



HT Media Limited's
Q3 FY2015 Earnings Conference Call
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Moderator: Ladies and gentlemen, good day and welcome to the HT Media Q3 FY 2015 Earnings Conference Call, hosted by Kotak Securities. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities. Thank you, and over to you Mr. Doshi.

Jaykumar Doshi: Good morning everyone and thanks for dialing in. We at Kotak Securities are pleased to host the earnings conference call of HT Media for 3Q FY 2015. We have with us Mr. Rajiv Verma, CEO and Mr. Vinay Mittal, Chief Financial Strategist from HT Media. Over to Mr. Vinay Mittal for the opening remarks. Thank you.

Vinay Mittal: Thanks Jay. Good morning Ladies and gentlemen and thanks for taking out time for our Q3 financial year 2015 results. It has been a steady quarter with an advertising growth of 4% on a consolidated basis. Mumbai for us has grown at 11%, Mint at 9%, Hindi at 11%, Radio at about 8% and Digital at 36%. Delhi has been flat. Economic environment continues to remain tough and advertising sales need to be pushed. As the quarters rolls by and the economy picks up, I am quite sure we will have a better topline sales growth. Circulation revenue grew by 10% as we added more copies across geographies, mainly in our Hindi business and in Mumbai.

Newsprint prices have been trending down. They were down in the last quarter by about 4.2%, down to Rs.37,400 a tonne from Rs.39,100 a tonne. Two of our expense heads, namely employee cost and advertising & sales promotions, were relatively high. Employee cost was higher because of recurring regulatory costs plus some new hirings. On the advertising and sales promotions front, we had Rs. 8 crores charge for television commercials for Shine. Both these expenses will normalize in the coming years. There is also an exceptional expense of about Rs.14 crores which is a write down of our investment in MyParichay. The social recruiting platform basically worked off Facebook. Facebook changed the ground rules, which made it difficult for MyParichay to leverage it and therefore its business model took a hit and thus the write-off. With economy expected to improve, we hope to see a better topline. With expenses under control, we should see an operating leverage coming through in the next few quarters.

Thank you, I would now like to throw it open for any questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Chauhan Bhautik from Span Capital. Please go ahead.

Chauhan Bhautik: What would be the current EBITDA margins in UP market?

Vinay Mittal: In the UP market, the current EBITDA margins are in the region of 8% to 10%.

Chauhan Bhautik: What would be our market share in UP market in terms of revenue?

Vinay Mittal: In terms of revenue, we should be in the region of 23% to 24%.

Chauhan Bhautik: How much investment would you need to bid for new Radio licenses?

Vinay Mittal: We are still trying to work out the exact amount, but we will like to expand our network from our current five stations.

Chauhan Bhautik: Any ballpark number you would like to give?

Vinay Mittal: I would like to disclose that only in the next call.

Chauhan Bhautik: Are there any specific plans on second round of buyback?

Vinay Mittal: The Board will consider in the next board meeting because we can't consider it before February end.

Chauhan Bhautik: What would be our cash position in the books?

Vinay Mittal: We have about Rs. 1,145 crores net cash.

Chauhan Bhautik: What would be the total size of ads for equity assets in terms of real estate and equity?

Vinay Mittal: It is about Rs. 350 crores.

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

Srinivas Seshadri: . My first question is regarding Delhi market for Hindustan Times. You mentioned that the Delhi market was flattish year-on-year. There seems to be softness relative to the previous quarter where there was some growth. Can you throw some light on which advertising categories saw slow down and what is the outlook as far as the current quarter is concerned?

Vinay Mittal: On a y-o-y basis we had very strong DAVP numbers last year and also due to the pre-election piece, the base effect was very strong. We are hopeful that things will pick up in Delhi. There is a feel good factor. We are seeing more and more people willing to talk. It needs to translate into numbers.

Srinivas Seshadri: Apart from the DAVP, which are the other segments where there is some softness?

Vinay Mittal: The softness is basically in real estate and BFSI.

Srinivas Seshadri: You mean to say that there is some talk but it is yet to translate into revenues?

Vinay Mittal: Regarding the DAVP piece, there is no softness. It is just that the base number, the corresponding period of last year, was very strong because of pre-election revenue.

