# HT Media Limited's

## Q1 FY2017 Earnings Conference Call

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***Moderator:*** Ladies and gentlemen good day and welcome to the HT Media Limited Q1 FY2017 earnings conference call hosted by Motilal Oswal Securities Limited. As a reminder all participants' 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 any assistance during the call, Please signal the operator by pressing * and then 0 on your touchstone phones. Please note that this conference is being recorded. I would now like to hand over the floor to Mr. Jay Gandhi from Motilal Oswal Securities Limited. Thank you and over to you sir.

***Jay Gandhi:*** Good evening and welcome to the HT Media Earnings Conference Call to discuss the results and outlook. We have with us the senior management of the company represented by Mr. Sandeep Jain, the Chief Strategy Officer-HT Media group. I will now hand over the call to Mr. Sandeep for his opening remarks post which we will commence the Q&A session. Over to you Sandeep.

***Sandeep Jain:*** Thanks Jay. Good evening ladies and gentlemen. Thanks for taking out time for our Q1 earnings call. Just a quick introduction to start with; my name is Sandeep Jain and I have joined HT Media group about four months ago and have taken over the strategy and IR portfolio from Vinay who was interacting with you over the past few years.

As you would have observed from our numbers, the year started on a soft note as we saw sluggish growth in our print business. Macro-economic concerns translated into restricted spends by large advertisers which impacted our English print business more than Hindi. Our other businesses continued to do well. With respect to Radio, our two new stations, Radio Nasha in Delhi and Mumbai have been launched to rave reviews and are ramping up on advertising. Our digital business continues to grow and reduce its losses.

In more specific terms, on revenue for the quarter, overall ad revenue grew by 3.3% to Rs. 484 crores. Print ad revenues grew by 1.5%. However, overall English print business saw ad revenue de-growth of 1.6% while Hindi print saw a growth of 6.7%. Circulation revenues grew at 5.9% to Rs.77 crores largely driven by improvement in realization rates. Radio saw a healthy top line growth of 35% to Rs. 33 crores. Overall digital businesses grew by 25% and Shine grew at a healthy rate of 65% vs. last year.

Our consolidated absolute EBITDA at Rs. 112 crores grew by 28.3% vs. last year and the EBITDA margins were at 16.9% versus 14.2% in Q1. Operating EBITDA margins were at 10.5%, marginally up versus 10.1% last year. News print prices remained in control with RM costs increasing by only 2%. Employee cost went up by 8.8% due to the impact of hirings and increments while other expenses increased by 2.6%. Reported margins at radio were at 25.6% versus 35.9% in Q1 last year. Dilution in operating margins attributed to launch of new stations. EBITDA loss for Shine was restricted to Rs. 8 crores versus Rs. 20 crores in Q1 last year. Last year losses were also partly impacted by marketing spends. Absolute PAT was up by 2.1% to Rs. 39 crores with PAT margins at 5.9% versus 6.2% in Q1. Subdued PAT growth despite 28% absolute EBITDA growth is attributable to higher amortization charges with respect to Delhi and Mumbai stations which went live this quarter; coupled with higher interest rate charge mainly on radio related borrowings.

Going forward, we remain optimistic that the sentiment will improve during the year on the back of good monsoons and implementation of the Seventh pay Commission recommendations. With infrastructure already in place we should be able to reap the benefits of an uptick in the economy, but most likely this is likely to fructify only in the second half of this year.
We have also been conscious of our bulging costs trends in recent years and hence we are embarking on a cost optimization plan to prune cost, though this will start delivering results only till the end of this year. Thank you ladies and gentlemen; let's now open the Q&A session.

*Question and Answer Session*

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***Moderator:*** Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. The first question comes from Vikas Mantri from ICICI Securities. Please go ahead sir.

***Vikas Mantri:*** Can you help us understand the radio business growth for the legacy stations both on the revenue and on the EBITDA front and second question is, have you identified the cost lines where we believe we can do some pruning?

