



HT Media Limited's
Q3 FY14 Earnings Conference Call
February 13, 2014 at 11:00 a.m. I.S.T.

www.htmedia.in

Moderator: Ladies and Gentlemen, good day and welcome to the HT Media Limited's Q3 FY14 earnings conference call hosted by ICICI 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 assistance during the conference please signal an operator by pressing '*' then '0' on your touch tone telephone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Vikash Mantri of ICICI Securities. Thank you and over to you Sir.

Vikash Mantri: Good Morning everybody. We are pleased to host the Q3 FY14 earnings conference call of HT Media. We have with us the senior management of the Company, Mr. Piyush Gupta, CFO and Mr. Vinay Mittal, Chief Financial Strategist. I will now hand over the call to Mr. Vinay Mittal for his initial comments, after which we will open the floor for Q&A.

Vinay Mittal: Good Morning everyone and thank you for joining us for the Q3 FY14 earnings call. This quarter has been a landmark quarter for us in more ways than one. Mumbai achieved an operational breakeven in Q3 FY14. Radio and Digital businesses grew by 25% and 42% respectively with Shine growing at 65%. Also, Hindustan grew by 18% in Q3 FY14. As per the latest IRS survey, we are now a clear No.2 player in Mumbai and UP and a clear No.1 player in Uttarakhand. This is partly reflected in our healthy financial performance for Q3 FY14 despite an uncertain macro-economic environment. Our advertisement revenues increased by 9% and circulation revenues increased by 18% in Q3 FY14 compared to Q3 FY13. Our income from operations on a like-to-like basis i.e. excluding Burda, increased by 12% in Q3 FY14. Our cost rationalization efforts resulted in an increase of only 6% in total expenditure. This led to a 17% increase in EBITDA in Q3 FY14 and our operating EBITDA margins returned to 16% levels. This concludes my opening remarks and we would now be happy to take any questions that you may have. Thank you.

Moderator: Thank you very much Sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Mr. Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri: While your margins have improved across the Radio, Digital and Hindi businesses, the consolidated margins are flat on a Y-o-Y basis. Does this mean that the margins for English business have reduced? Also, what is the outlook on growth for the English business?

Vinay Mittal: Yes, the English print business has been pulling down the consolidated margins as metros are the most affected by the economic slowdown. So, while the advertising revenues for the Mumbai edition grew at 18% on a small base, our Delhi edition grew only by 4%. Therefore, we are losing margins in Delhi and this has partially offset the gains from other businesses. Over the next one year, with an expected growth of 5-5.5% in GDP, we expect advertising to improve in Delhi. Also, we should see a positive impact of the IRS results in Delhi.

Srinivas Seshadri: There is a lot of controversy around the latest IRS results as the other leading publishers are disputing the results vehemently. So, how do the advertisers perceive the survey? Also, have you been able to initiate discussions on rate hikes in the markets where you have performed better than your competitors?

Vinay Mittal: Advertisers are taking cognizance of the latest IRS results and the rate hikes are coming through.

Srinivas Seshadri: Could you quantify some of the rate hikes we have realized?

Vinay Mittal: We have already taken a rate hike of 25% in the UP market rate.

Srinivas Seshadri: Did this happen after the survey was published?

Vinay Mittal: Yes. Also, this 25% increase in rates is for national display advertising as the IRS does not impact DAVP advertising. Moreover, one has to understand that given the resistance of advertisers to rate hikes, the full impact of this rate hike will be realized over a period of 1 year.

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

Bijal Shah: What are our expectations for rate hike in UP? How much time will it take to see entire benefit of ad rate hike coming through? Secondly, will the rate hike be restricted to national advertising only or will it be passed on to local advertisers as well?

Vinay Mittal: We expected an increase of about 25-40% in the display ad rates in UP over the next 1 year. Our display or national advertising is only one third of the total advertising. Balance two third of advertising comes from local advertisers and DAVP. We expect a 50% to 75% increase in display or national advertising yields over the next 2 years and this will be a true reflection of our stature in UP.

The natural rate increase in local advertising could be anywhere between 5-10%. The local rates are always higher than the national rates because they see the actual response on ground level and therefore are not influenced by the IRS.

Bijal Shah: What is the gap between our revenues and the leader's revenues in UP? How soon can we bridge this gap now that we are just 17% shy of the leader's readership?

Vinay Mittal: The leader in UP is 3 times our size in terms of our revenue. On a conservative side, we expect to be at half their revenues over the next 2-3 years.

Moderator: Our next question is from Prakash Ramaseshan of Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: What was your EBITDA in ratio?

