# "HT Media Q2 FY2017 Post Results Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the HT Media Q2 FY2017 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Kirve from Batlivala & Karani Securities India Private Limited. Thank you and over to you Sir!

**Yogesh Kirve:** Thank you. Good morning and welcome to HT Media Second Quarter FY 2017 earnings conference call. To discuss the results and outlook we have senior management of the Company represented by Mr. Sandeep Jain, the Chief Strategy Officer, HT Media Group. I will hand over the call to Mr. Sandeep Jain for opening remarks, which will be followed by question and answer session. Over to you Sandeep!

**Sandeep Jain:** Thanks Yogesh. Good morning ladies and gentlemen. Thanks for taking out time for our Q2 earnings call.

Let me start with a quick summary. Total revenue from operations remained flat with the softness from first quarter continuing into the second quarter. Besides the weakness in print media, which impacted both English, and to a lesser extent our Hindi business, the high base of Bihar elections further depressed the growth rate for Hindi. Radio continues to outperform and we completed the rollout of remaining phase 3 stations, 1 in Hyderabad and 7 stations across UP which have all gotten off to a good start. Digital business continued to grow and we were also able to reduce our losses.

Moving on to key developments for the quarter overall print ad revenue de-grew by 3.6% while English print business de-grew by 6%, Hindi Hindustan had a growth of 1%. Circulation revenues grew at 2.4% to 75.6 Cr, largely driven by improvement in realization rates, offsetting a small drop in number of copies. Radio saw a healthy top line growth of 23% versus last year growing to ~Rs.36 Crores on the back of new station launches. Overall digital businesses grew at 10% versus last year, within which Shine grew at a healthy rate of 40%. HT Mobile Solutions had an unusually soft quarter and de-grew by ~25%. HT content business witnessed a 28% y-o-y growth. Non-operating income at Rs.78 Crores was up 70% due to mark-to-market gains on fair value of investments. Consolidated absolute EBITDA at Rs.128.5 Crores was up 15% versus last year, while the EBITDA margin at 18.9% was higher than 17.3% for last year. However, operating EBITDA margins for the quarter were lower due to the weakness in the top line.

Raw material costs were down by 0.5% largely driven by the drop in number of copies. Employee cost went up by 7% while the other expenses went up by 3.5%. Reported margins at radio are at 19% versus 28% in last year Q2; dilution in operating margins largely attributed to the launch of new stations. As in Q1 even in Q2; EBITDA losses for Shine were restricted. Q2 loss for Shine was Rs.5 Crores versus Rs.14 Crores in the same period last year.

Net profit for the quarter was down by 0.8% to Rs.51 Crores with margins at 7.5% versus 8% in Q2 last year.

We hope for a revival in business sentiment in the second half of the year with a good start to the festival season, spending uptick on the back of good monsoons and implementation of the Seventh Pay Commission Recommendations. Also UP elections should favorably impact our Hindi business. Thank you ladies and gentlemen, let us now open for Q&A session.

**Moderator:** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Shalini Gupta from Quantum Securities. Please go ahead.

**Shalini Gupta:** What would be the impact of Reliance Jio on your newspaper readership, because we have a situation where data is going to be much cheaper and it is going to be much more widely available? So do you see any change especially in your Hindi business such as shifting of readership online?

**Sandeep Jain:** About Reliance Jio, firstly, the fact that data is going to be free is a bit of a misnomer, so we will have to see to what extent this data is actually free eventually. When you spoke about Hindi markets the people who are using the cell phones and who are accessing data are primarily accessing Facebook, Whatsapp or other social media, but for news everybody is still going back to the newspaper. So we do not think that there is going to be much of an impact at least in the near term as far as the Hindi business is concerned. As far as English business is concerned, to some extent it is being impacted by the digital wave and the growth rates to that extent would certainly be lower than they would for Hindi.

**Shalini Gupta:** As per my understanding, the pay commission and the good monsoons are more likely to benefit rural and mid-India. Given that your English properties are largely geared towards urban metros, what kind of impact do you foresee? Also, what kind of a growth should we expect in the urban areas assuming India starts growing at 8%?

**Sandeep Jain:** We have to see it in the context of the kind of sectors that have not done well as far as print ad revenues are concerned. Automobiles, Real Estate, FMCG, BFSI are the sectors which have been impacted. Once the good monsoons and pay commission impact starts kicking in, these sectors will see an uplift, which is going to get reflected in print revenues. We have had a reasonably good start to the festive season, but let us hope that it continues for the rest of the year.

