



DB Corp Limited

Investor/Analyst Conference Call Transcript

October 18, 2013

Moderator Ladies and gentlemen good day and welcome to the DB Corp Limited Q2 & H1 FY14 Earnings Conference Call. As a reminder all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Malini Roy from CDR India. Thank you and over to you.

Malini Roy Good afternoon everyone. Welcome to the Q2 & H1 FY14 Conference Call of DB Corp Ltd. We will be sharing the key operating and financial highlights for the 2nd Quarter and half year ended September 30th, 2013. We have with us today the senior management team of DB Corp Ltd, Mr. Pawan Agarwal – Deputy Managing Director; Mr. Girish Agarwal – Non-Executive Director; Mr.PG Mishra – Group CFO; Mr. Rakesh Goswami – DGM-Finance & Accounts and Mr. Prasoon Pandey – Head Investor & Media Relations.

Before we begin I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been e-mailed to you. I now invite Mr. Pawan Agarwal to share his outlook on DB Corps performance for this quarter, over to you Mr. Agarwal.

Pawan Agarwal Good afternoon everybody and welcome to DBCL's Q2 & H1 FY14 Earnings Conference Call. I would like to share some key highlights of our financial and operating performance for this final quarter following which we will be happy to respond to your queries.

We are very glad to report yet another quarter of strong performance which is a testament to a growth and execution strategy that has enabled us to maintain a brand equity and leadership position in all our major markets. To ensure that as an organization we accelerate our progress on all fronts, we persistently analyze and review our three prong expansion strategy driving a leadership dominance that centers on innovation and continuous product enrichment, market development to expand our leadership base by growing our market share and achieving excellence in internal efficiencies through stringent cost control measures across all our businesses. This approach has been the key to this quarterly performance as well. We had made noteworthy progress in emerging editions particularly in Maharashtra where we have been aggressively driving in market execution and now it is the Amravati edition of Divya Marathi bringing our presence to 7 editions in the state and 66 editions across India. We also recently celebrated the second anniversary of Divya Marathi, Jalgaon edition which has been demonstrating strong growth and making deeper connect with its readers. We continue to maintain a very vigilant and watchful approach meticulously studying the environment to capitalize on growth opportunities. We also look forward to another exciting and challenging launch of Dainik Bhaskar Patna edition which is on the anvil for this fiscal. Our

digital platforms too have been reporting consistent growth driven by strong viewer engagement strategies. We have maintained our leadership position as the largest read newspaper of urban India since the last three years and have substantially increased our lead over the number two player. We continue to boost our presence in legacy markets of Madhya Pradesh, Chhattisgarh, Chandigarh, Haryana, Punjab, Urban Rajasthan and in key markets of Gujarat. Over the quarter we celebrated DB Corp's historical success of a glorious journey of 55 years in Bhopal, 45 years in Gwalior, 11 years in Ujjain along with the associates and partners. In Jharkhand, Dainik Bhaskar continues to make excellent progress in major cities of Ranchi, in Jamshedpur and Dhanbad where Bhaskar is a formidable number two player and affluent class leadership profile and we are aggressively ramping up our executional strengths to close the gap. We also celebrated Dainik Bhaskar third anniversary in Ranchi.

