



# JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

## RESEARCH REPORT

22<sup>nd</sup> Jan 2018

### HINDUSTAN MEDIA VENTURES LTD

NSE : HMVL

Sector: PRINT MEDIA

BSE: 533217

#### View - BUY

CMP : Rs. 257

Target Price: Rs 330 (In next 12 to 15 mths)

#### BUSINESS BACKGROUND

HMVL is a 75% subsidiary of HT Media Ltd., the publisher of Hindustan Times and Mint. As of now, 'Hindustan' is the second-largest selling daily newspaper in India (across languages), and a leader by a wide margin in the Hindi markets of Bihar (68% share) and Jharkhand (46%).

Apart from this, it has a 34% share of the Uttar Pradesh market, 29% in Uttarakhand, and is the second largest read Hindi daily in the Delhi-NCR region. Overall, it has a total readership base of almost 4 crs.

#### INVESTMENT HIGHLIGHTS

**Steady Financials for HMVL in Q3FY18** – Revenue at Rs2.3bn was marginally down on yoy basis. Ad revenue increased by 5% yoy to Rs1.6bn impacted by GST-linked transition pangs and a well spread-out festive season. Circulation revenue declined by 14.4% yoy on account of lower per copy price in UP and Bihar. EBITDA registered a robust growth of 43% yoy to Rs58.3 crs & EBITDA margin at 25.3% expanded by 756bps yoy. EBITDA growth was driven by strict cost control. PAT stood at Rs49.3 crs vs Rs43.8 crs in Q3FY17, up 12.4% yoy, propelled by a robust operating performance and one-time other income from sale of investment

For FY17 the company has recorded net income of Rs 933 crs a EBIDTA of Rs 206 crs and a PAT of Rs 187 crs.

#### **HMVL is a large print player in the Hindi Belt of India –**

HMVL publishes hindi daily "Hindustan", a children magazine "Nandan" and a woman centric magazine "Kadambini". "Hindustan" is the second largest Hindi daily in the country by total readership and the third largest by average issue readership

Hindustan has been an undisputed leader in Bihar and Jharkhand market for many years with 68% and 46% market share respectively, well ahead of the second largest player in both the states by a wide margin. Hindustan is the second largest hindi daily in Delhi/NCR region. HMVL entered UP and Uttarakhand market before 3 years, and have reaped rich dividends from such geographical expansion. HMVL has been growing at brisk rate in both the markets. HMVL has not only emerged as the third largest player but has also inched very close to the second largest player Amara Ujala

HMVL's derives its revenue largely from two sources i.e. advertisement and subscription. Currently, HMVL derives 72% of its revenue from advertising, 25% from subscription and rest 3% is from interest/dividend income. However, looking at the past trend, that contribution of advertisement revenue has increased significantly from 60% to 72%

#### KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		0,46
52 WK HI/LOW		297/225
NSE CODE		HMVL
BSE CODE		533217
MARKET CAP	RS	1890 CRS

#### SHAREHOLDING PATTERN

PROMOTERS	-	74%
BANKS, MFs & DIs	-	4%
FIs	-	16 %
PUBLIC	-	6%

#### KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	-1	11	11
EBIDTA Gr%	7	16	11
PAT Gr%		19	11
EPS Gr%		19	11
EPS (Rs)	25	30	34
ROE %	15	15	15
ROCE %	14	15	14
P/E(x)	10	8	7



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### **HNVL's key markets include Bihar, Jharkhand, Delhi UP & Uttarakhand –**

*Bihar:* Currently, only two major players in the market Hindustan and Dainik Jagarn. Hindustan has a lead of more than 60% in terms of AIR over Dainik Jagaran. DB has recently launched Patna edition and if they expand aggressively(as they have done in other states), it may be the third significant player in the state.

*Jharkhand:* Highly competitive market with 4 players in the fray. Hindustan is the leader followed by Prabhat Khabar, Dainik Jagaran and Dainik Bhaskar respectively. However interesting thing is that gap between first three players have remained almost constant even after the entry of a new player.

*Delhi/NCR:* This market is again fiercely contested market with 4 players. However, market is dominated by Navbharat Times which has been able to hold forte very well in spite of stiff competition. There is hardly any difference between second and third player i.e. Hindustan and Dainik Jagaran in terms of AIR and both have maintained their AIR over last couple of years. However, Punjab Kesari has lost readership consistently and is the only weak wicket!