**Shalini Gupta:** For your Hindi properties if you had the high base of Bihar elections last year, you have the UP elections this year, so what explains the very tepid growth of just 1%?

**Sandeep Jain:** UP election effect has not started kicking in as yet. The UP elections are announced and slated for Q4, so the impact is going to start coming in only from this quarter. We certainly expect that Hindi business growth, if the elections take place at the right time, will drive fairly good growth rates. On a full year basis, it could be very high single digit, even touching the double digits.

**Shalini Gupta:** If I look at two years back, Hindi was growing at 15-16% quarter after quarter. How would you explain the slowdown in growth to 9-10% even in an election year?

**Sandeep Jain:** Slow down in the economy is one part of it for sure, but the fact remains that the base is also growing larger, and on the large base we cannot expect the same kind of growth rate. Also in our case, the growth was driven largely by UP, where there was headroom for growth but we now need to moderate our growth expectations.

**Shalini Gupta:** There is a 0.5% drop in the number of copies. Can you explain if this drop is driven by English or Hindi?

**Sandeep Jain:** The drop in copies is on account of English. We have discontinued Edge copies; also have tried to cut down on non-monetized copies during this quarter.

**Shalini Gupta:** Can you reiterate your comment on digital losses? The digital losses have come down to 5 Crores versus 13 Crores?

**Sandeep Jain:** Yes, that is what I mentioned for Shine business. We started to restrict the losses in Shine, so this trend that we see in Q2 is a continuing from Q1.

**Shalini Gupta:** One last question. What is the problem that you are facing with respect to monetizing your readership online, because your readership in the newspapers, in the hard copies is well established, but what is getting in the way of you monetizing your readership online?

**Sandeep Jain:** Let me ask you this way, do you Shalini pay for news online?

**Shalini Gupta:** No, why would I pay for it?

**Sandeep Jain:** That is where the answer lies. That is the difficulty, and it is a phenomenon which is not only prevalent in India, but worldwide. The opportunity to monetize readership on digital is so much more difficult.

**Shalini Gupta:** So why not all of you get together and start charging for news online?

**Sandeep Jain:** At some point in time that would be the intention, but you know that some of these things are not that easy.

**Shalini Gupta:** Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** On the digital business, our loss for this quarter on Shine was Rs.5 Crores and the remaining Rs.8 Crores is of HT Mobile largely?

**Sandeep Jain:** It is a combination of multiple businesses actually. Shine is one part of it and as I said, this has been a very soft quarter for the HT Mobile Solutions, so we had about Rs.2 - 2.5 Crores of loss there and then there are smaller losses in the other properties including the digital content business.

**Vikash Mantri:** Sir on the digital side, last year I remember you had Rs.64 Crores of digital loss out of which Rs.50 Crores was Shine and Rs.13-14 Crores was others?

**Sandeep Jain:** Full year, yes.

**Vikash Mantri:** This first half we have had a loss of Rs.26 Crores, out of which, Rs.13 Crores is Shine and your others are already Rs.13 Crores, so while we are reducing Shine losses by half this year as per guidance, we have already done full year LY losses in other properties in the half year itself. Are losses in other businesses likely to double this year?

**Sandeep Jain:** As I said, it has been an unusually soft quarter for DQ, so that is probably we have had about Rs.3 Crores of loss this year. We have also started investing in our digital content business, from this year, which has resulted in additional losses.

**Vikash Mantri:** Do we maintain our Rs.30 Crores guidance for the full year?

**Sandeep Jain:** Our estimation was close to Rs.30-35 Crores, and we do not expect it to go beyond that.

**Vikash Mantri:** On the other income, are there the gains from Koovs reflected in that?

**Sandeep Jain:** **Yes,** some gains because of the fair valuation; and there are some mark-to-market gains recognized.

**Vikash Mantri:** I thought it was majorly because of Koovs it has gone 2.5 times of the price we have invested in?

**Sandeep Jain:** Market price is not the only basis on which the fair valuation is decided, so there is a formula on the basis of which the valuation is decided. Some of it is for Koovs, but then there is fair valuation impact on the rest of the portfolio as such.

**Vikash Mantri:** On Koovs, it was an ad for equity deal. Now given that the stock is up nearly 2.5x and it is not a strategic investment, why do we not book profits here? Especially given that most of our ad-for-equity investments have led to a write down. This is an opportunity we are getting to actually book profits?

