HT Media Limited's

Q2 FY14 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to HT Media Limited's Q2 FY14 earnings conference call hosted by ICICI Securities Ltd. 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, please signal an operator by pressing "*0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri from ICICI Securities. Thank you and over to you, sir.

Vikash Mantri: Good morning everyone. We at ICICI Securities are pleased to host the Q2 FY14 conference call for HT Media. We have with us the senior management of the Company, Mr. Rajiv Verma, CEO and Mr. Vinay Mittal, Chief Financial Strategist. I will now hand over the call to the management to give us a brief overview on the performance during the quarter and the opportunities going forward, following which, we will throw the floor open for Q&A.

Vinay Mittal: Good morning everyone and thank you for joining us for the Q2 FY14 earnings conference call. We are glad to report an overall growth during the quarter despite challenges in the economic environment. Mumbai continues to grow handsomely with a growth of 13% while our mature Delhi edition grew by 5%. The digital business is also gaining traction and Radio, including events has done well, registering a growth of 11%. The core radio revenue grew by 28%. Despite the challenging environment for advertising revenues, most of our advertising growth was yield led, with volumes contributing to 20% of the growth. With elections around the corner, the government is taking steps to ensure improved economic conditions in the coming quarters and HT is well positioned to take advantage of this expected growth in GDP. With this, I throw the floor open to participants for any questions they might have.

Moderator: Ladies and gentlemen we will now begin the question and answer session. Our first question is from Prakash Ramaseshan of Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: We do understand that certain quarters are going to be more difficult than the others because of external environmental issues; but I completely second the statement that HT Media is extremely well-positioned for growth when it does comes back. We would request the Board to take actions on the net cash balance in the interest of minority shareholders. This cash could be used for acquisitions or giving returns to shareholders in the form of dividends or buyback of shares.

While I do not expect an answer on this call, I request you to please take this to the board as feedback from investors.

Vinay Mittal: Sure. We understand the sentiment and will do the needful.

Moderator: Our next question is from Rohan Gala of Shubhkam Growth Fund. Please go ahead.

Rohan Gala: Could you give us details on the sectors that have contributed to growth during the quarter?

Vinay Mittal: The sectors which have grown are Telecom, FMCG, Government, Retail and Entertainment. While, the laggard sectors were Real Estate, Automobiles and Education.

Rohan Gala: Do you see any change in the laggard sectors going forward?

Vinay Mittal: It all depends on the economy. It appears to be stabilizing and some green shoots were visible, but an upward trend still needs to be established on the GDP growth. If the trend does turn upward, then I believe we will see growth in all our segments including sectors that have been flat to negative.

Rohan Gala: How is Q3 FY14 looking so far?

Vinay Mittal: It has gone quite well and we have registered growth on a Y-o-Y basis.

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

Ram Hegde: Could you give us some color in terms of growth in Mumbai and Mint?

Vinay Mittal: Mumbai top-line grew by 13%. We could have done better, but our growth was restricted due to economic constraints. That said, Mumbai continues to grow and we are hopeful of achieving break-even in H2 FY14.

Mint had a negative growth of about 20%, due to the continued slowdown in the BSFI segment.

Ram Hegde: In terms of competition, is there a new entrant coming into Delhi?

Vinay Mittal: No

Ram Hegde: Have you started private treaty in Mumbai?

Vinay Mittal: Private treaty exists as a totality between Delhi and Mumbai.

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

Vinay Mittal: The private treaty book is at about Rs. 307 crore and we booked revenue of Rs. 9 crore in Q2 FY14. We made provision of Rs. 6 crore and realized cash of approximately Rs 5 crore this quarter.

Ram Hegde: What is the newsprint cost for Q2 FY14 and what is our expectation for the next two quarters?

Vinay Mittal: The newsprint cost was Rs.36,200 per tonne and we expect it to further increase in Q3 & Q4 FY14 due to movement in both Forex and newsprint rate, which has already increased to USD 640 over the last three months.

Ram Hegde: Should we expect another 4-5% incremental hit to come from this level?

Vinay Mittal: On a full-year basis, there could be an increase of 10-12% in the raw material cost which should be partly offset by measures like pagination and grammage and certain top-line measures. Overall the net impact should be 4-5%.