*UP and Uttarakhand:* This market, few years back was dominated by Dainik Jagaran and Amar Ujala. However, entry of Hindustan has changed this dynamics. Hindustan has been gaining the readership at the expense of Amar Ujala while Dainik Jagaran has maintained its readership numbers in absolute terms. However both Dainik Jagaran and Amar Ujala has lost market share to Hindustan. Dainik Jagaran is still leading the market by a wide margin while the gap between Amar Ujala and Hindustan is narrowing down fast.

### **HMVL has good potential to scale up margins going ahead –**

Currently there is large gap between advertising rates of Amara Ujala (second largest player) and Hindustan in UP (at least 30-40%). If HMVL continues to grow and reaches the scale of Amara Ujala, it can significantly increase advertisement rates.

Increasing literacy rates in Hindi belt is structurally good as new potential consumers will get added hence the potential customer base will expand

Rural India and tier-II and tier-III towns are considered next growth engines for many businesses. Hence advertisement spend focused on this market is likely to go up. All vernacular and Hindi print media companies are going to be beneficiary of this trend. Also there is large gap between advertisement rates charged by english dailies and Hindi/vernacular dailies. However, increasing focus on rural/tier-II/tier-III town by companies will narrow down this gap providing higher yield to hindi/vernacular dailies.



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### **Cover prices may have bottomed out as newsprint costs start inching up –**

HMVL managed to grow overall circulation copies by 5% during 3QFY18; however, circulation revenues declined by 14% on account of falling realizations in both UP and Bihar. In UP, a key player slashed cover prices 6 months back, forcing all other players to follow suit. Further in 2QFY18, due to increased aggression by DB Corp in Bihar, incumbents had taken a cut in cover prices.

However, management indicated that cover prices have bottomed out and started improving from Dec'17 onwards. Also, as the newsprint costs have recently started inching up, it would not be prudent for the players to keep dropping their realizations

### **Q3FY18 Concall Highlights –**

Advertising revenues picked up towards the end of 3QFY18.

The management indicated that there would be decent ad revenue growth going ahead, in FY19, with an improvement in auto, FMCG and BFSI sectors already visible. The advertising market should grow in high-single digits.

Education business posted losses of Rs 38 crs in FY17. HMVL would target smaller cities which offer huge growth potential for vocational training. Loss numbers should come down sharply when the business is integrated with HMVL.

### **Advertising revenues**

During 3QFY18, the advertisement yield grew 2% yoy and advertisement volumes 3%, pushing ad revenues growth to 5%.

During the Q3FY18 advertisement from FMCG, retail and BFSI sectors grew significantly, even as durables lagged. The real estate sector continued to be affected by GST and RERA. Government advertisement remained subdued as well.

As advertisers increasingly penetrate into smaller markets, yields will continue to go up; therefore, interest in UP and Bihar has been increasing. There is still significant headroom for yield growth in these markets as tier-2/3 cities are becoming more important for national advertisers

### **Circulation revenues –**

HMVL's circulation revenues declined by 14% yoy on low cover price realization in the key markets of Bihar and UP, which saw heightened competitive intensity. However, cover prices started inching up towards Q3-end.

Circulation copies increased by 5% yoy in 3QFY18.

On the RM cost front, newsprint prices have started increasing vs. a stable scenario over the last two years. Current newsprint purchase rates are higher than historical rates and management believes newsprint prices can increase by 5-15% over time

Net cash stands at Rs9.65bn vs Rs7.6bn in Q3FY17, while the same is not comparable on account of one-time impact of HTDSL carve-out for the period Apr'16-Dec16 (9 months).



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In Q2FY18, the company approved the sale of companies' entire investment in HT Digital Stream Ltd (associate company) to HT Digital Venture Ltd for Rs76.7 crs. The transaction has been consummated on Dec'17, which resulted in a gain of Rs15.3 crs in Other Income. Therefore, HT Digital Streams Ltd ceases to be an Associate of the company.

## **Key managerial appointments –**

Sandeep Gulati has been appointed as Chief Financial Officer (CFO).

Priyavrat Bhartia, Managing Director, has been designated as Whole-time Key Managerial Personnel of the company.

## **Managements near term priorities include the following strategy –**

- Focus on initiatives to augment market volumes
- Better cover price realization
- Persistent investment into copies in core markets
- Better monetization of copies through higher yield
- Continue to focus on cost management

## **Steady financial performance - topline growth and margin expansion –**

We estimate HMVL's earnings to witness a CAGR of 11.-15% over FY18-20E. This will be driven by steady revenue growth (11 -12% CAGR over FY18-20E) and a steady EBITDA margin expansion over the same period.