**Sandeep Jain:** Vikash what you say may happen. I am not so sure if it is going to happen in one chunk, but gradually over a period of time I am sure that there would be opportunities to sell some part of the stock and we would do that. We also have to understand that we have a sizeable holding in Koovs and we cannot be selling the entire stock in the market in one go. We would certainly start selling some of this stock in the coming quarter.

**Vikash Mantri:** Can you help me with the like-to-like growth on the radio business?

**Sandeep Jain:** On a like-to-like basis existing stations have grown by 8%, primarily led by yield, as our inventories on the existing stations were already sold out.

**Vikash Mantri:** Is it a bit of cannibalization that we are seeing here?

**Sandeep Jain:** No, none at all, because as I said if our inventories have already been sold, and we are able to drive up the yield. Then the impact of cannibalization is certainly not there. To some extent the targeted listeners are also of a different profile. As we know that the new stations have a differentiated strategy and they target the 35-year plus age group.

**Vikash Mantri:** So from when are we at 100% inventory levels at our old stations?

**Sandeep Jain:** It has been a while now.

**Vikash Mantri:** That is what I thought and that is why in December we still grew at 20% plus range, in fact from September onwards we have been growing?

**Sandeep Jain:** Sometimes you get the opportunity to be able to drive yields more than what you would do in the other quarters.

**Vikash Mantri:** Which therefore is a function of more inventories available and that is why I argued for cannibalization?

**Sandeep Jain:** Inventory is not necessarily available with us, but more inventory maybe generally available in the market, so if it was not us, it could be somebody else.

**Vikash Mantri:** Can you share any guidance on subscription revenues for the full year?

**Sandeep Jain:** English we will not see too much growth, but in Hindi we will continue to see growth.

**Vikash Mantri:** Okay Sir, thank you.

**Moderator:** Thank you. We have the next question from the line of Mr. Yogesh Kirve from B&K Securities. Please go ahead.

**Yogesh Kirve:** Staying with the radio business, can you provide an update on how the new stations are doing, especially one in Delhi and Mumbai. Where are we standing in terms of the inventory fill rate and also the realization vis-à-vis our established channels in these cities?

**Sandeep Jain:** We are first trying to establish the right yields for these stations, for example, the daily yields on the new station is about 60% of what it is for Fever, while for Mumbai actually we are pushing for yields which are almost equal to Fever. So our strategy is here to hold the inventory tight, but make sure that we set a right base for the yields.

**Yogesh Kirve:** So what timeframe do we expect inventory fill rates to rise to the Fever level?

**Sandeep Jain:** It is difficult Yogesh to give answer to that. We targeted ourselves to ensure that we start reaching at least EBITDA breakeven level on the new stations, particularly the new metro stations and that is something which we expect to achieve in Q4 of this year.

**Yogesh Kirve:** So we expect Mumbai, Delhi could be close to break even by this year?

**Sandeep Jain:** Yes EBITDA breakeven.

**Yogesh Kirve:** Secondly, on the advertisement, especially in the English print advertising, would you like to highlight any particular sectors, which have done well or worse?

**Sandeep Jain:** There are hardly any sectors actually which have done well. There are small gains that we have got in the durables sector. FMCG is mildly positive and DAVP showed some growth. . However all the key sectors such as automobiles, real estate, BFSI, IT Telecom, and E-commerce have de-grown.

**Yogesh Kirve:** Is it possible to comment how much does the e-commerce contributes to ad revenues?

**Sandeep Jain:** Less than 3%. This quarter, even lower, at 2%.

**Yogesh Kirve:** What sort of revenue growth can we look on from FY2017 or FY2018 onwards in Shine business?

**Sandeep Jain:** We normally do not give guidance, so it will be difficult to say what is the kind of growth that we could expect. This quarter Shine business has grown at 40% and we hope that we will be able to see similar levels of growth at least for the next quarter, but yes eventually it depends how the market pans out. If we see growth currently that is, for example for Naukri, etc., I think the growth is more in the region of about 20% or so.

**Yogesh Kirve:** Regarding the newsprint prices, how they have behaved over the last month or two, is there any expectation regarding the third quarter and fourth quarter?

**Sandeep Jain:** On a full year basis we expect the newsprint prices to firm up by about 3%. As far as this quarter is concerned they grew by 0.6%.