Our financial performance for the quarter and half year ended September 30th, 2013 is as follows. Our consolidated total revenues for H1 FY14 stands at Rs.8,958 million registering a growth of 17% on YoY basis. Our Ad revenues for the period stands at Rs. 6,744 million, expanded by 19% YoY and consolidated EBITDA stood at Rs. 2489 million with margins of 28% and a growth of 44% on YoY basis. Excluding FOREX gain/loss in comparative quarter EBITDA growth is 47% from Rs. 1,746 million to Rs. 2,563 million. DBCLs consolidated PAT for H1 FY14 stood at Rs. 1,363 million with margins of 15% and YoY growth of 48%. Excluding FOREX gain /loss in comparative quarter, PAT growth is 68% YoY from Rs. 890 million to Rs. 1,457 million. Our consolidated total revenues for Q2 FY14 stood at Rs.4,418 million compared to Rs.3,823 million in Q2 FY13 reflecting a growth of 16% on YoY basis. Our advertising revenues came in at Rs.3,297 million reflecting a growth of 17% on YoY basis against Rs. 2,826 million of Q2 last year. DBCLs EBITDA margins stood at 25.3% and we reported EBITDA of Rs. 1,116 million, the same factor of one-time preoperative expenses of Rs.20 million for Akola Amravati launches in Maharashtra and impending launch of Patna and Bihar and FOREX loss of Rs.47.63 million. Excluding the FOREX gain/ loss in comparative quarters our EBITDA has shown a robust growth of 36.4% on YoY basis from Rs.853 million to Rs.1,163 million. Net profit for the quarter increased to Rs.602 million and net profit margins came in at 14%. The same factors of one-time preoperative expenses of Rs.20 million for Amravati and Akola launches in Maharashtra and impending launch of Patna in Bihar and FOREX loss of Rs.57.12 million. Our PAT for the quarter under review excluding FOREX gain/ loss has reported a significant growth of 50% on YOY basis from Rs. 439 million to Rs. 659 million.

DBCL's radio business continues to report strong growth within the overall radio industry. Advertising revenues came in at Rs.175 million as against Rs.154 million in the same period last year depicting a growth of 14%. EBITDA margin stood at 32% with EBITDA of Rs. 56 million. We are closely studying the operating environment particularly in Tier 2 and Tier 3 cities and non-metro markets and pursuant to this we are constantly engaging in discussions with market players to gauge reactions and sentiments. We recently conceptualized and designed a unique initiative themed "Unmetro" - the market driving India, an exciting one-day conclave organized in Mumbai and Delhi that brought together over 300 professionals within the media sphere to debate and analyse the potential of non-metro markets and their way forward. Our performance continues to validate all strategic endeavors undertaken over the last few years towards strengthening our business fundamentals developing an innovation lead, differentiated product, forging stronger relationships with our corporate partners and enhancing organizational efficiencies all of which are directed to ensure long-term value creation. In the context of a variable economic operating environment it has been a constant emphasis on operations that has guided us to consistently report healthy growth. We believe that the GDP growth seems to have bottomed out and in light of various steps taken to favor execution strength, DBCL continues to be well placed to capitalize on the consumption potential of the Tier 2 and Tier 3 cities as we look towards positive domestic sentiments. My colleagues and I will now be happy to respond to questions, we look forward to continuing our interaction and



please do contact our investor relations department headed by Mr. Prasoon Pandey for all further requests and queries.