Over the years, the company has improved its operational performance significantly with its operating margins having remained in a range between 22 to 23% since last 3 years. Even though company has generated respectable ROCE of 14-15% in last 3 years on the entire capital employed, the number does not reflect the actual attractiveness of the business. If we deduct the cash/investment from the capital employed and count only actual capital deployed in the business, HMVL is likely to generate a significantly higher incremental return on capital employed and according to management, the operational leverage is yet to kick in. Also as on Dec 2017 HMVL had net cash of Rs 9.65 bn which also looks attractive.

## **Hindi will lead Indian Print Media and should have a positive ruboff on HMVL –**

According to an Audit Bureau of Circulation (ABC) report (May 2017), India has bucked the global trend of declining readership of print media.

Newspaper circulation in India has grown from 39.1 million copies in 2006 to 62.8 million in 2016 – a 60% increase. Comparable data for the most recent year available, 2015, show that while newspaper circulation grew by 12% in India, it fell in almost every other major media market: by 12% in the UK, 7% in the US and 3% in Germany and France.

Spurt in literacy levels in the last two decades, rising disposable income and the perceived credibility of written words are some of the reasons why this has happened.

Print media has always performed well in India. There are two main reasons for it –primacy of the written word and the home delivery of the newspaper.

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The reason newspapers in their physical form started declining in the West is because volition was involved – you have to go to a newsstand and buy a copy. In India we get it at our doorstep.

The consumption of printed words is not confined to the generation of older die-hard readers. Young India too is quite keen to rely on multiple platforms. The perceived credibility of the printed word may have also contributed to the growth in circulation of newspapers.

Hindi and Tamil newspapers used to be distant second and third respectively. The situation began to change rather dramatically after the 1990s.

**Table 7: Share in National Circulation by Major Languages**

Language	Share in National Circulation			
	1964	1978	1991	1997
English	26.99	22.84	12.85	12.64
Hindi	14.13	22.13	38.47	43.32
Tamil	11.83	6.49	4.9	2.83
Malayalam	11.07	10.02	6.35	5.25
Marathi	9.76	9.36	8.07	7.35
Gujarati	7.5	7.43	7.87	6.21
Bengali	5.61	6.95	4.11	3.80
Urdu	5.15	3.9	5.95	NA
Kannada	3.36	3.62	2.88	2.00
Telugu	2.72	3.84	2.75	2.33
Oriya	1.03	1.13	2.88	3.14
Punjabi	0.71	1.87	2.7	NA
Assamese	0.12	0.41	0.18	NA

The growth in circulation of Hindi dailies has been as swift as the rise in literacy levels in predominantly Hindi speaking states. While literacy rates have gone up from 52 to 74 percent (a growth of 42 percent) at the national level between 1991 and 2011, the rise has been rather swift – from 42 to 69 percent, which means a growth of 65 percent – in Empowered Action Group (EAG) states. States like Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Chattisgarh, Rajasthan and Odisha are part of EAG states.

Growing urbanisation too has played its part. A UN World Urbanisation Prospects report (2014) states that the annual rate of urbanisation in India between 2010 to 2015 was 1.1% the highest among major global economies. India is expected to add over 400 million people to its urban population between 2014 and 2050. More people in the cities means more readers for newspapers.

Incidentally, between 2001-2011, growth in size of urban population – at 91 million – was more than that of rural population.





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## **Business Outlook & Stock Valuation –**

On a rough cut basis, in FY18, Topline will see a steady rise wherein Topline is expected to touch Rs 920 crs. On the bottomline level we expect the company to record a PAT of Rs 190 crs in FY18E. Thus on a conservative basis, HMVL should record a EPS of Rs 25 for FY18E. For FY19E and FY20E our expectation is that earnings traction for HMVL would continue to be robust wherein we expect a EPS of Rs 30 & Rs 34 respectively.

HMVL has a current market cap of Rs 1890 crs and it has a net cash kitty of Rs 848 crs which means the company is available at just Rs 1042 crs which looks attractive. The management is also planning to deploy the excess cash for acquisition, use it for expansion, return it to shareholders or a combination of these options.

In terms of peer comparison, DB corp, which also operates in vernacular/hindi print media and has similar margin and return ratios is trading at 15 times trailing P/E. As DB Corp covers wider geography and is bigger in scale than HMVL, it will command some premium over HMVL. Even if we assume that HMVL will trade at 25% discount to DB Corp, HMVL should trade around 11-12 P/E.