**Yogesh Kirve:** What would be our domestic versus the imported mix?

**Sandeep Jain:** When I say that they grew by 0.6%, what I am talking about is weighted average cost, which is a mix of imported and domestic, so while both imported and domestic prices grew by about 1.5% or so, but because of the change in volume mix that we managed, the impact was limited on an overall basis.

**Yogesh Kirve:** Finally regarding the capex, what plans do we have for this year and the next year?

**Sandeep Jain:** For the rest of the year, it is going to be basically business as usual capex. We would expect it to be in the range of Rs.20-30 Crores at the most, as all the radio stations have now been capitalized.

**Yogesh Kirve:** Rs.20-30 Crores for the remaining half of the year right?

**Sandeep Jain:** Yes.

**Yogesh Kirve:** What was the capex in the first half?

**Sandeep Jain:** The first half was about Rs.206 Crores in all, but that included all the capitalization of the radio stations, etc.

**Moderator:** Thank you. Next question is from the line of Depesh Kashyap from Equirus Securities. Please go ahead.

**Depesh Kashyap:** Just wanted to know absolute circulation for the English paper, right now what is the number?

**Sandeep Jain:** As far as circulation for English is concerned, it is about 17 lacs or so.

**Depesh Kashyap:** On the advertising revenues for the English paper, do you see any near term trigger that can revive it?

**Sandeep Jain:** Obviously festive is one, but beside that for English, it is going to be the uptick in economy.

**Depesh Kashyap:** Okay, thank you Sir.

**Moderator:** Thank you. The next question is from the line of Ritwik Rai from Kotak Securities. Please go ahead.

**Ritwik Rai:** Yesterday I heard someone mention on the HMVL call that several cost cutting initiatives are in place, if you could give some flavor on that please?

**Sandeep Jain:** Sure Ritwik. So, we had shared in the previous call as well and in HMVL call, that we are working on a cost optimization project and it was kicked off about three months ago. The diagnostics of that project is going to be completed in a couple of months. We are looking at the entire organization and both the operating companies, so both in Hindi and English business. We see that the growth expectation have to be set right for this business and for us to maintain profitability, probably the only right option is to look internally at our costs, so we have embarked on this exercise which is pan organization. We are hoping that by the end of this financial year we should be taking action on some of the recommendations.

**Ritwik Rai:** Could you give some idea on what would be the extent of cost saving or is that something you are still exploring?

**Sandeep Jain:** That would be difficult as of now, but only thing I can say is that as of now there are no holy cows. Every expense line item that is there in the organization is being challenged. We are trying to find out what are the opportunities to cut those costs. So as I said that, maybe in Q1 of next year you will start seeing some of this impact in our costs.

**Ritwik Rai:** Is this limited to your newspaper business or would you also be looking at the digital business and cutting cost there going forward?

**Sandeep Jain:** The digital businesses are at a different stage of growth. So I would say that primarily the focus is on print to begin with at least. You can imagine the reorganization exercises like these can be painful with a lot of decisions that need to be taken. So print is going to be our first focus and once we are done with print it is quite possible we would like to look into some of the other businesses as well.

**Ritwik Rai:** I am just a little surprised. It seems to me like, the core of the business is something that you are less keen to invest on than on the digital side and when it comes to cutting cost you first look at print to cut cost whereas on the other side, the digital is hogging up for cash for so many years and actually nothing is getting done about it.

**Sandeep Jain:** As I said these businesses are at a different stage of growth. While what you are looking at possibly is the losses, what I am looking at are the cost buckets. The cost buckets for print are so much larger and hence the opportunity is larger here. As far as digital businesses are concerned, Shine was the largest investment, but for the investment phase we are more or less seeing the end of it, as is being reflected in the trends of last few quarters, we are seriously cutting down on digital losses.

**Ritwik Rai:** Sir in terms of the losses this year you are looking at Rs.30 to Rs.35 Crores from digital and any kind of cap that you are putting on a going forward basis on the digital losses?

**Sandeep Jain:** I think that would be difficult to share. We normally do not give guidance. All I can say is that the trend particularly with Shine should continue in the next year.

**Ritwik Rai:** Just one more thing, would you be able to give me category breakup of your English advertising revenues?

**Sandeep Jain:** The larger categories are FMCG, Automobiles, Education, DAVP, Real estate and IT/Telecom.

**Ritwik Rai:** All right Sir, thank you very much.

**Moderator:** Thank you. Next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** Good morning. Thank you for the opportunity. Could you talk about the growth in English print separately for Mumbai and Delhi this quarter?