***Sandeep Jain:*** Vikas as far as the Radio is concerned, the existing stations revenue grew by about 22% and the new stations contributed about 3 crores to our total revenue of 33 crores. On EBITDA, the margins for the existing stations were maintained despite the 3% incremental NOTEF fee impact.
On your second question, as far as cost lines are concerned, this is a project which is being run organization-wide across businesses across locations. We have just embarked on this a couple of weeks ago and the only commitment is to look at every cost line for possible savings. As of now, it is difficult to say where this cost optimization or cost reductions are going to come from. The only thing I can commit is that the organization is completely seized of the fact that we need to take a serious re-look at our costs because the topline growth is becoming difficult to come and at the same time we are aware that our expense ratios have been going adverse.

***Vikas Mantri:*** Also as a part of this have we thought of divesting any of our loss making business?

***Sandeep Jain:*** That is not within the scope of this project. But obviously it is something we continue to look at not so much in terms of divestment but what can be done to contain these losses. As I mentioned to you for example about Shine.

***Vikas Mantri:*** What is the outlook for Shine? By when do you think we will break-even?

***Sandeep Jain:*** I think it is difficult to give guidance in terms of when we think we would turn positive but at the same time, there has been a healthy growth this year in this quarter and we have grown by 65%. Shine clearly is the number two job site today in terms of active data base and traffic. We managed to contain losses and we are hoping that the losses this year would be closer to 50% of the losses that we had last year. So maybe, 25-27 crores.

***Vikas Mantri:*** Sandeep, the issue is that while Shine ends up reducing losses in a year, but every few years we see an attempt to push it and therefore a big burst of TV advertising etc. which increase the losses back again. Now, have we passed through that high investment phase or do we still need to do re-launches in case of Shine?

***Sandeep Jain:*** Yeah, very clearly we have passed that phase and I think today the focus is really to be able to see how we can improve the operations in terms of the top line and start containing losses effectively. I think the investment phase is clearly over.

***Moderator:*** Shalini Gupta from Quantum Securities. Please go ahead.

***Shalini Gupta:*** In the past we have had concerns that on-line/ digital will be eating into our readership. If you could give figures of circulation over the last four years for Delhi and Mumbai, then we would be able to get a good sense of whether actually online has eaten into our readership?

***Sandeep Jain:*** I don't have all the numbers here in my presence. All I can share is that we have seen some impact in terms of circulation as far as English print is concerned, but clearly as far as the copies in Hindi are concerned, they have only grown.

***Shalini Gupta:*** Okay so can I take these numbers from you offline?

***Sandeep Jain:*** Sure. The numbers would be available and you can reach us directly and we would be happy to share.

***Shalini Gupta:*** If you could just repeat the English ad revenue growth and the English circulation growth as well as Hindi ad revenue growth as well as the Hindi circulation revenue growth?

***Sandeep Jain:*** English Ad revenue de-grew by 1.6% while Hindi ad revenues grew by 6.7%. Overall Print Ad revenues grew by 1.5%. Circulation revenues grew by 5.9%; 6.9% for English and 5.5% for Hindi.

***Shalini Gupta:*** 6.9% is much higher than the previous quarters, so if you could explain?

***Sandeep Jain:*** It is a matter of net realization. I think you know that in this business there is also a mix of line copies and subscription copies. Increase is on the back of some price revisions in subscription copies though there has been no cover price changes.

***Moderator:*** Next question comes from Yogesh Kirve from BNK Securities. Please go ahead.

***Yogesh Kirve:*** *C*an you tell us how the volumes and realizations have shaped in the English business?

***Sandeep Jain:*** Within English advertising, by and large the volumes have been held while yields have been affected by the adverse sector mix. While on client-to-client basis, sector-to-sector basis, we have managed to hold our display yields but the volumes have been impacted for some of the high paying sectors and hence, blended yields have deteriorated slightly.

***Yogesh Kirve:*** So you are saying that the volumes are pretty much flat on YOY basis?

***Sandeep Jain:*** The volumes were actually marginally up.

***Yogesh Kirve:*** What would explain the 6% decline in raw material cost in the stand alone operation? I would have thought the lower ad volumes would have played a role in that?

***Sandeep Jain:*** I think the standalone you are referring to is basically English and that is because the circulation has gone down in English nationally. The pagination has by and large stayed the same and I think even on copies in English we have actually consciously reduced copies of Edge which was kind of small two-rupee supplement and not so much the main copies per se.

***Yogesh Kirve:*** Can you talk about the categories which are doing well and the categories which are dragging the English Print ad growth?

***Sandeep Jain:*** Overall education, real estate, e-commerce, BFSI and FMCG are the categories which have been the laggards. And DAVP business has gone up, but DAVP is low on yields relatively. Most of the other categories have remained kind of flattish; hence, none of the main display categories have actually contributed to any growth.

***Yogesh Kirve:*** What is our pricing strategy on the second radio frequencies in Mumbai and Delhi? What would be our pricing compared to the first frequency? Would it be at some discount to the first frequency or is it at par?

***Sandeep Jain:*** If you look at Mumbai, we are trying to hold prices for Nasha which are closer to the level at which Fever is. So we have been a little slow in selling inventories but we are trying to hold a level which is more or less in parity with Fever. In case of Delhi, we are pitching Nasha marginally lower and typically maybe about 60%- 65% of Fever yields.

***Vikas:*** As per the commentary, we are talking about a better growth in the second half of this year. Just wanted to understand how has this quarter gone uptil now because we are hearing from advertisers that things continue to be very weak per se?

***Sandeep Jain:*** Yeah I think the sense that you get from the market is pretty much what it is and I think this quarter is going to be a little weak. We also have a high base of Bihar elections in Q2 last year and so on a comparative basis, growth will look lower.

***Moderator:*** The next question comes from Alankar Garude from Macquarrie. Please go ahead.

***Alankar Garude:*** Thanks for the opportunity. Couple of questions from my side, sir; firstly can you talk more about the contribution of e-commerce to English ad revenues and how has it moved on a year-on-year basis?

***Sandeep Jain:*** Contribution of e-commerce business is less than 5%. It’s obviously been hit this quarter; but by and large there has not been a very substantial change in the volumes for e-commerce as a percentage of total.

***Alankar Garude:*** Would it be fair to assume that the yields in this category would be among the highest across sectors?

***Sandeep Jain:*** No, not really.

***Alankar Garude:*** Sure sir got it. Sir, my second question is pertaining to Shine. You said that the losses have reduced from 20 crores to 8 crores in this quarter and more or less the losses have been declining gradually. I want to understand your long-term strategy behind the same. How do you plan to curtail your losses further and move towards profitability because if I look at the leader, they are at more than 50% plus margin? Will it be more of market share gains or do you expect the industry itself to grow significantly going forward?

***Sandeep Jain:*** Very clearly we are now seen as number two. I think for Monster, there's been a little bit of lack of focus. So to quite an extent we are becoming a good alternate to Naukri. That is basically what we are going to capitalize on and that is what is going to give us the growth in revenues in the coming years and I think over a period of time, obviously we hope to bridge the gap with Naukri and clearly with the fact that it is now the number two site, we believe that it is getting so much more traction from clients.

***Alankar Garude:*** When you are talking about being the number two player, are you considering LinkedIn in this equation or LinkedIn is a separate category altogether?

***Sandeep Jain:*** LinkedIn is actually a very, very small player in the overall scheme of things as they are more focused on jobs which are at the high end. So it's not a direct competition.

***Moderator:*** Giriraj Daga from KM Visaria Family Trust. Please go ahead.

***Giriraj Daga:*** You said in the beginning that you are expecting losses around 23-27 crores; just to clarify is this the digital losses you are talking about?