Vinay Mittal: Rs. 10 crore.

Prakash Ramaseshan: What is the standalone net cash position of HT Media?

Vinay Mittal: Standalone net cash is about Rs. 350 crore.

Prakash Ramaseshan: What level of cash would you be comfortable with and after what point would you consider distributing the incremental cash?

Vinay Mittal: We are approaching the level of cash balance we would be comfortable with. With respect to cash deployment, we would rather go through the buyback route instead of dividend distribution. That said, the decision regarding the payout policy will be taken by the Board.

Moderator: Our next question is from Sonaal Kohli of ENR Advisors. Please go ahead.

Sonaal Kohli: What is the expected increase in newsprint prices between Q3 FY14 and Q4 FY14?

Vinay Mittal: Most of the increase in newsprint price has taken place in Q3 FY14. Hence the increase in prices from Q3 FY14 to Q4 FY14 should be flat.

Sonaal Kohli: Are there any one-offs in other income in Q2 FY14 and Q3 FY14? What is the sustainable run rate of other income that we can assume going forward?

Vinay Mittal: In Q2 FY14, there was sale of promoter holding in HMLV to meet the SEBI guidelines of maximum 75% promoter holding in a company. In addition, there was sale of Burda which was reflected in other income. In Q3 FY14, other income increased because of mark to market of the investments. The sustainable run rate for other income should be about Rs. 25-30 crore per quarter.

Sonaal Kohli: What kind of tax rate can we expect for HT Media going forward?

Vinay Mittal: The tax rate should be in the region of 23-24% in FY14 and around 24-25% in FY15.

Sonaal Kohli: Has the entire impact of the entry of a new player in Bihar come-in in Q3 FY14 or do you expect some impact in Q4 FY14 as well?

Vinay Mittal: One will see the impact throughout the year as the new player has recently entered Bihar this January. As a result, marketing activities, increased circulation and reduction in cover prices will be seen throughout the year.

Sonaal Kohli: What is the net cash position in HMVL?

Vinay Mittal: About Rs. 380 crore.

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

Ram Hegde: When can we expect the operating leverage in the digital business to flow through to the PBIT level or PBT level?

Vinay Mittal: You should see the operating leverage flow through by Q4 FY15.

Ram Hegde: What is the expected loss in the digital business in FY14?

Vinay Mittal: Similar to last year, the loss should be around Rs. 35-38 crore. This is despite the television advertisement cost of Rs 9 crore incurred in H1 FY14.

Ram Hegde: Could you throw some color on the advertisement environment in Delhi?

Vinay Mittal: The advertisement environment continues to be tough. We grew by 4% in Delhi in Q3 FY14. The new IRS results and the expected growth in GDP should have a positive impact on the advertisement environment in metros including Delhi and Mumbai.

Ram Hegde: What is the CAPEX plan for FY15?

Vinay Mittal: Our initial estimate for CAPEX is around Rs. 70-80 crore for FY15. However, we will have a better visibility over the next few months.

Ram Hegde: Where would it be utilized?

Vinay Mittal: The CAPEX would be utilized largely for modernization of our IT infrastructure.

Ram Hegde: When do you think the benefits of election spend would start reflecting in your performance?

Vinay Mittal: It has started reflecting. We are already seeing more election led advertising.

Ram Hegde: How long would it sustain?

Vinay Mittal: It should sustain till March-April.

Ram Hegde: Could you share some thoughts on Phase III in radio?

Vinay Mittal: We are also waiting for an announcement regarding this. With the elections nearing, we feel it will be the new government that will make an announcement regarding the auction.

Moderator: Our next question is from Neelesh Surana of Mirae Asset. Please go ahead.

Neelesh Surana: What was the EBITDA for MINT & HT Mumbai during Q3 FY14 and for Q3 FY13?

Vinay Mittal: Mint had an EBITDA loss of about Rs. 2 crore in Q3 FY13 and a loss of about Rs. 2.5 crore in Q3 FY14. HT Mumbai had an EBITDA loss of Rs. 3 crore in Q3 FY13. It achieved break-even in Q3 FY14 and we hope to see a positive EBITDA in FY15.

Neelesh Surana: Has HT Mumbai circulation started contributing positively?

Vinay Mittal: It is close to turning positive. If you recall about 2 years ago, the annual subscription package used to be at Rs. 199. Today it is at Rs. 699. So, the new number is getting built in, but, with a lag.

Neelesh Surana: Which businesses are not making money in the consolidated entity?

Vinay Mittal: Digital, Mint and Education are negative currently.