Moderator: Our next question is from Kalpesh Makwana of Quant Capital. Please go ahead.

Kalpesh Makwana: When I look at the numbers ex-HMVL, there was significant stress on profits. Could you please point out the reasons for the same and share the plans as to how do we recover our profits?

Vinay Mittal: There are a couple of reasons for a Y-o-Y decline in standalone profitability. Firstly, last year Shine expenses were not a part of the standalone results and there was an EBIDTA loss of Rs. 9 crore in Shine in Q2 FY14 which was not there in Q2 FY13. Secondly, job work income was lower by about Rs. 25 crore in Q2 FY14 compared to Q2 FY13. Thirdly, the treasury income is also lower due to mark-to-market losses because of the increase in interest rates. Lastly, there was an increase in other expenses due to higher sales and advertising expenses on account of the refresh campaign in Delhi and higher Forex losses.

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

Srinivas Seshadri: Hindi has delivered very good Y-o-Y margin expansion. Besides, radio margins are expanding, digital losses are capped and Burda also seems to be turning around. However, the operating margin expansion is quite muted. So, it appears that the English margins are under pressure. Could you throw some color on the reasons for this margin pressure? Is it due to newsprint cost or are there other investment activities? What is your expectation on margin expansion for English print business going forward?

Vinay Mittal: Our top-line growth has been a little muted. While Hindi has grown well, Delhi has grown only by 5%, though it could have done better if the economy had allowed. Nonetheless, we managed to contain the raw material cost this quarter. However, the increase in other expenditure and advertising & sales promotion expense on account of Delhi refresh campaign and Shine have put margin under pressure.

As our structural expenses are already in place, going forward we should see margin expansions in English if the economy picks up.

Srinivas Seshadri: Here the comment on raw material is specific to English or overall?

Vinay Mittal: It is applicable to the overall company

Srinivas Seshadri: I presume the advertising and sales promotion in Delhi is for the sub editions being launched in the NCR. So, when would this expense drop-off or is it more of a sticky line item?

Vinay Mittal: Most of it is one time activity. As the Noida and Gurgaon launches are now complete, related advertising and sales promotion should moderate going forward.

Srinivas Seshadri: What is the status on Burda demerger?

Vinay Mittal: The Burda demerger was completed on September 27, 2013. So, everything has been taken into account in Q2 FY14 and the balance sheet as of September 30, 2013 is without the Burda assets.

Srinivas Seshadri: What is the impact on the net fixed assets because of the de-consolidation of Burda assets?

Vinay Mittal: There is not much of a change in net fixed assets in the balance sheet. While approx. Rs 90 Cr of Burda assets have moved out, we have additional capital work in progress of Rs 100-110 Cr on account of the new line installed in Delhi.

Srinivas Seshadri: The core treasury income, after excluding the two one off items from other income, appears to have decreased to around Rs. 10 crore level. Could you share the reasons for this decrease and the outlook for this income?

Vinay Mittal: Most of our cash is parked in FMPs and money market mutual funds. The decline in treasury income was due to mark to market of these instruments because their NAVs declined due to a rise in interest rates in Q2 FY14. They will be back to normalized levels in the Q3 FY14 and you will find our other income coming back to levels of Rs. 20 to 25 crore.

Srinivas Seshadri: These are not monetized losses but are notional losses?

Vinay Mittal: Yes, these are notional losses.

Srinivas Seshadri: So from that perspective, we could have a write back which will be additional to our normal income level of Rs. 20-25 crore because of yield reversals which have happened.

Vinay Mittal: Yes.

Srinivas Seshadri: The gross debt has gone up by nearly Rs. 300 crore when compared to the March 2013 balance sheet. So, does the increase in cash balance indicate that we are preparing for some large acquisition that is in the final stages? If not, could you explain the reason for the increase in debt on one hand and also an increase in the cash balance on the other?

Vinay Mittal: This is a temporary increase. Most of our FMPs have a maturity of 13-14 months and they yield about 10% returns. So, if we need cash for Capex or other expenses, we take short term borrowings at about 8-9%. Hence, this additional gross debt is because of increase in short term borrowings. It may be lesser by about Rs. 200 crore if you to take the cash as on 31st of October.

Srinivas Seshadri: So this should fall back to normal levels of around Rs.300 to 400 crore?

Vinay Mittal: That is right.

Srinivas Seshadri: Can you share some details on M&A activities?

Vinay Mittal: We are actively looking out for opportunities. I am sure you would appreciate that I cannot share more information on this call.

Srinivas Seshadri: But are there some potential candidates under evaluation?

Vinay Mittal: Yes.

Moderator: Our next question is from Ashwini Agarwal of Ashmore India. Please go ahead.

Ashwini Agarwal: If you look at the segment results, there is a sharp decline in EBIT of printing and publishing of newspaper and periodicals both on a standalone and consolidated basis compared to the Q1 FY14. Is this decline because of the Delhi refresh campaign or is there something else to it?

Vinay Mittal: It is basically because of increase in advertising and sales promotion expenses due to Delhi refresh campaign, lower job works revenue in Q2 FY14 and some Forex loss and legal expenses.

Ashwini Agarwal: Would you be able to quantify numbers for each one of these heads?

Vinay Mittal: I cannot share these numbers.

Ashwini Agarwal: Could you share the reasons for increase in finance cost on a Q-o-Q and Y-o-Y basis?

Vinay Mittal: On a Y-o-Y basis this was primarily due to increase of Rs 2.2 Cr in Forex loss on buyers' credit. On a Q-o-Q basis there was marginal increase in cost due to bridge financing for paying off liabilities which could not be paid off by liquidating our existing FMP investments as these were yet to mature.

Ashwini Agarwal: Does the Y-o-Y increase reflect much higher rates that you have to pay?

Vinay Mittal: Yes. The rates have firmed up to 9% from 6-6.5% a year ago.

Moderator: Our next question is from Naval Seth of Emkay Global. Please go ahead.

Naval Seth: Does Delhi advertising revenue growth include some election revenues?

Vinay Mittal: No. The election advertising will basically be a part of October and November revenues. In Q2 FY14, there was not much of election advertising.

Naval Seth: How much Capex have you done in H1 FY2014?

Vinay Mittal: We have done a Capex of about Rs.45 crore.

Moderator: Our next question is from Rohit Dokania of B&K Securities. Please go ahead.

Rohit Dokania: Could you please quantify the Burda revenue and loss this quarter?

Vinay Mittal: The Burda revenue was about Rs. 32 crore and it had a positive EBITDA of Rs. 2.7 crore.

Rohit Dokania: What really led to the lower job work on a Y-o-Y basis because I think Burda did very well on a Y-o-Y basis?

Vinay Mittal: The job work piece is not a part of Burda. Job works are seasonal and we had received a big export order last year which was not there this year.

Rohit Dokania: Just wanted to confirm that the Forex impact above EBITDA is Rs. 5 crore and below EBITDA is Rs. 2.2 crore?

Vinay Mittal: That is right.

Rohit Dokania: Could you give us the breakup of circulation across our brands?

Vinay Mittal: In English, we have a circulation of about 1.9 million copies and in Hindi we have about 2.3 million copies.

Moderator: Our next question is from Bijal Shah of IIFL. Please go ahead.

Bijal Shah: Could you give the growth number for Delhi?

Vinay Mittal: Delhi grew by about 5%.

Bijal Shah: At the beginning of the year, you were slightly more confident about an 8-10% growth. However, H1 FY14 does not reflect that. So, what is our expectation for H2 FY14? Will we be able to achieve 8-10% growth for the full year or could Delhi growth be actually lower than 8-10%?

Vinay Mittal: Looking at the current economic scenario, we could expect a growth of around 5-6%.

Bijal Shah: Does this include the impact of Delhi elections?

Vinay Mittal: Election revenue is separate and it would be over and above the growth of 5-6%

Bijal Shah: What led to the 20% de-growth in Mint? Was it due to a one-off and how do we see the rest of the year panning out for Mint; will it pick up or will it languish like this?

Vinay Mittal: The weakness in BFSI vertical has been evident for at least the last 2- 3 quarters and it was exacerbated probably in Q2 FY14. We do expect Mint to deliver positive advertising growth in Q3 FY14.

