



“HT Media Ltd Q3 FY16 Results Conference Call”

January 28, 2016

Moderator: Ladies and gentlemen, good day and welcome to the HT Media Ltd Q3 FY16 Results Conference Call 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 to the operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you and over to you sir.

Rohit Dokania Thank you Karuna. Good morning everyone and thank you for logging in for Q3 Results Conference Call of HT Media Limited. We have with us Mr. Vinay Mittal – Chief Financial Strategist for HT Media and we will be soon joined by Mr. Rajiv Verma – CEO, HT Media. Over to you Vinay for a brief commentary, after which we will get into the Q&A. Thank you.

Vinay Mittal Thank you Rohit. Good morning ladies & gentlemen. Thank you for taking out your valuable time for our Q3 FY16 results.

We had a strong quarter of advertising growth on the back of a good festive season. In our Hindi Business, Bihar elections added to growth in revenue. Continuing benign raw material prices and operational efficiencies contributed to higher operational profitability. Some of the highlights were - Advertising revenue grew by 9.2% to Rs. 5.4 billion from Rs. 4.97 billion. Circulation revenue grew by 4.8% to 0.77 billion from 0.73 billion. HT Delhi advertising revenue grew by 4.7%, Mumbai grew by 10%, Hindustan grew by 19% partly as I told you because of the festive season and partly because of the Bihar elections. Radio had a good quarter and grew by 20%. Digital segment grew by 43% to Rs. 382 million from Rs. 267 million last year. Within this Shine grew by 23% and HT Mobile solutions grew by 82%.

On the expense side, raw material costs de-grew by 0.8% due to the benign pricing environment and the savings that we did in circulation. Employee cost grew by 19% due to increments, new hiring that we had in Hindustan for the Haldwani unit, radio and in digital. Other expenditures grew by about 11%. This resulted in an EBITDA growing by 11.6% to Rs. 1.46 billion from Rs. 1.31 billion with EBITDA margin at 20.6% versus 20.1% last year. Operating EBITDA grew by 37% to Rs. 1.18 billion from Rs. 862 million with margin standing at 17.4% versus 14.2% last year. PAT was up by 9.4% at Rs. 809 million from Rs. 739 million last year with the PAT margin standing at 11.4% which was same as last year. EPS stood at Rs. 2.96 versus Rs. 2.75 last year.

We hope to carry this strong advertising growth trend into Q4. Focus will be to operationalize the new radio stations acquired in Phase-3 so that the investment starts yielding some results and to grow revenue and improve profitability of the digital segment. Thank you. We can now move over to the Q&A session.

Moderator Thank you very much sir. We will now begin with the question and answer session. We have first question from the line of Bhautik Chauhan from Span Capital Services. Please go ahead.

Bhautik Chauhan Could you throw some light on the advertisement scenario in terms of revenue across different advertisement segments such as FMCG, real estate, education?

Vinay Mittal With respect to the advertising scenario, certain sectors grew more like the Non-DAVP/ political ads which grew at about 70%+, automobiles at 21%, banking and finance at 17%, classifieds at 30% and ecommerce which almost doubled.

If we look at it geographically, our Hindi business did extremely well especially in Bihar because of the elections and the festive season. UP also did extremely well growing at 25-26%. Urban consumption in the metros started showing signs of pick up. For instance, Delhi grew at 4.7%. So it is holding onto the 3% to 5% growth for the last two quarters. Mumbai continued to clock a double-digit growth and therefore is expected to show a healthy EBITDA number for this year.

We are hoping that this should gather pace as the time goes by and over the next one year the consolidated advertising growth should move to double digits.

Bhautik Chauhan What is your current market share in UP market in terms of volumes? And what would be our EBITDA margins?

Vinay Mittal Our share would be close to 32-33%. EBITDA margins are in the region of 15% to 17%.

Bhautik Chauhan Sir my next question pertains to net cash component. It has come down from 1137 crores to 797 crores, so any specific reason for that?

Vinay Mittal Net cash has come down because of the Rs. 450 crores that have gone into radio auction payments.

Bhautik Chauhan And what would be our ad for equity?

Vinay Mittal Ad for equity book is 348crores.

Moderator Next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta Just wanted your view on circulation revenues going forward. Do you envisage substantial cover price increases? I understand there is a lot of competition but if you could talk about this

and also what has been the circulation this quarter overall for Hindi separately and your HT English newspaper separately?

Vinay Mittal The total circulation has been in the region of 45 lakh copies of which Hindi has been about 28 lakhs. Delhi continues to be steady at around 10 lakh copies.

With respect to the circulation prices, it is a balance between increasing the prices and making sure that the readership does not drop. So at this point of time it will be a very calibrated increase and not a big increase in prices that we would be looking at, especially if the advertising remains strong then the pressure to take up the circulation revenues is much lesser. It all depends on how the economy fairs and the profitability of the print media going forward.