**Sandeep Jain:** De-growth in English has been across, so both Delhi and Mumbai market have de-grown. Mumbai de-growth is about 8% and Delhi is about 5%.

**Rohit Dokania:** As far as Mint re-launch is concerned, could you talk more about that in terms of impact on the cost structures and also how will it be received?

**Sandeep Jain:** I think Mint has certainly been received very positively and I am sure you must be one of the fervent readers of the paper.

**Rohit Dokania:** Absolutely.

**Sandeep Jain:** So both in terms of content and presentation, I think the new format has been appreciated. On the cost side, while on a per square centimeter basis the cost is not dramatically different between the new launch and the old one. But the advantage it gives us is more flexibility on pagination, which certainly gives us some cost advantages. We should be able to see more advertising revenues coming from display, DAVP, etc., where earlier we got the feedback from a lot of advertisers that they were not willing to resize their advertising to suit our format. So hopefully those opportunities will not be lost now. In Q2, mid of September is when Mint was re-launched, so we have to just give it this quarter and hopefully we should start seeing positive traction from Q4 onwards.

**Rohit Dokania:** Lastly can you talk about any break-even timelines on Mint?

**Sandeep Jain:** Difficult to mention, but we should start seeing positive start let us say from Q4 onwards.

**Rohit Dokania:** Just one more question, I understand that you do not give any guidance, but if you can throw some light on how the festive season has been, i.e. months of September plus October put together compared with the same festive season last year. It would be very helpful for us to understand how the second half growth can be?

**Sandeep Jain:** As far as September is concerned, to some extent it reflected in the numbers for the quarter, but was tepid, also because part of the Shradh period was in September this year. Three, four days of Shradh impacts advertising. The start to the festive season has been good. October has started on a good note. We will have to see to what extent this is maintained in the rest of the quarter and the second half.

**Moderator**: Thank you. The next question is from the line of Jay Gandhi from Motilal Oswal Securities. Please go ahead.

**Jay Gandhi**: Just one thing on the radio piece like-to-like has been around 8%, of this weak growth how much of this can be attributed to the handset ecosystem as now most of the shipments are without radio options?

**Sandeep Jain:** I do not think that that has impacted the radio revenue. Our inventories are completely sold out on the stations. So, now it is a matter of what kind of yield growth can you drive and I think that is what we have been able to do to deliver this 8% growth. As far as the other part of the question is concerned, if you look at the radio market in general overall size of the market is projected to grow at 18-20% even in the last CII-BCG report. I think it is going to be combination of new stations coming into being, but also the fact that in the existing, the opportunities for growth would be there.

**Jay Gandhi**: But you do not see as a bottleneck the handset ecosystem?

**Sandeep Jain:** No.

**Jay Gandhi**: Fair enough, thanks a lot Sir.

**Moderator**: Thank you. The next question is from the line of Sharan Basappa from Karvy Stock Broking. Please go ahead.

**Sharan Basappa**: What would be your view on the entry of the new players in Delhi market?

**Sandeep Jain**: You are primarily talking about DNA, I presume. So I think while there has been some noise around the launch but effectively if we see the number of copies in the market, our estimates are that they started with about 30,000 copies and probably currently are closer to 20000 - 25000 copies. Not too much monetization happening on these copies as of now. So, as of now we do not see anything significant coming from this launch. I think it will continue to be a duopoly kind of the market.

**Sharan Basappa**: Sir if the competition intensifies, are we going to see any reduction in the cover prices?

**Sandeep Jain**: No. I do not think the cover price is a matter of discussion. In fact it would probably be the other way, because as you know DNA in Delhi has launched at Rs.10 which is a much premium price point as compared to what the prevalent prices are for us and for competition.

**Sharan Basappa**: That is it Sir. Thank you.

**Moderator**: Thank you very much. As there are no further questions, I would like to hand the conference back to Mr. Yogesh Kirve for any closing comments.

**Yogesh Kirve**: Thank you. We would like to thank the management of HT Media for taking time out for the call. We would also like to thank all the other participants for joining in.

**Sandeep Jain**: Thanks for your time and participation. We do hope that we would have better news to share in the next quarters with the growth coming back to advertising revenues. Thank you so much for your time.

**Moderator**: Thank you very much. On behalf of B&K Securities that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.