Srinivas Seshadri: Would there be any significant pre-election revenue in Delhi this time because we have been reading about big ads being taken out by some of the leading political parties. Would there be some kind of a windfall in the fourth quarter because of the political party related spend?

Vinay Mittal: There is some spending but it is nothing like that will move the needle.

Srinivas Seshadri: As of now, the trends are pretty much in line with what we would have seen in the third quarter?

Vinay Mittal: Yes.

Srinivas Seshadri: Radio has grown by 8% but looking at radio and entertainment together there is some decline. There has been a reduction in the revenue in the events business. Can you throw some light on it and what are the expectations from a business perspective?

Vinay Mittal: The events business was about breakeven to a slightly negative EBITDA business. In the third quarter of this year, we did not do that many events whereas in the base there is event revenue. That is why you are seeing a negative growth of 3%. If I strip off the events, in radio we have a positive 8% growth.

Srinivas Seshadri: Is the idea to improve on profitability?

Vinay Mittal: That is right.

Srinivas Seshadri: Can you give some guidance on the digital segment in terms of revenue growth, cash flows? We already are close to last year's levels in terms of cash burn and the revenue growth has also been fairly strong.

Vinay Mittal: We would have an EBITDA loss in our digital business of about Rs. 45 crores mainly due to the push that we are giving to Shine and the TV advertising that we are doing there. We are seeing traction and the numbers that are coming through are good. This will continue into the next year and there will be a corresponding topline growth coming through strongly. We hope that Shine topline will grow at about 60% plus.

Srinivas Seshadri: We should see a topline growth of 50% to 60% for Shine and the other segments would also grow. In terms of EBITDA, are you saying we will continue to make similar losses next year as well?

Vinay Mittal: Yes, because that will be a big year for us. The third and fourth quarter should see a downward trend.

Srinivas Seshadri: In terms of digital, on a very strong topline you are still going to make loss. What are the areas of investment you are making from an operational perspective? Is it more on advertising front? Where exactly is the incremental budget getting allocated?

Vinay Mittal: It is in advertising and in hiring the sales force.

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

Ankit Kedia: Could you throw some light on the 11% growth in the Mumbai market? Are we garnering incremental market share because of a strong IRS? Is TOI losing share and what is the profitability in the Mumbai market currently?

Vinay Mittal: The Mumbai market is doing quite well. The growth has come through yield improvement of about 12%-13%. The IRS is helping and the EBITDA is already in the mid teen level.

Ankit Kedia: What is the number of circulation in Mumbai and what is the target to be achieved over next year?

Vinay Mittal: We are at about 450,000 copies and we hope to move to about 500,000 copies over the next year.

Ankit Kedia: You mentioned that the Delhi market BFSI was soft, but Mint overall has grown by 9%. Where is the incremental growth in Mint coming from and has Mint broken even for us or it is still loss making?

Vinay Mittal: It is still marginally loss making but it has started doing well. We still have to see the good days of BFSI growth if capital market activity comes through.

Ankit Kedia: We have seen a 4.2% decline in the newsprint cost, but given that we are sitting on high inventory, all the benefits would not have come in. How much decline can we expect in the next couple of quarters from the newsprint price?

Vinay Mittal: We should see another 2% to 3% this quarter.

Ankit Kedia: Can you also give the absolute tonnage, which we used in this quarter?

Vinay Mittal: It is about 47,100 tonnes.

Moderator: The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: The employee costs in the last couple of quarters have been high. Where do you see these stabilizing at and what is it as a percentage of revenue? Can you give any guidance on that?

Vinay Mittal: It is approx. 19% and it will normalize in the coming year.

Shubhankar Ojha: This quarter, it would still be high like in Q3?

Vinay Mittal: Yes **Shubhankar Ojha:** Secondly, what is the trend in the newsprint cost?

Vinay Mittal: It is downward trending and that is why we had a gain of about 4.2% in the third quarter and we expect another 2% to 3% decline in costs in the fourth quarter and so there will be benign newsprint prices at least for the next four to five quarters.

Moderator: The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali: We have done good amount of capex in the digital business. What sort of traction in revenue do we see and when do we see breaking even in that vertical?