Shalini Gupta If you could give some sense of Mumbai out of your total print revenues of about Rs. 607 crores?

Vinay Mittal Mumbai advertising revenue this quarter was Rs. 57 crores. Overall revenue would be about Rs. 60 crores.

Shalini Gupta And sir you were saying that Mumbai has seen a substantial improvement in its EBITDA margins, so last I remember you were talking about 7% to 8% margin when it had just turned around. So where would the margins be now?

Vinay Mittal On a year-till date basis, we should be close to 12% to 13% margin.

Shalini Gupta And your view on where you think Mumbai will be in financial year 2017 or 2018?

Vinay Mittal A nice print margin for a geography which is maturing is in the region of 25%. So over the next 2-3years, we should see Mumbai margins also going up to that range.

Moderator Next question is from the line of Vinod Malvia from Florintree Advisors Pvt Ltd. Please go ahead.

Vinod Malvia Can you just help me with will be the gross debt on the standalone right now?

Vinay Mittal Gross debt is about Rs. 1000 crores.

Vinod Malvia This includes short term and long term both, right?

Vinay Mittal Yes

Vinod Malvia And second thing I wanted to understand is the radio business. Your top-line growth has been very good at about 25% but your EBITDA margins have come down because of the Chennai launch and high license fee. How much would be the impact of Chennai launch and how much would be the impact of high license fee?

- Vinay Mittal** License fee is Rs. 3.75 crores and Chennai launch is Rs. 2 crores.
- Vinod Malvia** How much would be your fixed cost for the radio business going forward once you come up with new stations?
- Vinay Mittal** I will be able to better answer that once the operations start in the new stations.
- Vinod Malvia** So by Q4 you would be in a better position to answer this.
- Vinay Mittal** Yes, absolutely
- Vinod Malvia** What would be your outlook for digital losses for FY17?
- Vinay Mittal** For this year it should be around Rs. 55 crores mark. But next year we do plan to bring it down to the levels of Rs. 35 crores as has been the trend over the last two quarters.
- Vinod Malvia** Are we also looking to hive-off Shine or get in a strategic investor?
- Vinay Mittal** We keep looking for partnerships in our digital businesses.
- Vinod Malvia** And last question on Mumbai and Delhi market, how is the advertisement outlook for our English print?
- Vinay Mittal** For the English print, as I said, Mumbai grew at about 10%. And so we do expect that this trend should carry on and if the economy does strengthen, then this momentum should pick up. Then I do think that you could see another 3-4% jump in the advertising growth.
- Moderator** We have next question from the line of Rishendra Goswami from Locus Investments. Please go ahead.
- Rishendra Goswami** What was the advertising growth in Delhi and Mumbai in Q3 and over 9 months?
- Vinay Mittal** In Q3, HT Delhi grew by 4.7% and Mumbai grew by 10% and if we are looking at 9 months ad revenue then Delhi grew at 3% and Mumbai grew close to 12-13%.
- Rishendra Goswami** What would be the market growth in the comparable period?
- Vinay Mittal** Both Delhi and Mumbai must have grown at about 3% to 4%.
- Rishendra Goswami** Is this for the quarter or the 9 months?
- Vinay Mittal** About the same for the 9 months
- Rishendra Goswami** Okay, so I guess then we would have seen some share gain in Mumbai?

Vinay Mittal Yes

Rishendra Goswami What is the CAPEX for this year and next year?

Vinay Mittal CAPEX in quarter 3 was Rs. 65 crores and year till date at about Rs. 90 crores.

Rishendra Goswami And where is the spend going?

Vinay Mittal It has gone into various places. A large chunk went into the newsroom up-gradation to combine the digital & print media editorial teams for an overall digital transformation. Part of spend have also gone into expansions in the Hindi business like Haldwani and the new radio station launch at Chennai.

Rishendra Goswami And what is your sense of CAPEX for next year? And where will the money be spent?

Vinay Mittal CAPEX for next year should be in the region of Rs. 40-50 crores. Basically we may spend on one or two expansions in Hindustan along with some bit into radio and balance on the newsroom augmentation.

Rishendra Goswami And what is the total cash on the standalone entity now?

Vinay Mittal The total cash in the standalone entity is around Rs. 1,135 crores.

Rishendra Goswami This is including all the liquid investment etc?

Vinay Mittal Yes.

Rishendra Goswami What is the standalone debt then?

Vinay Mittal The standalone debt would be Rs. 1000 crores.

Rishendra Goswami So what is the current investment on the standalone books in FMPs?

Vinay Mittal In FMPs it should be in the region of Rs. 1000 crores.

Moderator We have next question from the line of Amit Kumar from Investec Securities. Please go ahead.

