



“Jagran Prakashan Q3 Financial Year 2015 Results
Conference Call”

February 02, 2015



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Moderator: Ladies and gentlemen, good day and welcome to Jagran Prakashan Limited Q3 FY 2015 Earnings Conference Call, hosted by ICICI Securities 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, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri of ICICI Securities. Thank you and over to you Sir!

Vikash Mantri: Good morning everybody. We at ICICI Securities pleased to host the Q3 FY 2015 conference call for Jagran Prakashan. As usual we have the entire management team of Jagran with us represented by Mr. Sanjay Gupta, CEO, Mr. Shailesh Gupta, Director, Marketing, R. K. Aggarwal, the CFO of the Business and Rahul Gupta and Apurva Purohit who Head the Radio Business. Over to you Sir for initial remarks!

R. K. Aggarwal: Good morning, thank you and a very Happy and Prosperous New Year.

We are pleased to present one of the best ever results in the recent past of the Company .

The company did record a robust performance on all important parameters. There was a growth of 8% in advertisement revenue in case of Dainik Jagran. There was improved per copy realization across all brands, besides increase in operating profit of 20%, increase in operating margins by 400 basis points, increase in net profit of 21%,(if we adjust it for higher tax and depreciations) and a very good performance of other publication brands.

We are also happy that a few policy decisions taken in the beginning or in the middle of the year have started showing the positive results and Q3 is the testimony to that. Yes overall growth in topline was low but it is neither worrying nor a concern. Lower topline growth is culmination of the decision of not chasing the unprofitable or potentially unprofitable growth in topline.



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Accordingly we did not go for private treaty/ property barter revenues, which increase the growth for the period in which these get recorded but this for the time being benefit gets reversed or gets marginalized when these properties or equity become unrealizable or fetch much lower values. We are not completely averse to these transactions, but we remain pretty conservative, cautious and choosy whether or not with this approach we succeed in this direction. We have also not gone for renewal of loss making contracts after expiry in case of outdoor advertising and for any medium or long-term government contracts in case of event activation business after we suffered hugely on account of non or delayed recoveries of our dues from government.

Besides these two important strategic decisions resulting in loss of revenue for the time being without any loss of profit, decision of discontinuing the supply of newspaper copy of some of the brands with negative per copy realization was also instrumental in reducing the overall topline growth; however, none of these decisions has had any adverse impact on profits and in fact these decisions only helped in reporting robust growth in operating profits and operating margins.

Having commented on the main reasons for reduced overall topline growth for the quarter, I would request you to take note of the growth in operating revenue of core business Dainik Jagran. Core business registered a growth of more than 8.5% in topline with growth of 8% in its advertisement revenues and nearly 10% growth in circulation revenues. This growth has been achieved despite continued subdued ad spend by the advertisers and high base of the previous year and therefore it is pretty commendable.

Mid-Day Brands performed outstandingly in this quarter reporting EBITDA of 20% for the first time since our acquisition. Yes, Maharashtra elections were helpful in their efforts in delivering robust performance but this was not all. They have demonstrated solid improvement in almost all areas of operation.

Another reason why low topline growth is not concern is that operating profit increased by over 20% and margins improved by 400 basis points as compared to Q3 FY 2014. In comparison with Q2 this growth is around 8% and increase in operating profit is around 25%. The improvement in profit in margins is attributed



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to good performance of core business and significant improvement in operating results of almost all publication brands. Thus, the overall performance in the quarter was more than satisfactory.

The subdued ad spend hurts smaller brands the most but these brands improved their operating results by increasing the cover prices and exercising control over cost. Moderation of newsprint prices and improved efficiency in consumption of material in particular helped in improving profits and margins but the saving on account of lower newsprint prices did not have much impact in the current quarter and has contribution of about 170 basis points in the improved margin.

As far as net profit is concerned, it is not comparable with the corresponding period of the previous year because in the previous year the company had lower tax rate due to benefit of accumulated losses of Nai Dunia and in the current quarter, there was an additional burden of depreciation on account of change in rate of depreciation under law.