Bijal Shah: On the advertising front, we are spending on a couple of things i.e. Shine campaign, MyParichay along with Shine, Delhi rebranding and Mumbai. Do you expect this run rate to continue even in the H2 FY14 or will it drop off sharply?

Vinay Mittal: No, we do not expect it to drop off sharply. Advertising and sales promotion will happen somewhere or the other. However, I do not expect the same kind of increase to happen moving forward.

Bijal Shah: Would the run rate be similar to our current run rate?

Vinay Mittal: It should be around 6-7% of our revenues on a normalized basis.

Bijal Shah: When you said that the raw material cost would be higher by 4-5%, were you referring to raw material cost per tonne or to overall raw material cost line item?

Vinay Mittal: This refers to the net impact of increase in raw material cost line item on the bottom-line.

Bijal Shah: And this 4-5% is after excluding Burda numbers?

Vinay Mittal: Yes.

Moderator: Our next question is from Alankar Garude of Edelweiss. Please go ahead.

Alankar Garude: Could you please explain the nature of your JV with Apollo Global and the level of investment guaranteed?

Vinay Mittal: We have a 50:50 JV with Apollo Global, a USD 4.5-5 billion company listed in the US and a world leader in higher education space. This JV called The Bridge School of Management 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 once a week. We are currently offering 11 month courses in this model and will be issuing international diplomas to the students on completion of the course. Apollo has witnessed great success with this model in Latin America and we do expect similar results in India where re-training is now becoming a necessity as most fresh graduates do not possess the right skill set required at entry level jobs. Our first batch was inaugurated on October 19, 2013 with 120 students from 19 participating companies across industries. We believe it is a flying start to our JV and we are very optimistic about its progress and also eager to see how the things pan out going forward.

Alankar Garude: Could you throw some light on the investment required in this business?

Vinay Mittal: This is a capital light model and as a JV we will invest about Rs. 30-40 crore over a period of 3-4 years.

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

Amit Kumar: What is Topmovies Entertainment Ltd?

Vinay Mittal: We have moved Desimartini into a separate company called Topmovies Entertainment Ltd.

Amit Kumar: What is the logic of doing that?

Vinay Mittal: It is just to encourage each team to have a separate P&L and showcase its ability to grow and incentivize them.

Amit Kumar: Is this not tax inefficient? Isn't separation of team something you could have done in-house as well?

Vinay Mittal: We felt that it incentivizes the businesses adequately and in a correct manner and that is why we did it.

Moderator: Our next question is from Rohit Anand of Arising Research Advisors. Please go ahead.

Rohit Anand: What is the planned Capex for FY14 and FY15?

Vinay Mittal: The Capex planned in this year is about Rs. 100 crore of which we have done Rs.45 crore. In FY15, we should have a Capex of around Rs.75 crore. This includes maintenance Capex.

Rohit Anand: Any specific reason for the decline in net sales for the standalone results on a Y-o-Y basis?

Vinay Mittal: This is mainly because of decline in job work revenue. In fact the core print business revenue has increased Y-o-Y.

Moderator: Our next question is a follow up from Ram Hegde of Primus Investment Advisors. Please go ahead.

Ram Hegde: What was the newsprint consumption in H1 FY14?

Vinay Mittal: We consumed about 42,700 tonnes.

Ram Hegde: When is the Phase III auction for radio licenses expected?

Vinay Mittal: We really do not have much clarity on this although the MIB has indicated that this should happen in the near future.

Ram Hegde: The estimated maintenance Capex of Rs. 70-75 crore in FY15 is higher than the Rs 50-55 Cr Capex you had indicated earlier. What is the reason for this increase?

Vinay Mittal: This number will get refined as we move closer to FY15; we should have a better idea by Q4 FY14.

Ram Hegde: So this is not only maintenance Capex, but includes growth part also?

Vinay Mittal: It does.

Moderator: As there are no further questions from the participants, I now hand the floor back to the management.

Vinay Mittal: Thank you everybody for taking out time for this call. Just to reiterate, tough economic conditions continue and pressure on advertising sales and increase in raw material costs is not encouraging. Despite this, there is positive growth across our properties and we are well positioned to take advantage if the economy trends up. We continue to focus on cost reduction and are confident of registering growth on both, the top-line and bottom-line in subsequent quarters. Thank you.

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