Amit Kumar Thank you so much for the opportunity sir. I just wanted a sense of your overall circulation on the Hindustan as well as the standalone English print side for this quarter.

Vinay Mittal In Hindi we had a circulation of about 2.8 million copies and in totality we had a circulation of close to 4.5 million copies.

Amit Kumar At one point of time Mumbai was clearly a pressure point on net realization because of all of the schemes, but we still continue to see an effective realization rate of less than Rs. 1.5 for

your English print business. I am not really seeing too much of change also on these numbers for some time now. When would you have that confidence on your English print business so that you can take out some of these schemes that you offer on a fairly regular basis in Mumbai? Also, please throw some light on Mint.

Vinay Mittal These schemes are run to attract new readers and thus, have been running on for some time and keep going and coming back. Over the next one or two years you will see these coming on-and-off. However, Mumbai should stabilize over the next 2 years.

Moderator Next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal Sir you just mentioned that our advertising growth in Delhi and Mumbai was around 4.5% and 13% odd. Just trying to reconcile because 9 months if I see the numbers for the total print advertising minus Hindi it comes to around 2% kind of growth. So what am I missing here? Is Mint or something else degrowing?

Vinay Mittal Yes, Mint has degrown by about 10%.

Avinash Agarwal And Mint, how is it doing at EBITDA level? Is it profitable for us? What is the advertising revenue in Mint for 9 months?

Vinay Mittal Advertising revenue in Mint for 9 months is about Rs. 50 crores. It is not profitable yet.

Avinash Agarwal Could you also give us the EBITDA loss level for the digital business in the first nine months?

Vinay Mittal In the first 9 months the loss is close to Rs. 50 crores.

Moderator Next question is from the line of Govind Gilada from GG Securities Limited. Please go ahead.

Govind Gilada I have one question around the significant drop in other income. Last year it was around 29 crores and it has come down to 16 crores this quarter. Can you explain reasons for decline in other income?

Vinay Mittal Hardening of interest rates on 10-year G-secs led to mark-to-market losses in the mutual fund investments as most of our investments are in fixed maturity plans.

Govind Gilada Is it a notional loss?

Vinay Mittal Absolutely, it is a notional loss.

Govind Gilada So what kind of run-rate should we presume keeping aside this notional loss?

Vinay Mittal You should look at a yield of about 8% to 9%. Around Rs. 30-35 crores.

- Moderator** Our next question is from the line of Hiren Gilani from Envision. Please go ahead.
- Anil** Can you elaborate a little bit more on your digital strategy? You have invested in a couple of new platforms and also can you throw some light on your strategy for Shine.com?
- Vinay Mittal** We continue to grow our digital businesses which are basically Shine, HT Mobile, and HT Campus and the content businesses through HT.com, livemint.com and livehindustan.com. But we have not started anything new over the last 1-1.5 years. .
- Rajiv Verma** There are two elements to this digital strategy or possibly even three, if we may cut it like that. There is a content business which is provided to our readers through the Hindustan Times and Mint and Hindustan portals. Keeping that in mind we have created and invested into a very large convergent digital newsroom in order to make sure that our consumers of content are getting best possible content as the news happen. The other part of this is Shine and the Digital Advertising Business. Shine has been growing very well. Its growth rate is roughly in the region of about 25-30%. And it has become India's second largest job portal now. We are getting a lot of traction with all the large enterprises like IBM and Wipro and the large companies that are users of these portals. That business is doing extremely well and the growth is very encouraging. And we believe we will become India's second largest portal led by a lot of innovations. The third business which I was mentioning to you was our digital advertising business called DQ. The business has been growing at a rate of 60% to 70% year-on-year and we will be doing Rs. 65-to-75 crores in revenue this year. It is showing a lot of proof of concept and should be roughly Rs. 100 crores by the next year. In addition to that there are other digital verticals like our education business which provides education using a digital platform. So HT Media is trying to transform itself into a digital powerhouse.
- Anil** You said you have not started anything new but there were some investments like Planet Gogo which you had invested in. Can you just elaborate on those strategies as well?
- Rajiv Verma:** We had started an incubator in partnership with a US-based fund called NBM as part of the same digital strategy. It is an incubator where we find young entrepreneurs who may have ideas that can be fed with the company's assets as well as seed capital. But our investments are only in those ideas which are in the publishing or in media domain. That is why this incubator is called MediaHack.
- As a part of MediaHack, three or four ideas have been funded for young promoters with a funding between Rs. 50 lakhs to 1 crores each. And we will be funding more and more of these startups because we believe there is a scope for digital startups to do well.
- Anil** And what kind of an amount have you kept aside for such kind of an investment?
- Rajiv Verma:** This year the investment so far was about a crore and half and as more and more ideas keep coming we will continue to fund them and figure out depending on the quality of those ideas. But so far the investment made is about a crore and half.