Vinay Mittal: In digital a lot of investment is going into marketing as well as hiring. Therefore we will see a topline growth of over 50% over the next three-to-five quarters. We expect the EBITDA losses to come off slowly starting in the third quarter of next year.

Moderator: The next question is from the line of Urvil Bhatt from IIFL. Please go ahead.

Urvil Bhatt: Can you elaborate what are the rules that have changed due to which MyParichay's business model has been hit?

Vinay Mittal: Earlier, you could mine Facebook and get all the connections of a person in Facebook. We worked off the Facebook platform. As of April 1, 2015, that feature is not available and you will not be able to mine the connections in the Facebook.

Urvil Bhatt: Will there be any incremental write off or provision for diminution?

Vinay Mittal: It is done fully.

Urvil Bhatt: When you mention that Rs. 350 crores is the amount of private treaty assets. Is that the book value or it is value after provision of diminution?

Vinay Mittal: This is the book value and we have a total provision of 81 crores.

Urvil Bhatt: The net book value is around Rs.270 crores or so?

Vinay Mittal: It is about 270 crores.

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

Naval Seth: There would be impact of lower newsprint prices on your numbers. How much of that you are looking to plough back as in terms of investment by increasing the number of copies?

Vinay Mittal: We ended the third quarter at about 2.7 million copies. This is only the Hindi piece. Overall, it is about 4.6 million copies. This included about close to 230,000 copies that we added in Hindi. Going forward, I think in Hindi we will end up adding only about 50,000 copies more.

Naval Seth: In the next fiscal?

Vinay Mittal: Yes, therefore, the major growth in copies that you were seeing in the last five years, we were adding close to 200,000 to 300,000 copies every year on an average. This would taper off and you would see a maximum of about 50,000 to about 75,000 copies in the coming years.

Naval Seth: On consolidated basis?

Vinay Mittal: Yes

Naval Seth: That means the majority of the benefit would be flown into the EBITDA next year?

Vinay Mittal: That is right.

Moderator: The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: On the IRS side, if you compare the Hindi business growth, there has not been a big differential between us and our peers like Jagran and DB Corp despite our significant gains in the IRS. Can you help us whether the new IRS numbers have been accepted by the advertising agencies?

Also, reading the wage hikes that we claim to have taken, have they flown through? What is the situation on that?

Given that now we have accumulated more capital in our books, can you help us understand whether you are looking at organic or inorganic opportunities?

Are there any plans to return the excess cash to the shareholders?

Vinay Mittal: On the IRS piece, we are certainly seeing traction because of the IRS results in the UP market as well as the Mumbai market. The growth in the Mumbai market, for instance, has all been yield related in the last quarter. Similarly, in the UP market, we saw a 14% hike in yields in the third quarter. Over the next six months, it will become equal in yield to Amar Ujala, because Amar Ujala has been dropping yields.

On the cash utilization, we have Rs.1,145 crores as of December 31, 2014. Going forward, we will end up investing close to about Rs.200 odd crores in the radio auction including the renewals. So, there will be some cash utilization. Also, starting from now till the end of next year, about Rs.100 crores of capex will go in. In terms of acquisitions, there are no big acquisitions that are on the anvil but we will keep looking out for them as and when they can happen. On distribution of cash, the Board will have to take a decision in their May meeting when the annual results are considered.

Vikas Mantri: On the organic growth, what about Rajasthan as we talked about earlier?

Vinay Mittal: Yes, the HMVL folks are looking at it deeply as to what is the best way to go about it because you have got two entrenched players there. We do not want a situation where we end up spending big cash for the next 3-4 years. So we are trying to find the best possible ways to enter that market or any other market alternatively.

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

Jaykumar Doshi: Your comments on IRS and your peer comments are very different and it has been a while. Do you receive a quarterly update after the one for 2013 and has there been any additional data statistics from IRS? Is there any effort from industry to ensure that there are periodic survey results being carried out?

Vinay Mittal: The surveys are being carried out and you will have the next round of IRS results soon enough. The advertisers have adopted it.

Jaykumar Doshi: It will be on similar lines, right? There is no change per se?

Vinay Mittal: No.

Jaykumar Doshi: Is the industry also going to support this one or it will again be a function of what the outcome is?

Vinay Mittal: I think the industry will have to support it. The proof of the pudding is that we are getting the yield increases. Earlier, there was a bit of confusion but now, we are getting through those yield increases and it will be equal to Amar Ujala's yield over the next six months.