- Moderator** Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. Our first question is from Nitin Mohta of Macquarie Capital.
- Nitin Mohta** My first question is on advertising revenues. We have seen strong numbers as compared to where the GDP growth is, but just wanted your thoughts in terms of how we are looking in the second half especially that we have all the festivals bunched up in the 3rd Quarter and also in couple of states where you operate which are heading into elections. My second question is on the newsprint prices. They seem to have continued to escalate, especially, if I were to look at a longer term, three year trajectory. So just wanted to have your thoughts on those two.
- Girish Agarwaal** First of all, what we have seen of Q3 in the last one and half month, the number seems to still be in good double-digits so far. Now, we really cannot predict exactly how the Diwali week and the period hence will be. As I told you last time as well, we are living week by week in terms of number performance in the market. So, we have been able to achieve a 17% growth in our Q2 and we are hoping that through the effort our team is putting in the market, we should be able to grow at a similar number in Q3 going forward too. On the newsprint prices, there has been a growth of 5% if I compare the last year quarter to this year's quarter and if I compare the last whole year to this H1 which is six months, there has been a 3.5% growth. The current trend that we are seeing in terms of the newsprint prices is that the prices are increasing. So, we may estimate that the Q3 number will be higher in terms of newsprint prices compared to the Q2.
- Nitin Mohta** To follow up on that, given the escalation in newsprint prices, are we looking at reduced pagination or given the fact that the festive season is round the corner, are we looking at increasing the price for the newsprint for the newspapers?
- Girish Agarwaal** I would like to mention to you that our ad growth is actually coming from both volume and yield. So, out of the growth which we have received, there is an equal amount of yield growth and an equal amount of volume growth and in turn, pagination growth. For example in the Q2 this year there is a slight pagination growth compared to the Q2 of the last year. Let's see how it goes in Q3 because during last year's Q3 too, there was a higher pagination. So from that Q3 to this Q3, how high will the higher pagination be? We really do not know, as of now. We are doing certain things to control the consumption of newsprint at our end. For example, reducing the page width, reducing the size of the magazines etc. So, we are doing whatever we can do to curtail that but as of now to comment on that will not be possible. We have also increased the cover price in most of our markets. So, if you were to see our circulation revenue, it has also gone up by 14% in this quarter and a large chunk of that has come because our net realisation on the cover price has gone up. The same is almost roughly to the tune of around 10%, which we have received as an increase in the cover price in those markets.
- Moderator** Next Question is from Srinivas Seshadri of CIMB. Please go ahead.
- Srinivas Seshadri** I'm trying to get some more color on the Patna launch. So, what kind of operating headwinds we will face in terms of profitability in the first year. If you can at least give some guidance and the broad elements for the same, it will be very helpful.
- Girish Agarwaal** We are planning to launch the Patna Edition by the 4th Quarter of this financial year and we are launching only in Patna city, as we mentioned last time. We are not looking at Bihar overall as a market because we feel that whatever potential there is in Bihar, a large chunk of it lies in Patna. So, we are focusing on Patna only. In Patna, our CAPEX is pretty controlled. So, we are talking about a CAPEX of around Rs. 20 crore in Patna and overall the ground activity response we see is

pretty encouraging. So, our estimation for next year in terms of the preoperative expenses and the operating losses are in line with the earlier launches that we have done and the experience in Patna, we estimate should be much better than what we have seen in the other markets.

- Srinivas Seshadri** Is the optimism coming more from the point of view that the advertisers are being receptive to your launch or is it coming from a very rational cover price being set? Just wanted to get some more color on that.
- Girish Agarwaal** You will appreciate that giving out this information right now will help my competition. So, I will not be able to add any color to any information, at this stage.
- Srinivas Seshadri** You gave a CAPEX number. Is there any operative loss number or something that you have as a target for in the first year?
- Girish Agarwaal** As I told you, I would not be able to share this particular information but what I can tell you is that the launches that we are doing in Patna are being done in a similarly controlled manner in which we have launched in Maharashtra and other markets. So, it will be within that range itself.
- Srinivas Seshadri** My second question is again on the ad revenue growth expectation. If I look at your performance in FY12, we started seeing a great yield improvement starting in the 3rd Quarter. So that will probably provide for a slightly stiffer base in terms of growth in the second half. So, are we confident to sustain this very high growth number despite that base effect and if yes then is the confidence coming from improvement in the environment or the election driven spend or any of the proactive actions? Just wanted a little more color on that.
- Girish Agarwaal** It is a mix of all. There is an advantage which we see because of election in our markets. There is a higher spend by the government towards the consumers. So, there is an increase in the consumerisation in those markets for a while. So that is another advantage. As I told you earlier, whatever growth we have received this year and this quarter i.e.17% during the latter, large portion has come because of the yield growth. So I think considering all of this, we are very confident that we should be able to do a pretty good job in the Q3 too.
- Moderator** Our next question is from Bharti Sawant of Mirae Asset.
- Bharti Sawant** I just wanted to understand if we have seen any kind of benefit on the print side or any modest shift from the TV to the print media, as a result of the recent ad cap on the broadcasters?
- Girish Agarwaal** Unfortunately, I do not think that has happened so far. So once that gets implemented, only then we will be in a position to comment. But whatever indications we have received from the industry have been positive for the print media.
- Bharti Sawant** And which all sectors do you see would be shifting their focus towards the print media?
- Girish Agarwaal** There was a just a general discussion of various factors with nothing specific being discussed. Until it happens and we experience it, we really cannot comment.
- Bharti Sawant** Can you share your ad mix in terms of national and retail?
- Girish Agarwaal** We are currently at 68% and 32%, at local and national levels respectively.
- Bharti Sawant** Can you just give us the sector-wise ad breakup in terms of contribution from FMCG, auto and telecom?