Currently the market is punishing HMVL because it is sitting on large cash pile without utilizing it. However given the respectable management pedigree of HMVL and the management reiterating its intention to deploy cash in due course should provide comfort to shareholders. The management has also indicated that HMVL has a threshold limit of "war chest" in mind which it wants to preserve for inorganic growth. However, once that threshold is reached, company shall redistribute additional cash to shareholders. In latest concall, management also gave hints that company is very near to the threshold cash limit. So, it is possible that we witness some action from management on that front which will act as catalyst towards bridging the valuation gap.

Hindustan' has the largest readership in key Hindi-speaking markets of Bihar and Jharkhand, with a strong and growing presence in Delhi NCR, Uttar Pradesh and Uttarakhand. It is published in 4 editions and 113 sub-editions and is printed at 17 locations in Uttar Pradesh, Bihar, Jharkhand, Uttarakhand, Punjab and Delhi NCR

In the past nine months, 'Hindustan' added 58 lakh readers to its readership base, of which 41 lakh readers were added in Uttar Pradesh. 'Hindustan' now has a 30% share of readership in Uttar Pradesh, with a total readership of 1.28 crs. It continues to maintain its dominant position in Bihar and Jharkhand with 83% and 73% share of total readers.

The gains across all markets clearly demonstrate the growing strength of Hindustan daily. With many of the newer editions yet to reflect in IRS, the growth momentum is likely to be sustained. Over the past three years, HMVL has made significant investments in Uttar Pradesh and has opened 5 new printing locations in Agra, Meerut, Allahabad, Kanpur and Bareilly to add to its existing printing facilities at Varanasi (on a franchisee basis) and Lucknow.

Q3FY18 witnessed overall revenue growth with advertising revenue picking up sharply towards the end of the period. The growth, however, comes over a base impacted by both an early festive season and demonetisation. HMVL continues to reap the benefits of company-wide cost rationalisation initiative, which will be visible in the expansion of its profit margins going forward. Realized restructuring continues to benefit across cost heads

With the teething issues around GST resolved, HMVL sees potential and a sharper growth in advertising revenue in the next financial year. Its focus on initiatives to augment market volumes, better cover price realization, persistent investment into copies in core markets, better monetization of copies through higher yield and continuous focus on cost management will lead to higher profitability going forward.

Hence we believe that the HMVL stock should be purchased at the current price for a price target of around Rs 330 over the next 12 to 15 months.

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**FINANCIALS**

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E
Net Sales	933.3	920.4	1025.1	1140
EBIDTA	205.5	220.2	256.2	283.2
EBIDTA %	22.02	23.92	24.99	24.84
Interest	16.1	10.00	10.00	10.00
Depreciation	20.2	21.00	24.00	28.00
Non Operational Other Income	92.00	87.00	95.00	96.00
Profit Before Tax	261.2	276.2	317.2	341.20
Profit After Tax	189.5	190.00	226.5	252.1
Diluted EPS (Rs)	25.82	25.89	30.86	34.35
Equity Capital	73.4	73.4	73.4	73.4
Reserves	1093.4	1283.4	1509.9	1762
Borrowings	117.00	90.00	90.00	90.00
GrossBlock	245.9	250.00	265.00	280.00
Investments	995.2	1195.00	1360.00	1610.00

Source Company our Estimates

**KEY CONCERNS**

Slowdown in Print Media spending by big sectors like FMCG, Retail and overall slowdown in economy can affect HMVL's financials

Sharp increase in raw material prices can also impact profitability of the company



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## **CONTACT DETAILS**

Mr. Avinash Gorakshakar (Research Head)	Tel.: 4033 4766,	Email: <a href="mailto:avinashg@joindre.com">avinashg@joindre.com</a>
Mr. Vikas Khandelwal (Research Sr. Executive)	Tel.: 4033 4900	Email: <a href="mailto:vikas@joindre.com">vikas@joindre.com</a>

## **COMPLIANCE TEAM**

Mr. A. P. Shukla (President & COF)	Tel.: 4033 4723	Email: <a href="mailto:shuklaap@joindre.com">shuklaap@joindre.com</a>
Mrs. Sujata Poojary (Sr. Executive )	Tel. : 4033 4567	Email: <a href="mailto:compliance@joindre.com">compliance@joindre.com</a>
Mrs. Nikita Shah (Sr. Executive)	Tel. : 4033 4567	Email: <a href="mailto:compliance@joindre.com">compliance@joindre.com</a>