Jaykumar Doshi: On digital business, what would be your strategy from next two-to- four years perspective because the entire space is moving at a very rapid pace. Also, we have experienced it in that, MyParichay is not a very relevant platform anymore. So, how do we look at this space so that the investments that we make are ahead of time and we do not run into competition?

Vinay Mittal: All the learning that we had from MyParichay has been put to good use because we have come up with a new app which we are in the process of commercializing. Over the next three months, you will hear a lot about it and as I said earlier in the call, I hope that you will see that traction in the topline every quarter and you will see the reduction in the negative EBITDA starting from the third quarter. Moving into 2016-2017, we do hope to be break even to positive. That is a big movement from a negative Rs. 45 crores.

Jaykumar Doshi: Can you throw some light on the portal front on the app for news, both Hindi and English? How are you doing? What are your targets or milestones there or monthly unique visitor count and progress on that front? Lastly, could you give us an update on education venture?

Vinay Mittal: We are in the process of revamping all our sites and the newsroom. We have revamped the whole newsroom and invested close to Rs. 100 crores in terms of capex by bringing together all the newsrooms in the Hindi, Mint and English space. Also, there is new technology to make sure that news can be serviced on all platforms including the tablets, the mobile phones, internet, etc.

Jaykumar Doshi: Would we have an idea of what would be the digital advertisement revenues from website and app for Times of India and where would that number be for HT Media?

Vinay Mittal: For HT Media, the revenue of this is in the region of Rs.15 crores on an annual basis. Times of India will be much larger and so would be NDTV. Our effort is to catch up and that is why we made this investment and the whole catch up should start over the next six months.

Education piece continues to show good traction. We have close to 16 centers now in e Studymate which is in supplementary education. Plus, we are making traction on the higher education piece which is the BRIDGE School of Management. At this point of time, the revenues are too small to really speak about it.

Jaykumar Doshi: Anything on investments in that front?

Vinay Mittal: Investment in that front would be in the region of Rs.15 crores to Rs.18 crores annually.

Moderator: Next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Looking at your operating expenses apart from the raw material cost, what sort of trend we should expect in FY2016 considering our expansion activities are slowing down. Are we looking at 4-5% increase in FY 2016?

Vinay Mittal: Yes, I think figure of about 5% would be in totality. The expenses should increase by 5-6%.

Yogesh Kirve: What sort of a capex should we expect in FY2016?

Vinay Mittal: In FY2016, the capex would be in the region of about Rs.75 odd crores.

Yogesh Kirve: This does not include radio related costs?

Vinay Mittal: No, radio is separate. I am talking about just the newsroom and the normal capex. As I said, Radio would entail another Rs.200 crores.

Yogesh Kirve: What should be our aspirational EBITDA margin target for UP and Mumbai operations over the next two to three years?

Vinay Mittal: I would expect them to move towards a mature market status. I should expect Mumbai and UP both should be in the region of 25%.

Yogesh Kirve: Is that attainable in the next two or three years?

Vinay Mittal: Yes, absolutely at the end of three years they should be there.

Yogesh Kirve: Regarding the English advertisement revenue growth, it has not been quite exciting in the third quarter. Obviously, you shared the reasons but going into fourth quarter we are already almost month-and-a-half. What has been the trend so far and what do you expect in the next couple of quarters?

Vinay Mittal: It is still a mixed bag and the trend is yet to emerge. It is status quo at the ground level.

Moderator: Next question is from the line of Chitragda Kapoor from Reliance Securities. Please go ahead.

Chitragda Kapoor: You mentioned that there would be an operating leverage that you are expecting in the coming quarter. Were you referring only to the news print cost correction or was there something else also in your mind?

Vinay Mittal: We will manage to contain cost between 5-6% in totality. The operating leverage would come on back of a better topline, if the economy does pick up.

Chitragda Kapoor: When you are saying that the topline is expected to do better, you were only referring to your circulation piece increase or are you expected to take further advertisement rate hike in UP and Mumbai ?

Vinay Mittal: Firstly, topline is a function more of advertising growth than circulation growth. Secondly, advertisement revenue is a function of volume and yields and that is predicated on the economy picking up.