- Anil** And a little bit more on Shine.com, it has been in losses for many years now. Are you really happy with continuing with Shine.com or are you really looking at some other steps to be taken?
- Rajiv Verma** Most of our competitors have withered away. As you know India is a country of more than a billion people, with 500 million people under the age of 25 and all of them are going to look for job. Digital platform is one of best platforms to find a job rather than newspapers or anything else. By far, there is only one site in India which is dominant and there is a scope for a good quality second or third site also to be there. And currently we are poised to become that second player. These businesses require certain maturation before you are able to collect resumes and enough jobs then the virtuous cycle starts. We believe we are at the cusp of starting that cycle.
- Anil** Can you actually share the revenue for nine months and the losses in Shine.com?
- Rajiv Verma** Unfortunately I would not be able to share with you that detail because that is internal to the company and it is strategic but I can only tell you our growth rates are going to cross anything between 80% to 100% on a fairly large number. It should be crossing Rs. 100 crore revenue in foreseeable future.
- Moderator** Next question is from the Pavan Nahar from Religare. Please go ahead.
- Pavan Nahar** So my first question is on your FMPs, you said that basically you will hold them for 3 years. So when does that 3-year end or get complete?
- Vinay Mittal** They are spread out and it is not like any big block is coming. This is because we made it purposely to mature at regular intervals so that there is flexibility if the cash is needed.
- Pavan Nahar** Second thing is when I see your Note #2, you are moving some digital content business into a subsidiary. Can you please explain that and also the rationale?
- Vinay Mittal** What is happening is increasingly things are becoming digital and it is becoming an important part of the company. So at this point of time, some of the digital content assets like Livehindustan which was lying in our Hindi company. Livemint which was part of the Mint setup etc. are being brought together under a single roof so that best practices in all the digital content efforts are brought together. And then the company can also grow thru services to third party.
- Pavan Nahar** I understand but from a taxation angle and from a standalone profit angle what you are basically doing is your costing will continue, losses will continue. At least in the standalone entities you are getting tax shield on these losses, right. So I am really surprised to see that you have done such a thing unless you have a fund-raising initiative or you want to do something of that sort.

- Vinay Mittal** On the losses piece that you are talking about because expenses have moved out we will make sure that the main company will buy the content from this company and so that there are no losses that show up here. So the transaction will be tax neutral.
- Moderator** We have a follow-up question from the line of Govind Gilada from GG Securities Ltd. Please go ahead.
- Govind Gilada** You said that we are paying tax on FMP income.
- Vinay Mittal** No, we do not need to pay taxes on that because that is a 3-year FMP.
- Govind Gilada** Why has our finance cost gone up substantially this quarter?
- Vinay Mittal** That has gone up due to borrowings for our radio related payments.
- Govind Gilada** What kind of interest rate are we paying on borrowings?
- Vinay Mittal** Borrowings interest rate is quite low. I would not like to disclose the rates on the call but the idea of borrowing is that the interest income on FMPs is higher than the borrowing costs for commercial paper
- Moderator** We have next question from the line of Rohit Dokania from IDFC Securities, please go ahead sir.
- Rohit Dokania** Could you please comment on the tax rate for the full year and the next?
- Vinay Mittal** The tax rate for the full year should be in the region of 24% to 25%. Next year tax rate should be around 25%.
- Rohit Dokania** Can you also share some guidance on the next year margins at the consolidated entity by throwing some light on all your divisions? How would English/ Mint or radio move?
- Vinay Mittal** Consolidated advertising revenue should pick up from high single digits to double digits if the economy does pick up and remain stable and the urban consumption comes back. If that does come through and digital losses reduce and the radio licenses start yielding revenue, our margins after the first two quarters should start picking up. Initially radio would have some losses. But after that we should see a pickup in margins and a top-line growth in double digits.
- Rohit Dokania** If the consolidated ad revenue growth is around 10%, could you quantify whether our margins at the consolidated level would go up by 200 bps or 100 bps?
- Vinay Mittal** I am not sure if it will happen in the immediate 2-3 quarters because there will be bit of a drag because of the radio launch in 10 new stations. However, over the later part of the year you should see a pickup in the margin.

- Rohit Dokania** What don't we look at capitalizing our interest costs on radio licenses until the launch of new station?
- Vinay Mittal** We being conservative are treating it as expenditure.
- Rohit Dokania** Sir any closing comments from your side?
- Vinay Mittal** Thanks a lot ladies & gentlemen for taking out time for our Q3 analyst call. On my closing remarks I would again like to say that if a strong revenue advertising growth trend continues into Q4 we are hopeful of delivering better results. Focus will remain on operationalizing our new radio stations and to grow revenue in our digital businesses and improving the profitability out there. Thank you.
- Moderator** Thank you very much sir. Ladies & gentlemen, on behalf of IDFC Securities Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines.