account of the TV commercial for Shine and some of the promotional activities that took place in the print media. Also expenses increased in all other expense heads such as rent, legal etc.

Bhautik Chauhan: Sir, core EBITDA margins excluding other income have declined in Q1 vis-à-vis last year and vis-à-vis last quarter. When do we see margins picking up?

Vinay Mittal: Margins will pick up once top-line starts picking up in a better fashion. Therefore, we are hoping that the uptrend that we are seeing in Delhi and other geographies comes through in the next two-three quarters so that we have a better topline growth and see some core margin expansion.

Bhautik Chauhan: So any guidelines for FY16?

Vinay Mittal: All depends on the economy.

Bhautik Chauhan: Sir, my last question pertains to ad for equities. What is the total size of the book in terms of real estate?

Vinay Mittal: 80% of my ad for equity book which in aggregate is Rs. 315 Crores is property.

Bhautik Chauhan: That is all from my side.

Moderator: Thank you. Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: First is on digital losses which are Rs. 24 Crores in the first quarter itself and the expectation was to do Rs. 55-60 Crores for the full year. Do you think that 55- 60 now is a realistic number or will it inch closer to Rs. 80-100 Crores for the year.

Vinay Mittal: No, it is pretty much realistic. Losses in Q1 are high simply because of the way the TV commercials ran and the way bunching up of the advertising or sales promotion happened. Our effort is really to contain loss within the figures that you stated. In the digital portfolio, the losses are pretty much due to Shine.com

Saurabh Kumar: On Mumbai, we have done very well as our revenues are up 19%. What is the gap in ad rates vs. the number one player? Secondly, what will be the margins for Mumbai now?

Vinay Mittal: With respect to Mumbai, gap in ad rates is still large. TOI still enjoys close to Rs.1600-1700 a square centimeter as compared to our rate at Rs.600 a square centimeter. We are very confident of closing in on the leader. Thus, we expect our ad rates and the resultant ad revenue to grow. Also, we are close to 10% plus EBITDA margin in Mumbai.

Saurabh Kumar: So, once it fully stabilizes maybe two to three years from now, can we expect margins to move to 25% - 30% level?

Vinay Mittal: Absolutely, it has to go up to the level where the print media EBITDA margins are for each region and which is rightly 25% plus level.

Saurabh Kumar: That is it from my side, thank you.

Moderator: Thank you. Next question is from the line of Srinivas Seshadri from Antique Stock Broking. Please go ahead.

Srinivas Seshadri: The first question is on radio. I saw the MIB release as per which we have given an earnest money deposit of Rs. 62.5Crores. Does it imply that you are bidding for stations with a base price of Rs. 250 Crores or so? Is that the broad outlay we should build in for new stations or could it be higher or lower depending on the win ratio? Can you share some broad range on the new license spends?

Vinay Mittal: Srinivas, since the bidding is imminent, I do not want to talk about the strategy at this point of time. Suffice to say that we are bullish on radio and that is about it.

Srinivas Seshadri: You would not like to give any range of spend at this time?

Vinay Mittal: I would like to avoid.

Srinivas Seshadri: Secondly, sir in the presentation you have mentioned that Shine has seen single digit growth. Can you throw some light on what has happened? Are we hitting any kind of roadblocks in terms of growth? Another question is with respect to HT Mobile which has seen 70% growth which is obviously very heartening. Can you throw some light on both the digital businesses as to how they are progressing and what are the challenges and opportunities?

Vinay Mittal: What we have been trying to do with Shine is to get better quality revenue. Some of the revenue in the earlier years would be job-fair kind of revenue. We are trying to bring that down and build better quality revenue. Part of the exercise was that and therefore the lower growth. We hope that we should be able to clock much better levels of growth at 25% plus from this quarter onwards.

Srinivas Seshadri: Was job fair revenue, a material part of the revenue earlier?

Vinay Mittal: No, it was not material but it was enough at 15%. We'd like to focus on real recruitment revenue.

Srinivas Seshadri: And on HT Mobile if you can give some comments?

Vinay Mittal: HT Mobile is doing extremely well for us. It has grown at 70%+ and we hope that this growth is sustained throughout the year. It is profitable, so it is not a drain and also helps us as we are able to give a holistic solution to our customers not only in print but also in the new age digital space.

Srinivas Seshadri: Sir, if I can delve into the reasons for the very strong growth. What is that basic industry driver or what are the things which are working from company's individual perspective which is driving such a strong growth?

Vinay Mittal: Firstly, there is a lot of demand for such a solution. Secondly, we offer tailor-made offerings such as handling a company's interaction with their customers on Facebook, Twitter, or anything which is new in digital. So, it is a customized solution and not many companies are into this space. Also, we have a team of people who have been into it for the last four-to-five years and who understand the needs of customer better. Mostly they are from the advertising world and know what exactly does a customer want and you could say it gives us a head start.

Srinivas Seshadri: And so there is no material lumpiness in the revenues per se that it could see a decline in the growth rate?

Vinay Mittal: No, we do not have any customer lumpiness as such which could result in it going down dramatically in a quarter.

Srinivas Seshadri: The last question. Is there any update on the digital news room imitative which we are planning to launch sometime over the next few months, in terms of the preparation, etc? When can we expect some kind of better insights into what you are doing?

Vinay Mittal: Yes, I think it should be up and running in the next three-to-four months. It is getting fitted out, etc. Software and hardware is falling into place.

Srinivas Seshadri: I will come back if I have more questions, thank you.

Moderator: Thank you. We have next question from the line of Ashish Upganlawar from Elara Capital. Please go ahead.

Ashish Upganlawar: Sir, if I heard you correctly, you said that Rs. 10 Crores of revenues were from Shine.com in this quarter?

Vinay Mittal: Right.

Ashish Upganlawar: How much would be HT Mobile?

Vinay Mittal: HT Mobile would be Rs. 15 Crores for the quarter.

Ashish Upganlawar: And which others would be major contributors in this?

Vinay Mittal: HT Campus would be there as another major contributor at Rs. 5 Crores.

Ashish Upganlawar: So Shine is Rs. 10 Crores, HT Mobile is Rs. 15 Crores and the total revenue is Rs. 30 Crores. And sir, in terms of profitability or other losses that we are having it is mostly to do with Shine.com spend?

Vinay Mittal: That is right.

Ashish Upganlawar: So what is the visibility on digital as taking this run rate though we would be growing quarter-on-quarter in Shine and HT Mobile, still this segment is denting the overall performance of the company for the last four to five years and we have been persisting with it? Can you give some heads up into what is your sense on these businesses?

Vinay Mittal: Ashish, we are cognizant of it and we are taking corrective measures. This is going to be a year where these measures should throw up results and therefore either the results are positive or negative, something will be done this year.

Ashish Upganlawar: So our gestation period within which we would like results to come is sort of ending this year?

Rajiv Verma: This is Rajiv Verma. One understanding is clear that the digital economy is happening in our country as we speak and we feel extremely proud of the digital assets that we are creating in this company especially Shine.com. The latest app is seeing unprecedented downloads. It was the highest downloaded app on the app store for several days and I think it continues to be there.

We all know that 500 million people in this country are under the age of 25, so there is a huge market for jobs. As the economy improves and as the job environment improves, people are going to be employed using these job portals and not through older mediums like newspapers, etc. We believe we are in a great space and we have a great technology that we have developed. Unfortunately, the job environment is not as good as one would like to see; but we have a great brand in Shine which is trending traffic metrics comparable to that of the market leader. Thus, we would like you to be a little patient with Shine. It is going to be a great value creating asset in the long run.

Ashish Upganlawar: Sir, considering the revenues that the leader is making I believe the business proposition was based on that premise. Where is Shine in its lifecycle as far as operations are concerned and where do you think it should move?

Rajiv Verma: We have the operational metrics going right which means the traffic, the jobs and the kind of response our site is eliciting relative to others. Today, we match the market leaders and certainly are the number two player in every way and by a very large margin from the number three player. And this is not one of those areas where there are a large number of players as is the case with real estate websites etc. This particular site has massive potential and thanks to the feedback, all the investments made by the company over the last six to seven years should ultimately bear fruit. We have been innovating more and more and finally we now have an app and a technology which looks extremely promising.

Ashish Upganlawar: So when do you expect the corner to turn for this business as a substantial improvement in this business?

Rajiv Verma: I cannot put an exact day to it because it will be a function of how quickly the job market returns. In India, the job market is not doing as well as it should be doing. Once we see some traction of government policies such as Make in India and especially the BPO and software sectors opening up to generate more jobs into the market, I am very optimistic that you will start seeing enormous benefit coming out of Shine.

Ashish Upganlawar: Sir, the key customers in this sector would be the bigger corporates. Is there a need for two or three platforms? Wanted to understand the nature of this market?

Rajiv Verma: Worldwide, there are only two or three job portals that do very well. In India, so far, the gap between the market leader and number two is very large which is what we are hoping to bridge.

Ashish Upganlawar: Sir, on an overall basis on the print side, the revenue growth has been lagging expense growth. We understand that other players have also been keeping tight controls on cost and our margins have come off sharply from the high levels in pretty good years.

Vinay Mittal: Emphasis on cost control has always been there , it is just that we have been trying to do cost controls for the last two to three years hoping that the revenue would come sooner than later but it has not been coming through. But the last three months have been heartening with the uptrend in revenue in the English Print business.

Ashish Upganlawar: Is it some particular sector that has helped you uptake English revenues or is it across segments?

Vinay Mittal: Automobiles, banking and finance and FMCG - all have been going strong.

Ashish Upganlawar: What is your outlook on newsprint prices for the next six months?

Vinay Mittal: Newsprint prices will remain benign and you could pretty much take the same price which you have in Q1.

Ashish Upganlawar: So it was down 7% YoY.

Vinay Mittal: Yes, it was down YoY by 9%.

Ashish Upganlawar: Thank you.

Moderator: Thank you. Next question is from the line of Avinash Aggarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Aggarwal: Sir on the other expense part, you mentioned that it was higher due to some A&P spends. In the coming quarters, could we assume that it could be lower than these levels?

Vinay Mittal: Yes that is right.

Avinash Aggarwal: We have seen a sharp increase on the employee cost front. Is this our run rate or is there any one-off in this quarter?

Vinay Mittal: No there is no one-off in this quarter. This quarter has seen 11% growth because of the increments and some hiring which has taken place over the last one year.

Avinash Aggarwal: That is it from me, thank you.

Moderator: Thank you. Next question is from the line of Chitrangda Kapoor from Reliance Securities. Please go ahead.

Chitrangda Kapoor: Sir I have been taking this question again but I need a little more clarity on the other expenses. You mentioned that there is an increase in the advertisement spend which is expected because you are focusing on Shine but you also mentioned there are rents and lease agreements which have also increased. Wanted to understand if this is an annual increase that is not going to appear going forward? How do you expect it in the ensuing nine months? Would need a broad guidance so as to be able to track this expense going forward.

Vinay Mittal: It will remain a little elevated (maybe not to this level) because the other expenses which have kicked in on an annual basis will still show an elevated level. But then this will form a base this year and you should see a fall in the coming years.

Chitrangda Kapoor: A follow up on that. I know that there is an uptake which is very heartening especially on the English print side. But considering that FMCG is one of your biggest growing sectors and there are headwinds of erratic monsoon on that sector; if the revenue traction is similar as this quarter, will your margins be more or less in the range of 10% going forward?

Vinay Mittal: Correct if the top-line growth does not come through and remains constant at Q1 levels.

Chitrangda Kapoor: So in FY17 it should ideally normalize for you as per your opening remarks.

Vinay Mittal: Yes that is right.

Chitrangda Kapoor: That is all from my end, thank you.

Moderator: Thank you. We have next question from the line of Ashish Upganlawar from Elara Capital. Please go ahead.

Ashish Upganlawar: Had a couple of questions especially on the expansions or acquisition plan that we had. I could not participate in the HMVL Call, so if you could clarify on what is the status on expansions right now?

Vinay Mittal: As Vivek in that call had indicated, organic expansion plans at the moment have been put on hold because we tried a lot of permutation and combinations and could not come up with a payback model in the right timeframe. So those are on hold at this point of time and we are actively looking to grow inorganically.

Ashish Upganlawar: So some acquisitions can come if they are right for the business.

Vinay Mittal: Yes, but that is not to say that something is imminent.

Ashish Upganlawar: So this will be especially in the Hindi business.

Vinay Mittal: We are talking Hindi only at the moment.

Ashish Upganlawar: Fine thank you.

Moderator: Thank you. Next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.

Shubhankar Ojha: I missed out on the other income I think you have explained why is the other income low for the quarter sir?

Vinay Mittal: The other income is low for the quarter because the interest income has declined because of the marked-to-market adjustments that we did. The interest rates had suddenly picked up for 15 days to a month. But over the course of the year, it should normalize and should see an uptake happening for the whole year.

Shubhankar Ojha: So our quarterly run rate of Rs. 40 Crores which we had in March last year is likely to be maintained.

Vinay Mittal: Yes.

Shubhankar Ojha: Thank you.

Moderator: Thank you. Next question is from the line of Srinivas Seshadri from Antique Stock Broking. Please go ahead.

Srinivas Seshadri: If I look at the last year's year-on-year revenue growth numbers in the first quarter we had a decline in the English print advertising and at that time the reason given was primarily central elections and the blackout of government advertising, while in the rest of the quarters we had some growth. Wanted to check whether this 4% growth which we have reported is sustainable or even better growth expected for the rest of the year? If you could point out to certain specific drivers in terms of industries which are showing more improvement in the advertising spend?

Vinay Mittal: Srinivas, I have explained the major drivers have been Auto, FMCG, DAVP and BFSI. Now unless the economy remains tepid or comes off, I am hoping that if the economy in any way does not pick up or remains constant, English revenue uptrend that I am showing in the first quarter should remain good. But it is very economy dependent.

Srinivas Seshadri: So at this stage the direction is likely unclear, is that the takeaway?

Vinay Mittal: We cannot commit to a projection.

Srinivas Seshadri: Okay fair enough. Thank you.

Moderator: Thank you. Next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

Bhautik Chauhan: What would be the pagination, total circulation, cover price for the Q1?

Vinay Mittal: Circulation was close to 44 lakh including Hindi; the net realization per copy including everything was Rs.1.55 and pagination is very area specific. For instance, in Delhi it is 39, In Mumbai it is 33 and in Hindi it is 23.

Bhautik Chauhan: Can you bifurcate circulation between Hindi and English?

Vinay Mittal: Hindi would be close to 27.

Bhautik Chauhan: And what could be the approximate margins in Hindi and English?

Vinay Mittal: EBITDA margin this year for Hindi was 28.1% that includes the other income and English EBITDA margin was 14%.

Bhautik Chauhan: Thank you so much that is all from my side.

Moderator: Thank you. We have next question from the line of Ritesh Vora from Incedo. Please go ahead.

Ritesh Vora: Sir, in the capital employed segment, the digital has been shown as a negative capital employed. Can you clarify what is the reason why this is coming as negative?

Vinay Mittal: The negative capital employed in digital business is basically losses attributed to advertising spends in Shine business which have been funded through working capital. In other words, some part of creditors with respect to these advertising spends sit in books and thus, losses are yet to be fully funded

Ritesh Vora: Okay, one more thing, how do you see the digital business, when do we see the losses coming to an end, what is the revenue model and what is the plan about it?

Vinay Mittal: It is the recruitment business in the digital which is making losses. The revenue model is "recruiter pays" and at this point of time we are very close to the leader in all the soft metrics but the question is the monetization and the tipping point where the monetization comes through. It is somewhat like print industry where your readership goes up but what is the tipping point where you are able to monetize your readership is a little elusive. So that is what is eluding us and we are hoping that sometime this year that will happen.

Ritesh Vora: So do you see EBITDA level neutralization by this year?

Vinay Mittal: I do not see that. EBITDA level neutralization will not happen but my revenue metrics and traction should pickup vastly.

Ritesh Vora: So when do you think we will be EBITDA neutral? Is there any concrete plan ahead within the organization?

Vinay Mittal: Well the plan is there but it all depends on when the revenue will start flowing in. It will take at least six to seven quarters.

Ritesh Vora: Thank you.

Moderator: Thank you. As there are no further question from the participants I would now like to hand over the floor to the management for their closing comments, over to you sir.

Vinay Mittal: Thank you. I would like to thank everybody again for taking out time for our Q1 results call. I would like to conclude by saying that if expectations of uptrend in the economy do come through, then the revenue uptrend that we are seeing in the first quarter should pick-up pace and with the raw material prices continuing to be benign; we look forward to a better topline growth and therefore a margin expansion. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.