Chitragda Kapoor: Any further price increases you are expected to take because of IRS?

Vinay Mittal: That will be a continuous effort over the next one year.

Moderator: Next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali: What is your total debt on the balance sheet at parent level?

Vinay Mittal: Debt on the balance sheet is about Rs.545 crores. Out of that, probably Rs.80 crores to Rs.85 crores would be for HMVL.

Moderator: Next question is from the line of Ritwik Rai from Kotak Securities. Please go ahead.

Ritwik Rai: Considering that many players have opted out of the IRS, will the data that comes in now exclude those players?

Vinay Mittal: Can I come back to you on that? Let me check up with the folks who interact.

Ritwik Rai: Regarding the internet losses about which you said that you expect a positive EBITDA in FY2017, this is something which has been going over year-after-year and nothing seems to be happening and we are pretty much plotting the same run rate of losses. We keep doing different things, but the net result tends to be the same. So, what is it that makes you so confident this time?

Vinay Mittal: It is the fact that we are clearly a number two player now in this market, ahead of Times Jobs and Monster. So if you talk to any recruitment person now, they would have heard of us. Thus, as a product, we are better today compared to Monster. Therefore effectively, there is a duopoly in the market between Naukri and us. Of course, Naukri has a big head start and the difference between their revenue and our revenue is quite large. Plus, we have taken a high ground on the social recruiting and the new app that I was talking about, which we had also mentioned in the advertising, will commercialize over the next two to three months. We hope to remain ahead in the recruitment on the social and on the referral piece. The traction that I am seeing on the clients and the increase in revenue from our existing clients, renewal rates of the clients, is what is giving me the confidence that it could be a turning point for Shine.

Ritwik Rai: In FY 2016-2017, do you expect the cost to decline or are you relying primarily on revenue growth?

Vinay Mittal: Only revenue growth. The cost will not decline but the fact is that if the revenue growth does not come through, the cost will not get added as the cost is modular.

Ritwik Rai: What was the growth in Mumbai in this quarter?

Vinay Mittal: Mumbai was about 11%.

Ritwik Rai: And Delhi?

Vinay Mittal: Delhi was flat.

Moderator: Next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri: Given the fact that the English market is largely a duopoly market in the key cities, and there has been a general challenge on advertisement revenue growth for the last at least several quarters, how do you or TOI think about some better job on the circulation revenue side? Is there a possibility to get some disproportionate increases in the cover price because clearly the Hindi market appears to be doing a much better job about it, even using inferior quality print and they seem to have higher cover prices at least in some of the markets? What is the thinking of the management on this issue?

Vinay Mittal: At this point of time, there is no thought process to increase the cover prices and the newsprint prices have been falling. But if the economic environment does not improve over the next three to six months, then I suppose the newspaper companies would be forced to relook the cover prices.

Srinivas Seshadri: Structurally, why do you think the English in particular has constraints in terms of achieving better kind of coverage on the cost in terms of circulation revenues versus Hindi? In Hindi, they seem to have slightly more pricing discipline as an industry.

Vinay Mittal: It has been a traditional thing that the Hindi cover prices have always been higher than the English cover prices. Probably it was a function of the fact that the English advertising revenue was certainly more robust than the Hindi advertising revenue till about five years back. There has been a catch up in the Hindi region and therefore the increase in the cover prices in the Hindi region has not been that strong as opposed to English. In English, the cover prices over the last two years have moved from Rs. 2.50 to literally Rs.5.

Moderator: The next question is from the line Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali: Looking at the Q2 FY2015 balance sheet, we are not able to reconcile the amount of net cash that we would be having. We have some current investment of Rs.800 crores and cash of about Rs.160 odd crores and on the other side, we have the debt of about Rs.540 crores.

Vinay Mittal: Can I do that for you offline?

Moderator: There are no more questions. Would you like to add any closing comments?

Vinay Mittal: I would just like to reiterate that I think that the cost is pretty much under control and if the economy actually does well, we are a good proxy to the economy and my topline should do better and therefore the operating leverage should certainly come through. That is it from my side. Thank you.

Moderator: Thank you very much members of the Management. Ladies and gentlemen, on behalf of Kotak Securities that concludes this conference call. Thank you for joining us.

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