Neelesh Surana: When are the renewals for radio licenses?

Vinay Mittal: In 2016.

Neelesh Surana: Do you believe that the quarterly run rate of EBIT in the radio business is sustainable or is there some seasonality?

Vinay Mittal: There is a bit of seasonality. That said, Q3 FY14 was a record quarter for Radio and we expect good performance in Q4 FY14 as well.

Neelesh Surana: Do you have a cap on digital losses for FY15 or FY16? Or will it be similar to the expected EBITDA loss of Rs 35-38 crore in FY14?

Vinay Mittal: We expect a 75% growth in digital revenues in FY15. With costs not increasing in the same proportion, we expect EBITDA losses to decline.

Neelesh Surana: If things go as per plan, there should not be any cash burn from this business in FY16, unless we invest in new ventures?

Vinay Mittal: Absolutely.

Moderator: Our next question is from Ankit Kedia of Centrum Broking. Please go ahead.

Ankit Kedia: Could you quantify the impact of Delhi Assembly Elections in Q3 FY14 during the quarter?

Vinay Mittal: Impact of Rs. 1.5 crore in Print and less than Rs. 1 crore in Radio.

Ankit Kedia: What is the Y-o-Y increase in raw material cost, excluding Burda, in Q3 FY14?

Vinay Mittal: There is a 13% Y-o-Y increase in raw material cost, excluding Burda, on a like-to-like basis in Q3 FY14 despite a 14% increase in newsprint price. This was because we consumed 1% less due to savings in grammage, circulation and pagination.

Ankit Kedia: What kind of a revenue run rate can we expect from Bridge School of Management over the next couple of years?

Vinay Mittal: It is too small at the moment for me to be committing on a run rate. I would like to wait for another 6 months before I start talking about this business.

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

Amit Kumar: The tax rate on a standalone basis is lower at 16% in Q3 FY14. Could you throw some color on what could be the tax rate for the full year?

Vinay Mittal: It is just a question of pro-rating it over the quarters. We had provided for extra taxes in the first half of FY14 and hence the tax in Q3 FY14 was lower. For FY14, tax rate should be in the region of 23-24%

Amit Kumar: How has circulation across your English and Hindi print businesses moved on a Y-o-Y basis?

Vinay Mittal: Total circulation was at about 43 lakh in Q3 FY14. Out of this 24 lakh copies would be in Hindi. This number was 23 lakh in Q3 FY13.

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

Ashwini Agarwal: Could you share the reasons for increase in losses in Mint?

Vinay Mittal: The first half of FY14 has not been good for Mint especially because of the BFSI sector not performing well. To give you a perspective, in the first half of FY14, EBITDA losses in Mint were around Rs. 10 crore. This has reduced to Rs. 2.5 crore in Q3 FY14 and we hope to achieve break-even by Q4 FY14.

Ashwini Agarwal: What was the free cash flow generation during the quarter? Why has the net cash line not really moved during this quarter?

Vinay Mittal: We generated about Rs. 90-95 crore of cash in Q3 FY14. However, this cash was utilized towards modernization of IT infrastructure and investments in newsprint inventory. In fact, we now have newsprint inventory up to August 2014. This is why the net cash line has not moved in Q3 FY14.

Moderator: Our next question is from Saurabh Kumar of JP Morgan. Please go ahead.

Saurabh Kumar: What was HT Mumbai's revenue and EBITDA in Q3 FY14?

Vinay Mittal: Total revenue in Mumbai was Rs. 47 crore and we have broken-even at EBITDA level.

Moderator: Our next question is from Amitabh Sonthalia of SKS Capital. Please go ahead.

Amitabh Sonthalia: What is the rationale for holding gross cash of Rs. 1,500 crore and debt of Rs. 700 crore?

Vinay Mittal: The gross cash is largely invested in FMPs. However, temporary money could be required for inventory, modernization expenses, CAPEX, etc., for the intervening period i.e. till the FMP matures. So, if required we tend to raise debt for this period when our cash is blocked. Once the FMP matures, we pay off the debt.

Amitabh Sonthalia: How much does your average debt vary during the year? Do you maintain it around Rs 600-700 crore during the year?

Vinay Mittal: As mentioned earlier, since it depends on our immediate cash requirements, it keeps on varying. Therefore, I will not be able to give you a specific number.

Amitabh Sonthalia: Since the time you were listed in 2005, you have created negative shareholder value and are probably the worst performing media stock since 2007. Could you share your thoughts on this?

