



HT Media Limited

Q2 FY2015 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2015 results conference call for HT Media hosted by IDFC 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 now hand the conference over to Mr. Rohit Dokania from IDFC Securities Limited. Thank you and over to you Sir!

Rohit Dokania: Thanks Margaret. Good afternoon ladies and gentlemen and thank you for logging in. On behalf of IDFC Securities, I thank HT Media for giving us the opportunity to host this results call. We have with us Mr. Rajiv Verma, CEO - HT Media and Mr. Vinay Mittal, Chief Financial Strategist. We will open the call with opening comments by Mr. Vinay post which we will open the Q&A session. Over to you sir, thank you.

Vinay Mittal: Thank you Rohit. Good afternoon ladies and gentlemen. Thanks for taking out the time. It has been a good quarter for HT Media. There has been all-round growth in advertising revenues. They are up by 9% and the circulation revenues are up by 12%. Mumbai grew by 18%, digital revenues have grown by 40%. Hindustan, our Hindi franchise grew by 12%, Mint has grown by 25%, radio by 10% and HT Delhi by 4%.

One of the highlights has been the improvement in our English advertising, where both Delhi and Mumbai combined have grown by about 7%. This has led to an increase in our operating EBITDA by 12%. You will see a decline in the UFR because of ~Rs. 32 Crores of revenue from Burda last year. This increase in operating EBITDA by 12% is in spite of an increase in raw material cost by 13% (*net of Burda*) and an increase in employee cost of 9%.

Going forward, with the GDP growth slowly inching up, we see advertising gaining traction leading to growth in our topline. A drop in newsprint prices is also expected. Newsprint price rose to its highest in Q2. With structural costs in place, we should see a resultant increase in EBITDA margins.

Thank you, I would now like to open the call for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: The growth of Mint has been 25%. This is the first quarter in which IPO revenues have revived. Could you tell us about the industry size when the IPO market was at its peak versus now for the entire financial advertising in the print sector? This is to get an understanding of where we stand currently and how much can the growth rates be on a sustainable basis?

Vinay Mittal: Firstly, the IPOs have not really revived. There were two or three IPOs that came in September, but I believe the IPOs will really catch up now. Secondly, on the fact that when the IPOs were doing well and the capital market was buoyant, I will get back to you separately as to what kind of revenues were there.

Abneesh Roy: Do you expect this accelerated growth rate on a sustainable basis? Was there any one off in this?

Vinay Mittal: There are no one offs in this. We hope that these rates should sustain and on a low base, the BFSI vertical should pick up.

Abneesh Roy: Regarding the English business in Delhi and Mumbai, we are seeing more competitive advertising from you and the other players. Has the intensity picked up and has that helped the Company in some way or is it largely the circulation and the IRS numbers which were helpful? Was the previous quarter the bottom in terms of advertising seen in the two big geographies, Delhi and Mumbai, in English print?

Vinay Mittal: I would think that if the economy does keep doing better and slowly picks up pace, we expect that Q1 should have been the bottom in terms of advertising in the English markets.

Abneesh Roy: Could you elaborate on competitive advertising. Why has that picked up and is that a reason for worry because the other player can now go back to being aggressive on the circulation and readership also? Could you give us some clarity on the competitive intensity in Delhi and Mumbai in terms of advertising, circulation, pricing gap etc.?

Vinay Mittal: In Delhi and Mumbai, I do not think there is competitive intensity on the circulation part. On the advertising front, there is competitive intensity but I do believe that the market is big enough for two players to have enough advertising.

Rajiv Verma: If you look at the competitive intensity in Delhi and Mumbai, HT is about 40% ahead of the other player in Delhi; and in Mumbai, HT is about 65% to 70% of the market leader. Therefore, the gain HT has in Delhi is almost equal to the gain the other player has in Mumbai. Within the two markets - HT and the other player stand equal for an advertiser. With the competitive intensity at that level, and with both players equally placed, the market share should move in favor of HT. On the advertising side in Mumbai, there is still a lot of ground to be gained because HT is only 20% of the market leader when it comes to advertising revenue. Therefore, there is a lot of headroom to cover up there and I would like to believe that the growth for HT will be accelerated relative to the other players.

Abneesh Roy: Delhi has been a two-player market historically with more or less equal readership numbers except for this survey which came out recently. But in Mumbai, we have historically been

seeing a gap. In that context, you said readership numbers are now almost equal on an overall basis, but on a revenue basis how much do we lag the other player when we combine Delhi and Mumbai together?

Rajiv Verma: In Delhi, HT has the leadership but in Mumbai there is a lot of catching up to do. Therefore, there is huge headroom available because HT entered that market only eight years ago but the other player has been there for about 180 years.

Abneesh Roy: In Delhi, there is a sizable gap in readership. When do you see that translating to much higher gap in the revenue as currently the gap in revenues is quite marginal?

Rajiv Verma: Yes, we see Delhi continuing as a duopoly but in Mumbai, HT should gain.

Abneesh Roy: Regarding the IRS, some of the large players are not subscribing to it. Could you give some clarity on the future of the readership survey and its continuation as an applicable currency for the advertising market?

Rajiv Verma: I feel all those controversies are behind us now because of the new readership survey. Any readership survey provides a statistical best estimate. It takes time for surveys to mature but after having gone through a lot of upheaval, this survey has come out after two years' gap from the previous survey and thereafter, the survey was again subjected to a very rigorous audit mechanism in which it came out clearly that the survey is robust and here to stay.

Moderator: The next question is from the line of Naval Seth from Emkay Global.

Naval Seth: The GDP growth is expected to improve going forward and the BFSI segment is driving the advertisement growth for Mint. Would this lead to aggressive expansion for Mint in newer territories or lead to increasing circulation in the existing territories?

Vinay Mittal: In terms of geographical expansion, Mint has more or less covered the footprint. Only a few copies may get added but nothing very aggressive on the copies front because in the new IRS, Mint has got a good readership number of about 3,10,000.

Naval Seth: Would it be like a 10% or 20% increase if the BFSI segment stabilizes or drives the advertisement growth going forward for Mint?

Vinay Mittal: It would be difficult to opine on that. It depends on how the BFSI vertical is doing and on the competitive scenario.

Naval Seth: What all sectors have driven the advertisement growth in the second quarter in Delhi and Mumbai?

Vinay Mittal: The advertisement growth has been driven by automobile, DAVP and real estate.

Naval Seth: Do you think the change in government in Haryana would have any impact on the Gurgaon real estate market given the fact that it was dominated by one of the players which was known to be a Congress supporter?

Vinay Mittal: We have the same government now in Haryana as at the national level. Let us see how the things nationally pan out. Haryana will be a mirror image of what happens nationally in terms of governance and what the new government does.

Naval Seth: What was the average newsprint cost in the second quarter?

Vinay Mittal: The average newsprint cost in the second quarter was about Rs. 39,000.

Naval Seth: What kind of decline are you expecting in Q3 or in H2 2015?

Vinay Mittal: We expect a decline of about 1% to 2% for the next two quarters.

Moderator: The next question is from the line of Niraj Somaiya from Rose Red Management.

Niraj Somaiya: How much is the total cash and also the properties you have taken in view of advertisements? Can you provide the figures?

Vinay Mittal: The cash is about Rs. 1,040 Crores. In the last quarter it was about Rs. 970 Crores. Regarding investments, my book stands at Rs. 330 Crores of which two-thirds is property.

Niraj Somaiya: Is the Rs. 330 Crores realizable or do you provide for some write offs and that could be lower?

Vinay Mittal: That is the total investment block with a provision of Rs. 78 Crores against that. Therefore, if you encash it today, you would realize between Rs. 250 Crores and Rs. 330 Crores.

Niraj Somaiya: Is the internet advertising affecting you significantly? What are your strategies for e-business advertising and your thoughts and how to grow this segment?

Vinay Mittal: At this point of time, the internet advertising is not affecting us because it is quite small currently. The e-commerce players are also advertising on print medium and across television etc.

Niraj Somaiya: How has your market share been versus Times of India?

Vinay Mittal: In the e-commerce space, we have been more or less equal with them.

Niraj Somaiya: Would it be in the top three segments now for you or would it be lower yet, in terms of revenue?

Vinay Mittal: It would not be in the top three segments for us at this moment.

Niraj Somaiya: What are the expectations for next quarter considering the stable government? What are the trends for advertising that you see through your clients?

Vinay Mittal: The festival season has been good. It remains to be seen how advertising holds up after the festival season. Assuming that the measures taken by the new government after elections turn out to be positive for the markets, the spending and advertising will carry through. Also with the new IRS numbers, we expect to do well with the pickup in yields.

Niraj Somaiya: Regarding the IRS numbers, which many newspapers are boycotting, what is your view? Do you think it is just for some time and IRS would stand with the advertisers?

Vinay Mittal: In February the IRS numbers came out and everybody argued and debated and then it was audited to everybody's satisfaction. New numbers have come out. They are about the same as last time . Therefore, everybody did participate in this correction exercise and there is more acceptability and the media buying houses have started using it. We do not see an issue with the new IRS numbers.

Niraj Somaiya: How is your radio business panning out?

Vinay Mittal: The radio has done extremely well and has grown at ~10%.

Niraj Somaiya: Would you be bidding for the new licenses across cities? How much investment would you need?

Vinay Mittal: We would not like to name the number of cities or names of cities because that is a part of the strategy but we will certainly expand.

Niraj Somaiya: On the other internet properties, how are you doing?

Vinay Mittal: We have grown at about 40% with respect to our digital piece and within that, the HT mobile and digital advertising piece has grown at about 50%. Revenues of Shine have grown by about 30% and HT Campus has grown by about 40%.

Niraj Somaiya: You had spoken earlier about holding on to a Rs. 30 to 40 Crores negative EBITDA. Would that hold true for the year or would it be more or less? What sort of figures do you see for the year?

Vinay Mittal: Yes we would hold on to that range

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

Srinivas Seshadri: I have a few questions around the English advertisement revenues. Please elaborate on the mix of volume and yield increase on a year-on-year basis?

Vinay Mittal: The overall volume growth and the yields have contributed about equally.

Srinivas Seshadri: Regarding the 17% growth in the Mumbai market, how much is on account of new advertisers coming on board versus the rates which you have been able to drive up due to the readership share gains so far?

Vinay Mittal: There are more advertisers coming in and as a result, we have done well in automobiles and real estate. DAVP is still the same. So the number of advertisers is steadily increasing and the yields are slowing creeping up. The mix would be 60-40 in favor of the yields.

Srinivas Seshadri: Have you started getting some recognition for the higher readership?

Vinay Mittal: Yes, both in Mumbai and UP.

Srinivas Seshadri: If we talk about a one to two year perspective, given that your revenue is a fraction of TOI's in Mumbai, what kind of yield increases can this translate into for national advertisers in the Mumbai market in particular?

Secondly, what is the mix of national versus local advertising and please elaborate on the potential upside on the local advertising front in Mumbai?

Vinay Mittal: The yields in Mumbai would catch up if we assume that the economy is doing well. The yields should keep going up anywhere between 10% and 20% per annum for the next two years at least. Regarding the mix between local and national, the local will probably stand at about 25% to 30% and should move up to 40%.

Srinivas Seshadri: This means that the local should grow even faster than national which should itself see yield improvement of 30% and that should translate into a compounded growth of over 20% at least in Mumbai over the next couple of years?

Vinay Mittal: If the Indian economy does grow at 6%, I see no reason why Mumbai should not grow at that number.

Srinivas Seshadri: Regarding the advertisement revenues, we have had an early festive season where part of Navratri has come in the quarter gone by. Has there been any minor contribution of the festival? We also saw a lot of e-commerce promotions etc which happened during that time. Has that helped on a YoY basis and is there some seasonal skew which we have witnessed during this quarter we should be aware of or do you think it is a pretty normalized year-on-year growth?

Vinay Mittal: If the festival season has got preponed a little bit, that has got accounted for in the second quarter.

Srinivas Seshadri: From that perspective, would it be fair to assume that the base case could see a bit of moderation from the growth levels we have seen in the second quarter or are there some other positive offsetting factors which can help sustain this kind of growth?

Vinay Mittal: We have to look at the second and third quarter combined. Apart from the festivity, what it hinges on is how does the economy and the demand pan out after the festival season is over. This will probably determine the normalized growth rate.

Srinivas Seshadri: Would we be emerging with somewhat similar numbers on a two quarter basis?

Vinay Mittal: We do feel confident about it. The advertisers are talking more but we need to translate that into hard numbers.

Srinivas Seshadri: In this quarter, did government or DAVP combined come back on a normalized basis in terms of spend levels or is there still some upside left in terms of the spending growth versus last quarter?

Vinay Mittal: It is getting normalized but if the new government was to increase advertising, we may see further growth.

Srinivas Seshadri: Are there any expectations in terms of the state elections contributing to your revenue either in print, radio or otherwise?

Vinay Mittal: Not by a big amount, maybe a marginal amount.

Moderator: The next question is from the line of Amit Kumar from Espirito Santo Securities.

Amit Kumar: Please elaborate on the standalone 7% advertisement growth and the split between Delhi, Mumbai and Mint?

Vinay Mittal: We had Mumbai at about 18%, Mint at about 25%, Delhi at about 4%, radio at 10% and Hindi at 12%.

Amit Kumar: With respect to the cash growth of the Company, about four or six quarters back the Company had expressed that you would want to build up a cash pile of about Rs. 1,000 Crores just in case some inorganic growth opportunities come around.

Firstly, what is the expansion plan of the Company in terms of organic or inorganic going forward? Secondly, since you have reached those cash levels, do you plan to distribute the operating cash flows, which are getting generated from the business incrementally, to shareholders?

Vinay Mittal: On the inorganic part, there is an urgency and we are looking across our businesses. Radio seems imminent with the phase three auctions hopefully getting operationalized over the next few months. That is one area where we would invest because we are doing well in radio. Also, in print we are looking at acquisitions. Regarding cash, the Board of Directors will decide on the best strategy forward at the end of the year.

Amit Kumar: But there is nothing which is being talked about in the recent board meeting on this point? There is no sort of update on this at this point of time?

Vinay Mittal: Not at this point of time but the board usually considers this and discusses this aspect in the last board meeting of the financial year.

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

Jaykumar Doshi: How big is the Mumbai English advertisement market as per your estimates and what market share do we have as of today and how big is the leader?

Vinay Mittal: It is about a Rs. 1,000 Crores market and we would be having about 20% share. The Mumbai market is smaller than Delhi. In Delhi we would be having close to 50% or slightly lesser market share because of higher regional elements.

Moderator: The next question is from the line of Ankit Kedia from Centrum Broking.

Ankit Kedia: What have been the operating profit margins for the Mumbai market?

Vinay Mittal: We would not be able to give information on margins but we are profitable and it is above breakeven. By the end of the year, I will certainly give you a better picture on that.

Ankit Kedia: Please elaborate on the Delhi margins because that would have a bigger delta with strong growth. Have we crossed the 25%-30% historic margins which we did in 2012 in the Delhi market?

Vinay Mittal: Yes, we are about to reach that.

Ankit Kedia: On the internet losses, given that your guidance is between Rs. 35 and 40 crores, can we safely assume that this Rs. 15 Crores loss in the internet business is the peak loss?

Vinay Mittal: Yes, on the whole year it should not exceed Rs. 40 crores.

Ankit Kedia: So, we maintain our guidance that next year we could break even or be close to breaking even?

Vinay Mittal: By the end of next year we would endeavor to do that.

Ankit Kedia: We have seen a good increase in the circulation revenue on the English side of the business with Mumbai contributing to it. Are we increasing our circulation in the Mumbai market in addition to the price increase happening there?

Vinay Mittal: Yes, but it will be marginal and we won't suddenly increase it by 25% or anything like that.

Ankit Kedia: What is the current circulation in the Mumbai market vis-à-vis the leader?

Vinay Mittal: We would be steady at about 4,30,000 to 4,50,000 copies.

Moderator: The next question is from the line of Govindlal Gilada, an individual Investor.

Govindlal Gilada: Firstly, why have the trade receivables gone up substantially this quarter? Secondly, regarding our fixed maturity plans, you have invested a lot and most of the other income comes from that. So now the government has changed the holding period from one to three years for long-term investments. How it will impact your other income?

Vinay Mittal: Regarding the fixed maturity plans, we are rolling over most of the one year ones into three years. We do not see any impact on the income because of that. On the trade receivables, I will check up on that. It must be because of government advertising. Otherwise, on display and other advertising, it should not have exceeded.

Moderator: The next question is a follow up from the line of Amit Kumar from Espirito Santo Securities.

Amit Kumar: Please give the total circulation of the Company at this point of time and break it across its various components?

Vinay Mittal: In terms of circulation, we are at about 4.4 million copies in total and in Hindi we would be at about 2.6 million copies.

Amit Kumar: What would be the growth in your Hindi circulation on a YoY basis?

Vinay Mittal: We have gone up from about 2.4 million to 2.6 million YoY and a majority of this increment is coming from UP.

Amit Kumar: In the UP market, what is your estimate of the circulation of the three major players including yourself?

Vinay Mittal: We are about the same or a bit more than Amar Ujala and I am not sure if I can comment on Jagran's circulation.

Moderator: The next question is a follow up from the line of Jaykumar Doshi from Kotak Securities.

Jaykumar Doshi: You have mentioned that you are looking at acquisitions in the print space. Is it reasonable to assume that you would be looking only in the Hindi space or have we considered non-Hindi vernacular as well?

Vinay Mittal: Preferably Hindi but we are open to look at non-Hindi also.

Jaykumar Doshi: What is the organic growth strategy there? If we are not able to close any suitable target, would you consider expanding organically to new markets in Hindi at some point of time as the outlook now looks maybe a little better?

Vinay Mittal: Yes we would look at that.

Jaykumar Doshi: Is there a timeframe you would probably look at, because I believe you indicated that by the year end we will hear something on the Hindi business?

Vinay Mittal: We would decide in the next six to nine months.

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

Rohit Dokania: Please provide your comments, in terms of the impetus of the new government to drive things digitally and probably moving the tenders' piece online. Do you think that government advertisement revenues, especially the tender piece, can get impacted because of all this?

Vinay Mittal: I do not see it in the near term and we will have to see how well it succeeds over the next two - three years coupled with the dissemination and the reach of internet across India.

Rohit Dokania: Is it possible to quantify as to how much does the whole tender piece contribute to advertising?

Vinay Mittal: About 9%.

Moderator: The next question is a follow up from the line of Niraj Somaiya from Rose Red Management.

Niraj Somaiya: You had mentioned in an earlier call that the EBITDA margin in UP was around 8% and there has been an improvement. Would you achieve 20% in the next three years? What is your view now and how are the margins right now in UP? How do you see them panning in the next two to three years?

Vinay Mittal: We think that in UP, we would certainly reach margins of about 20% over the next two to three years. Currently, it would be between 5% - 10% in UP.

Niraj Somaiya: What would be your market share in UP?

Vinay Mittal: We would have about 21% - 22% share in a Rs. 1,000 Crores market, that is Rs. ~200 Crores plus.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Rohit Dokania for closing comments.

Rohit Dokania: Thank you everybody. Vinay would you like to make any closing remarks?

Vinay Mittal: Thanks Rohit. I would just like to reiterate that we have seen all round growth in our topline especially on the English front which was very heartening compared to the last two or three quarters. I hope that with the economy looking better and the assembly elections behind us, we should see an uptick in the economy. Our structural costs are in place, newsprint prices should be on a downward trend and we should see margin expansion going forward. Thank you everybody.

Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference.

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