The additional burden on account of these two is nearly 14 Crores on net profit and this is how I stated in the beginning that there is an increase of 21% in net profit. On QoQ basis, there is an increase of 18% in net profit.

Now, coming to Radio City, we have deposited the agreed enterprise value in interest bearing escrow account and they have applied for regulatory approval which is expected to be received shortly. The interest on the amount lying in escrow account belongs to the company as per the agreement.

We have been informed by the company that they had a growth of 38% in Q3 and around 34% in the period of nine-month in revenues. Operating profit was Rs.21.61 Crores for Q3 and 48.49 Crores for nine months, resulting an operating margin of nearly 37% and 31% respectively. Basis nine-months performance, the company is likely to deliver better results for whole of the year than the projections given to us at the time of negotiation of the transaction.

The government has already notified migration from second phase and third phase on expected lines and thus a material uncertainty has ended. They have already



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ties up borrowing for payment of migration fees at a very competitive rate due to support from JPL. Since the company is already generating adequate cash to meet the repayment obligations relating to the said borrowings which is long-term and has a moratorium of two years, we do not envisage any significant investment from JPL going forward.

Even after the proposed acquisition and resultant cash flow CRISIL has reaffirmed our long-term and short-term ratings at AA+ and A1+ respectively given the robust capital structure of your company and continued cash accrual. Even after payment of dividend and dividend tax aggregating to Rs.115 Crores and funding of the aforesaid escrow account, the gross external debt stands at Rs.520 Crores and net debt at only Rs.200 Crores odd as on date which is less than 0.25 of current net worth which implies comfortable financial position. .

As far as future is concerned, we are going to miss the targeted advertisement revenue due to continued lower than expected ad spends by the advertisers. However we are very much on track of achieving the targeted operating profit for the year. For the next year, it is not optimistic to assume growth of 25% to 30% in operating profit and still higher growth in net profit. Of course this expectation is after taking into consideration profit from radio business.

Given the satisfactory liquidity and continued accruals ,we expect to maintain our dividend payout. With these remarks we now invite you to discuss the results.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: Thanks. I had two questions firstly on the newsprint side, given the entire volatility in Russia and the European region as well as growth expectations in the US what is the outlook that we should be modeling in from a raw material cost perspective?

R. K. Aggarwal: Raw material prices should be down in this quarter that is Q4 further by at least 2%, 3%.

- Nitin Mohta:** Any longer-term in the sense next six months or so?
- R. K. Aggarwal:** Next six months or a year, it appears that the prices will remain stable.
- Nitin Mohta:** The second one was on your strategy to exit businesses which were not really profitable a twofold questions; one if the economic growth is actually really going to come back then from that perspective do you think it was prudent to cut loses now or some of those businesses like outdoor could they have given you a growth kicker if things improve?
- R. K. Aggarwal:** As far as outdoor and activation businesses are concerned, we are very clear that they will find it difficult to match the operating margin of the core business or any other print publication business. Clearly management is now focused only on growing these businesses profitably without going for any contracts which is even in short-term going to result in loss . For the take of long-term, we will not compromise with the present.
- Nitin Mohta:** Thanks and all the best for 2015.
- Moderator:** Thank you. Next question is from Srinivas Seshadri of CIMB. Please go ahead.
- Srinivas Seshadri:** Sir firstly a question on the ad revenue growth you did mention that obviously the numbers to reflect a slight moderation in the growth and even they had reflect that this on a full year basis you could be missing the initial targets can you talk about some of the geographies or the industry segments which were disappointing during this quarter and are expected to be under a bit of pressure?
- R. K. Aggarwal:** This year Bihar and Jharkhand again have started doing well and MPCG continues to be a concern as has been reflected in the result of our closest competitor as well. The market there still continues to be subdued from advertisement spend view point and both these markets depend heavily on government spend. Yes MPCG does not depend as much as Bihar, Jharkhand but still MPCG generate roughly about 35% revenue from government only. So these are specifics which I would like to highlight in strategic areas and in rest of the



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areas we are doing as the economy is doing so there is nothing special to be mentioned about any another area.

Srinivas Seshadri: Secondly Sir can you throw some light on the nine month performance of some of the smaller brands you have like I-Next Panjabi, Jagran City Plus how are they doing from topline growth and margins?

R. K. Aggarwal: Let me talk about I-next first. I-Next was in loss last year; they are very much in profit in the current year. Panjabi Jagran has reduced their operating losses very, very significantly and as I mentioned in my opening remarks both these brands were helped by taking increase in cover prices.

Srinivas Seshadri: Can you throw some light on the topline performance of these brands?

R. K. Aggarwal: Topline performance ;Panjabi has registered growth, which is more or less in line with the DJs growth but I-Next did not . I am talking about advertisement revenue but a little less, because as I mentioned in my opening remarks whenever you are in a phase when the economy is recovering the smaller brands suffer most. In fact people try to allocate the budget to the main brands first and then to the secondary brands and therefore once there is a pickup those brands will also start picking up.

Srinivas Seshadri: Sir just one last question if I may ask you have mentioned in the press release that you would be acquiring along with the MBPL another company called Crystal Sound and Music so can you just talk about what this company does and then secondly is there any significant purchase consideration associated with it and whether the crystal sound financials are also incorporated in the numbers which you have given in the presentation for the radio business?

R. K. Aggarwal: Two points I will clarify and rest Apurva will clarify. Whatever consideration has been decided has been decided keeping Crystal in view; so this was the package deal number one, number two yes the numbers reported are including Crystal business as well because that is very much integral part of the radio business. Apurva may clarify other points relating to the Crystal what they do and how it is relevant for Radio City.



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Apurva Purohit: Crystal is a subsidiary of same parent which does the activations for us; so any on-ground events where we sell on ground activities along with radio is what Crystal does.

Srinivas Seshadri: Thank you so much I will come back for more follow up questions.

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

Yogesh Kirve: Sir we have talked about the policy decision with regard to the focus on profitably so in this context what is our approach the smaller publications like Panjabi Jagran I-Next as well as the Jagran Josh so are we conservative on this publications or how is it?

R. K. Aggarwal: No we are not conservative so to say. What I mentioned is that all of them have improved their operating performance. There is no doubt about that. As far as Josh is concerned, that is an integral part of Jagran itself so we do not look at it completely independently. As far as Panjabi Jagran and I-Next are concerned, these two brands plus the brands of Mid-Day Info Media Limited have increased the cover prices and as a result the copies with low per copy realization or the copies with negative per copy realization got stopped because you never know whether they are going to readers or they are getting dumped. So that is what we have done. In no way we are trying to be conservative or we are trying to stop their growth.

Yogesh Kirve: Sir secondly our emerging market additions you have seen a small profit during this quarter so is this a sustainable turn on or what is the more seasonal in nature?

R. K. Aggarwal: Amongst these brands Mid-Day is one, which has given much better performance than it was expected. Yes they were helped by Maharashtra election but that is not something which was all. They have improved their performance in all areas. As I mentioned, they had negative per copy realization. They have completely stopped such kind of subscription schemes. So this is what also has helped them in improving their performance.



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So what I am saying is if cumulatively they have reported 7 Crores operating profit in Q3 it may not be sustainable in short-term i.e for two quarters or so but thereafter they will come back to this trajectory but I am not expecting them to report losses any longer and I am expecting them to report reasonably good operating profit for next couple of quarters as well.

Yogesh Kirve: Sir finally regarding the Dainik Jagran ad revenue growth so how is that state across the price and volume?

R. K. Aggarwal: It was essentially driven by the improvement in yield and optimum utilization of inventory which we have been driving for some time now in last couple of years.

Yogesh Kirve: That is all from me.

Moderator: Thank you. Our next question is from Dixit Doshi of White Stone Financial Advisor. Please go ahead.

Dixit Doshi: I have a question for Apurva regarding the radio business if you can explain that after the amendment to the copyright act in 2011-2012 what has changed at the ground level and how now the radio industry is paying the royalty fees to the phonographic society?

Apurva Purohit: As you are aware, there were two different bodies who were asking payments. One was PPL which was asking us for a payment on the music labels and the other was IPRS .We finally won at the Copyright Board that has ordered that we pay 2% of our revenue to the bodies. Now added to that there was yet another order that MBPL specifically got in its favor that IPRS is not entitled to collect any money from radio station because we are not giving live performances but we are playing recorded music. We have been paying @2% . So there are really no implications. We have to wait for the copyright board to be formed for any further issues that may come up at any point in time to be tackled.

Dixit Doshi: So basically what I understand is now you pay the 2% of the revenue like 2% of the ad revenue you paid to PPL only not to the ICRS. So basically you are saying that only at the ground level even after the copyright amendment ground level at

the only the music companies are getting the royalty and not the lyricist or the music company?

Apurva Purohit: That is right. The understanding is that we are playing music labels who own complete right of the music that we play and in turn if they have any thing that they need to pay to the lyricist and the singer etc., that is within label fees . I will just add one more point here that T-series is not a part of this because they manage to get an order in Delhi High Court which went in their favor saying that they were not party to the original case that was being fought. They are outside the purview of this.

Dixit Doshi: So on a loner-term horizon even after the Copyright Board gets incorporated and the lyricist also get the share which the amendments is that all the party should get the equal royalty in that case also we will not have to pay the higher royalty the royalty which the lyricist will get they will get from the music label company.

Apurva Purohit: From the 2% ;that is right.

R. K. Aggarwal: Here the point which I want to make further is that MBPL that is Radio City, as Apurva has mentioned , stands at an advantageous position as compared to other operators because they have got a very specific order from Bombay High Court (which has not been challenged by IPRS) in their favor.

Dixit Doshi: Just one more question, you said the 2% of the ad revenue is it like in a 24 hour if you have your own content for 5 – 6 hours and for 15 – 16 hours you were putting a song so for 15 hours about your revenue of the ad revenue the 2% of that or for the entire full ad revenue?

Apurva Purohit: No it is in proportion but not in the formula that you are discussing. So there is net revenue on which it is payable and let us say we play out 40% or 50% of PPL so 2% goes on ad revenue in that proportion.

Dixit Doshi: You do not have agreement only with the PPL you deal with the individuals also?



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Apurva Purohit: No we pay only PPL or if we are playing in south only 40% PPL and 60% from other south Indian music labels that is 60% of the 2% goes to that south Indian and 40% of the 2% goes to PPL

Dixit Doshi: How has been the ad revenue on the radio industry side and what will be our current realizations for 10 seconds?

Apurva Purohit: Ad revenue in the sense you are talking about the growth?

Dixit Doshi: Yes how has been the last nine months?

Apurva Purohit: In nine months I think that for the overall industry if you look at the volume growth the volume growth has been around 11% and we estimate that the revenue growth would be in the region of around 14%. As far as Radio City is concerned, we have shown a volume growth of 26% so more than double that of the rest of the industry and certainly more than Mirchi. Mirchi's volume growth has been 10% at YTD level. As far as the realization is concerned if I am talking about the individual radio stations our average ER is around Rs.300 which is a 9% growth overall last year and total ER of around Rs.5000.

Dixit Doshi: Thank you Madam.

Moderator: Thank you. Our next question is from Rohit Gala of Insync Capital. Please go ahead.

Rohit Gala: Sir question on Radio City how are you saying this migration fee what is the renewal of our phase three coming in what could be the fee what we need to pay and what would be the frequency onto the multiple frequency what would be our strategy of operating since we have the presence now in Mumbai?

Apurva Purohit: To answer your first question for migration we have calculated basis the TRAI formula that has been given and approved we will be having to pay for our radio station migration approximately 200 Crores so that is migration fee to move to a 15 year license period as phase three starts from April 1, 2015. As far as the



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multiple frequency strategy is concerned, we have done a detailed analysis of the market and we looked at different parameter for evaluating the potential of every market and while certainly Mumbai and Delhi are very, very attractive markets and even now they contribute significantly to the advertising revenue of the industry, we believe that the money that we will require to buy a new frequency in Mumbai/ Delhi will be good to get 10- 11 stations . We also believe that these 10, 11 stations have a far greater potential to grow over a period of time . Radio City strategy for the last ten years has been based on a lot of prudence of selecting the right markets and paying the right license fee for those markets so that we become profitable earlier than most of the other competitors have been. So we will continue to stick to that and expand our footprint to other key markets where we get our advertisement and audiences and will not take multiple sequences which will be too expensive.

Rohit Gala: Sir just second question onto our core business Dainik Jagran can you just give us the breakup onto the value and yield volume?

R. K. Aggarwal: As I mentioned in response to another question the entire growth has come from improvement in yield and optimum utilization of ad inventory.

Rohit Gala: Sir what would be your guidance onto the advertising growth going ahead.

R. K. Aggarwal: Every one of us has gone on wrong side . I would not like to make any prediction at this juncture. Let the Q4 pass and then we will talk about advertisement revenue growth expectation because unless and until ad spend picks up which we thought in the beginning of the year or maybe three, four months earlier, it has not happened so far. We completely realize that after economy recovers there is a time lag between recovery of economy and the increase in ad spend. Let us see how the economy behaves and then we will be able to make prediction about the revenue growth for the next year.

Rohit Gala: Thanks all the best.

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

Srinivas Seshadri: Just one question in terms of on the MBPL business funding in terms of the buyout and the migration can you just throw some light on how much fresh debt is being raised and what is the ticket fee the interest rate one has to take for such fresh debt?

R. K. Aggarwal: I mentioned in my opening remarks that at group level, we have net debt of about 200 Crores as on date and for JPL the average cost of borrowing is less than 9% For migration MBPL is raising debt on their own and because of support from JPL their cost of borrowing will also be between 9% to 10%.

Srinivas Seshadri: Sir for the purchase is it more of a liquidation on the cash we had or again we are raising some debt?

R. K. Aggarwal: Yes, we have not raised any debt.

Srinivas Seshadri: So we have liquid to use in our treasury investments for it?

R. K. Aggarwal: We have used our treasury funds.

Srinivas Seshadri: So the only at a gross debt level the only incremental is what MBPL is raising?

R. K. Aggarwal: No, at gross debt level since we had invested a huge amount in FMP and I could not have encashed them because of tax implication so we raised debt against those FMPs. So gross debt has increased but net debt is around 200 Crores only.

Srinivas Seshadri: So that debt is also at around 9% interest you are saying?

R. K. Aggarwal: Yes.

Srinivas Seshadri: Thank you.

Moderator: Thank you. Our next question is from Nirav Dalal of SBICap Securities. Please go ahead.

Nirav Dalal: Sir if you could give the circulation numbers and the newsprint consumption for the quarter.



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- R. K. Aggarwal:** Circulation number of Dainik Jagran?
- Nirav Dalal:** Yes.
- R. K. Aggarwal:** There is a growth of nearly 4% as compared to Q3 of the last year.
- Nirav Dalal:** If you could just give a number please?
- R. K. Aggarwal:** That is about 3.8 million.
- Nirav Dalal:** In terms of Nai Dunia?
- R. K. Aggarwal:** We would not like to divulge the exact numbers as of now , this being an expanding brand.
- Nirav Dalal:** In terms of newsprint consumption for the quarter?
- R. K. Aggarwal:** The newsprint I do not have readily available -----approximately 42000.
- Nirav Dalal:** The average cost?
- R. K. Aggarwal:** Average cost was about 34000 tonnes.
- Nirav Dalal:** Sir and how do you see UP as a market improving in terms of ad growth to how do you see that market?
- R. K. Aggarwal:** UP has given a decent growth even in Q3 and I expect UP to do still better seeing the development work which have commenced in the state .
- Nirav Dalal:** You had spoken about the regional what about which industry have grown in terms of ad and which have been?
- R. K. Aggarwal:** Can you speak a bit loudly?
- Nirav Dalal:** Which industries have contributed to the growth this quarter and which have not in the quarter in terms of real estate and etc.?



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R. K. Aggarwal: The spread is so much .In certain territories real estate has not done well but in other territories they have done well, automobile is one which is doing very well, FMCG is another which is doing very well. Government spend has started coming back.

Nirav Dalal: Thank you.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to the management for closing comments.

R. K. Aggarwal: Thank you very much for sparing your valuable time and we assure you good days ahead. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.