Vinay Mittal: We try our best to deliver good operating performance. However, part of the problem has been the economic conditions which have not been conducive to the kind of topline growth that we would like to see.

Amitabh Sonthalia: What is the status on the buy-back? What reasons are you ascribing for the sharp fall in stock price despite the announcement of buyback at a maximum price of Rs. 110? Do you think the buyback has proved to be ineffective?

Vinay Mittal: Buyback is 95% complete. We have just 1 lakh shares to be bought back. As mentioned earlier, part of the problem has been topline growth due to macro economic conditions. The stock price has not fallen because of the buyback.

Amitabh Sonthalia: Is there a potential for a second buyback?

Vinay Mittal: Absolutely. Our first preference for deployment of cash is through the buyback route and then possibly through the dividend distribution route. As per the SEBI guidelines, we need to wait for a year from the date of closure of the last buyback. Therefore, we will certainly do a buyback and probably a larger one once this period is over.

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

Rohit Anand: The Print and Publishing revenue given in the consolidated segmental results increased by only 4% despite a 9% growth in print advertising revenues and a 17% growth in circulation revenues. What is dragging the print business growth?

Vinay Mittal: The revenue was higher in Q3 FY13 due to Burda revenues of Rs 29 Cr. While in Q3 FY14 Burda is no longer a part of our business.

Moderator: Our next question is a follow up from Mr. Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri: Has the average realization per copy increased?

Vinay Mittal: Average realizations have increased across all editions on a Y-o-Y basis to Rs 1.73 from Rs. 1.48 in Q3 FY13.

Srinivas Seshadri: Can we expect the average realizations to improve further?

Vinay Mittal: Yes, we expect the average realization per copy to improve going forward. The entire effect of increase in subscription packages in Mumbai is still coming through and this will be reflected in our revenues over the next 3-4 months.

Srinivas Seshadri: Any ballpark number that you would like to guide for the next year?

Vinay Mittal: I would not be able to comment on that. Rest assured the trend would be upward and the improvement will be visible sequentially in Q4 FY14 as well.

Moderator: Our next question is from Mr. Sonaal Kohli of ENR Advisors. Please go ahead.

Sonaal Kohli: What is the reason for your tax rate being lower than the marginal tax rate in FY15? Secondly, would we go back to a 30% tax rate beyond 2015?

Vinay Mittal: No, we will not go back to a 30% tax rate. The tax rate would remain around the levels of 27-28% or maybe lower beyond 2015.

Sonaal Kohli: What is the Q-o-Q increase in your newsprint consumption and newsprint prices on a consolidated basis?

Vinay Mittal: Newsprint consumption was at 44,550 tonnes in Q3 FY14 compared to 43,000 tonnes in Q2 FY14. Newsprint prices increased to Rs 39,000 per tonne from Rs. 36,200 per ton Q2 FY14.

Sonaal Kohli: What is your expectation for newsprint cost in Q4 FY14?

Vinay Mittal: So far, it has been flat as the prices have fallen to \$625 from \$640.

Sonaal Kohli: Do you expect a positive impact of the general elections on your revenues?

Vinay Mittal: Yes, we expect a positive impact on the overall revenue of the Company. However, we do not expect this to be very high.

Sonaal Kohli: This would be despite the negative impact of Bihar, where the Government, a large contributor to advertising revenues, would not be able to spend on advertising.

Vinay Mittal: That is right.

Sonaal Kohli: Performance of consumer discretionary companies has had the worst Q3 results in this quarter, where many of the categories which were growing at a reasonable rate till Q2 FY14, saw a sharp decline in revenues. Was it that these companies were caught unaware and therefore they spent more on media in anticipation of good sales? In such a scenario, do you think they will cut their advertising budget in Q4 FY14 to preserve margins?

Vinay Mittal: No, they should not cut their advertising budgets. Let's take Automobiles sector for example. The fact of the matter is that there are many automobile models being launched. So I doubt they will decrease their advertising spends in the near future.

Sonaal Kohli: Do we have any dollar denominated debt on our standalone books?

Vinay Mittal: Yes, we have some buyer's credit.

Sonaal Kohli: Could you quantify it?

Vinay Mittal: It keeps on varying. Therefore, I will not be able to give you a specific number.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to the management of HT Media Ltd. for closing comments.

Vinay Mittal: Thank you everybody for taking out time for this call. Just to reiterate, it has been a landmark quarter for the Company with the Mumbai operations achieving break-even. The radio business is growing well and the latest IRS results finally reflect the fruits of our hard work over the last 4-5 years in Mumbai, UP and Uttarakhand. 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.

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