***Sandeep Jain:*** Yes I was talking about the digital losses; Shine is the only loss-making digital business.

***Giriraj Daga:*** Okay just to understand, last year we had 64 crores of negative EBIT loss and is you 25-27 crores of loss you talked about on like-to-like comparison?

***Sandeep Jain:*** Yeah. When I had started the discussion, it was more in the context of comparing it with Shine which was about 51 crores last years' so I was saying 25 crores against this; if you were to take a number of 60 crores, maybe closer to 30 crores level.

***Giriraj Daga:*** Okay. Second thing is you have already launched the Mumbai and Delhi radio. So what kind of losses we can see on new radio segment in FY17?

***Sandeep Jain:*** It is too early for us to comment on what kind of losses or profits we would see on the new channels. I think you will have to give us a little bit more time to be able to see how this goes. The only thing that we can say is that both the channels have opened to rave reviews. I think we are capitalizing on the differentiated programming, the retro content and celebrity programming. It is being positioned at a premium as it is typically targeting a 35-year old with high disposable income. All-in-all, our strategy on Nasha is very well-placed. We should be able to see good traction on these channels, both in Delhi and Bombay.

***Giriraj Daga:*** What is the CAPEX guidance for the next two, three years?

***Sandeep Jain:*** I think the business as usual Capex will be 70-80 crores for this year.

***Giriraj Daga:*** Any acquisition thought process on the mind?

***Sandeep Jain:*** We are always open to acquisitions and as you know this is a topic which has been discussed so often. We in the past have looked very closely at a couple of options. For various reasons they did not materialize. We clearly believe that we will only go in for acquisitions which are value accretive. And I am not talking in the context of radio here but in the context of our overall business.

***Giriraj Daga:*** Since we are sitting on large amount of cash at HMVL, you can also demand cash from that company being the largest shareholder. Are they planning to do something on that?

***Sandeep Jain:*** We are aware that we are sitting on this cash but we are maintaining this cash chest because we are still very, very open to looking at acquisitions, possible acquisitions in the print or vernacular space and that is one of the reasons why we are holding this cash in HMVL.

***Giriraj Daga:*** Okay and the route can be either HT Media or HMVL or both depending on the acquisition?

***Sandeep Jain:*** No, if it is in Hindi or vernacular print, then HMVL is a pure play Print business and we would most likely make an acquisition only in HMVL.

***Moderator:*** Next question comes from Mr. Ankit Kedia from Centrum. Please go ahead.

***Ankit Kedia:*** I want to know what is the growth in Bombay and Delhi markets; how has the local and national advertising fared?

***Sandeep Jain:*** As far as this quarter is concerned, both Delhi and Bombay haven't done too well. While Bombay has grown about 2.5%, Delhi has actually de-grown by about a percentage or so. I think as far as the local to local and national to local is concerned, clearly what we felt is that the large advertisers which have not really spent in Q1 as much as we expected them to and clearly that means the national extraction has been impacted.

***Ankit Kedia:*** Sure, and sir this time in the associate's company we have posted four crores loss in our education business. Could you throw some light on the education business? We have been investing in the JV for the last couple of years now. Would that losses continue at the run rate of 15-20 crores or could we see some increases in losses as the investments increase?

***Sandeep Jain:*** I am not so sure that you would see increase in losses, but the business is very clearly in the gestation phase and it will remain in a loss situation for a couple of years if not more. So I think that it's a fact that we should be conscious of. But I really don't expect that the losses would go up substantially from these levels.

***Ankit Kedia:*** Sure thank you so much.

***Moderator:*** The next question comes from Dheeraj Pathak from Goldman Sachs. Please go ahead.

***Dheeraj Pathak:*** There is a difference between standalone digital revenues of 20 crores and consolidated revenues of 38 crores….which assets form part of the standalone digital and which form part of consolidated digital?

***Sandeep Jain: S***tandalone includes Shine and the digital content business. Consolidated includes Shine, Digital content, DQ business which is the HT Mobile business and HT Campus.

***Dheeraj Pathak:*** There is also a marginal difference between the standalone and Consolidated radio numbers this quarter.. how to understand the same?

***Sandeep Jain:*** Yes there is Chennai radio station which was acquired and thus part of a separate legal entity.

***Dheeraj Pathak:*** Is there any thought which has gone into demerging HMVL from HT Media ?

***Sandeep Jain:*** No, not really.

***Dheeraj Pathak:*** In the past have there been discussions about demerging HMVL altogether from HT Media for better value unlocking? You can just spin it off, HMVL completely from HT Media and give it to the shareholders.

***Sandeep Jain:*** That's a possibility but we have not deliberated on that possibility.

***Dheeraj Pathak:*** Can you just think about it and next quarter maybe update us on why would you not want to do it?

***Sandeep Jain:*** I really think that these are some of the things which are within the preview of the board and I don't think that I can give any answer to this as of now. We can probably discuss it offline if you want to suggest some options.

***Dheeraj Pathak:*** Okay thank you.

***Moderator:*** Next question comes from Amit Kumar from Investec Capital. Please go ahead.

***Amit Kumar:*** I know that the company is sitting on a fair bit of cash and I understand the need to sit on that large amount of cash because we have been looking for acquisitions, but even so the core business is generating a fair bit of cash on an annual basis as well and the dividend payout continues to remain extremely low. I am just looking at the fact that the Board, the management has sort of recommended this 40 paise dividend to the Board this year as well. Any thoughts on why that sort of continues to remain low? We are already sitting on a fair bit of cash, at least the cash element which the core business is generating, the payout can be definitely increased as your peers….to the extent that your peers are also doing. Just some thoughts on that please?

***Sandeep Jain:*** I recognize that question, but matters as far as dividend are concerned are within the preview of Board. I think last time also the Board had deliberated and decided to stay with the dividend payout percentages that we had. Every year this is a part which is taken up by the Board but in its wisdom it always concluded to stay with the dividend percentages. I am not saying that it will not be re-visited. It will be re-visited this year and as I said, we are consciously looking at possible acquisitions even if there is nothing on the table and that is the reason that we continue to hold the cash.

***Moderator:*** Next question comes from Rohit Dokania from IDFC. Please go ahead.

***Rohit Dokania:*** You spoke about the legacy radio revenue growing by 22%, so does this include the Chennai station as well?

***Sandeep Jain:*** No it does not include the Chennai station. This was just the four stations.

***Rohit Dokania:*** When you talk about the radio business, EBITDA and revenues from the presentation, the EBITDA margin actually comes to around 28%-29% whereas you have mentioned around 26% and this has been consistent in the earlier presentation as well. So what is the real difference between the margins?

***Sandeep Jain:*** Yes. The EBITDA is including other income.

***Rohit Dokania:*** Could you talk about the newsprint prices going forward?

***Sandeep Jain:*** I think this year we would expect newsprint prices to firm up. Maybe the annual impact will be 3% to 4%.

***Rohit Dokania:*** Lastly, we have been waiting for acquisition to happen at the subsidiary level and that was the core reason why we had actually de-merged HMVL and then listed it. I am just wondering let's say if we are not able to consummate the transaction over the next year or two, is there a thought process internally that the subsidiary could be re-merged or amalgamated back with HT Media?

***Sandeep Jain:*** Yes, you are absolutely right in some ways that it was one of the reasons for keeping the HMVL separate. The fact that it can be used as a currency for an acquisition at some point in time, but yes if no acquisitions come our way for the next one or two years, it would certainly be looked at as an option.

***Rohit Dokania:*** Has the Board already deliberated about it, if you can throw some light on it?

***Sandeep Jain:*** No, as of now there has been no deliberation around this topic.

***Moderator:*** The next question comes from Manan Patel from Cholamandalam General Insurance. Please go ahead.

***Manan Patel:*** Hello sir, thank you for the opportunity. I wanted to know what would be the yield on cash on your books. The question arises because the other income component seems to be a very high amount. So, what would be the interest income or the yield that you would earn from the cash on books?

***Sandeep Jain:*** It is very difficult for me to give you a straight answer on this. Obviously, one can work out the average yield from the P&L. But there are also things like mark-to-market depending on how the market is doing and how the yields in the market are doing. Only thing I can mention to you is that all the investments that we make are typically in debt funds. So, we are not investing anything in equity or any risky funds etc.

***Manan Patel:*** Would other income include any other components apart from the market related yield on cash and mark to market adjustments?

***Sandeep Jain:*** In the presentation, Other revenue includes a substantial component of scrap sales, some job work business that we do and revenues from the digital and education business apart from market related yield on cash and mark to market adjustments.

***Manan Patel:*** So that is not part of other operating but a part of other income.

***Sandeep Jain:*** Yes, other Operating income has Scrap sale. Other Income has primarily Interest income and mark-to-market adjustments.

***Manan Patel:*** Okay got it.  Could you share reasons for spike in your interest charges?

***Sandeep Jain:*** We've had to take some intermediate borrowings just to manage the timing mismatches in the cash flows and also when we had acquired the new radio stations, we had put in about 450 crores which were funded through borrowings. So basically it's a temporary working capital to take care of cash flow mismatches.

***Moderator:*** Thank you and we will take the last question; it comes from Mr. Dheeraj Pathak from Goldman Sachs.  Please go ahead.

***Dheeraj Pathak:*** Thanks for taking the question. Just these standalone segmental results if you see, you will see that your printing business which is your Delhi, Mumbai and Mint, the segment profits have almost halved this quarter versus the last quarter.

***Sandeep Jain:*** Yes, while the revenues have not gone up our expenses have actually gone up to that extent and that's the point I was making earlier in the call as well and that's the reason the profits have been halved.

***Dheeraj Pathak:*** But structurally these segment profits if you see five years back, they have just been coming down and down even in years your revenues were going up?

***Sandeep Jain:*** That's the point I stated in my opening comments that we are very conscious of the fact that our costs have been bulging over the year and that the management is now working to see how it can be pruned and I am most hopeful that not this year, but next year we would be able to show some serious work on this front.

***Dheeraj Pathak:*** Okay thank you.

***Moderator:*** One more question from Mr. Rohit Dokania from IDFC.  Please go ahead.

***Rohit Dokania:*** Thank you for the opportunity again.  Can you talk about the gross debt for this quarter?

***Sandeep Jain:*** The gross debt for this quarter is 1250 crores.

***Moderator:*** Last question from Mr. Dheeraj Pathak. Please go ahead.

***Dheeraj Pathak:*** You obviously have stressed a lot on cost saving and all and so ex of newsprint, how much do you think that we could be saving this cost, not in this fiscal obviously but in the next fiscal.

***Sandeep Jain:*** It's very, very difficult for me to give an answer to that. The only thing I can say is that it is an organization-wide exercise and everybody is aware of the necessity to do this. We are looking at all our cost line items but it would be very difficult for me to conjecture at this stage what kind of savings we would expect from this project.

***Dheeraj Pathak:*** Sure Sandeep I understand that.  Thank you and wish you all the best again.

***Sandeep Jain:*** Thank you so much, thank you.

***Moderator:*** Thank you sir.  Now I hand over the floor to Mr. Sandeep Jain for closing comments.

***Sandeep Jain:*** Thank you so much everybody.  Thank you for taking the time to attend our Q&A Session and the earnings call today.  Thank you.

***Moderator:*** Ladies and gentleman, this concludes your conference call for today.  Thank you for your participation and for using Door Sabha's conference call service.  You may all disconnect your lines now.  Thank you and have a good evening everyone.

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