Girish Agarwaal If you were to look at the numbers, I think the biggest contributor for this quarter has been the government category because of the elections and the various schemes rolled out by the government. So, that has become the biggest contributor followed by automobile, education, real estate, lifestyle and the response categories.

Bharti Sawant Can you give a percentage, a ballpark number as in what was the kind of contribution?

Girish Agarwaal Government, education, automobile and real estate contributions are in double digits and the rest are in single digits.

Moderator The next question is from Yogesh Kirve of Anand Rathi.

Yogesh Kirve With regard to the ad revenue growth of over 17%, I understand this quarter was impacted by the sharad period which fell during the 2nd Quarter versus the 3rd Quarter in the last year. So, just wanted to get some light as to what was the ad revenue growth for the period excluding the shrad period?

Girish Agarwaal Frankly speaking, we do not share that data in public domain because that is more of an internal sales target but what we can say is that overall if we were to package the whole month of September, I think we were able to achieve other numbers almost at par with the ones achieved last year.

Yogesh Kirve So are you saying that our revenues were up even in September?

Girish Agarwaal Yes.

Yogesh Kirve My second question is on the CAPEX plan. Can you give us any sort of indication as to what should be our overall CAPEX in the year FY13 and in the subsequent years?

Girish Agarwaal Apart from Patna, our normal maintenance CAPEX is in the range of around Rs.25 crore. So, since this year there will be a launch in Patna happening as well, so it will be around Rs.45 crore with everything put together. Say Rs.50 crore as a ballpark number.

Yogesh Kirve Lastly, the raw material costs increased by about 6% quarter-on-quarter. Given the kind of currency depreciation we have seen, we were expecting a slightly higher growth in the raw material cost. So, is that because of the inventory that we are carrying which may be purchased at a higher cost and should that reflect in the 3rd quarter financials?

Girish Agarwaal No, there is no impact because of the inventory because there is no large inventory that we have maintained. If you were to look at the overall newsprint costs, there is an impact because of three things, one of them is the newsprint price per se, the other is the increase in number of pagination which increases my consumption and lastly due to the print order. As you'd notice, we have launched in Akola and Amravati along with an increase in circulation in couple of markets. For instance, we increased the number of copies in Madhya Pradesh and Chhattisgarh as well as in Gujarat. So, there has been some growth in that as well. For example, if you were to look at the numbers during this quarter last year, my circulation was 46.58 lakh copies and while this year it is at 48.50 lakh copies, there has been a straightaway growth of almost 4% in the PO itself and if you look at the average pagination which was 21.13 during the last year's quarter and in this year's quarter it is at 21.81. So, there is a 3% growth in terms of pagination too. So all put together, there has been an impact of almost 13% on the overall newsprint costs on us, in this quarter.

Moderator On next question is from Abneesh Roy of Edelweiss Securities.

Abneesh Roy You gave some insights about FMCG. Has the growth in FMCG slowed down, because in Q1 you had a strong double-digit growth at around 18%, while you did not mention FMCG in the sectors which have done double-digit growth in this quarter? So, has that grown in single digits in Q2?

Girish Agarwaal Actually, the question that the lady asked me earlier was that out of my Rs. 100 billing, what percentage is contributed by each category? So, FMCG contributed in single digits but in terms of growth I'm happy to share with you that FMCG and healthcare put together have a growth trajectory of almost 50%.

Abneesh Roy So am I correct to assume that it has picked up versus the first quarter?

Girish Agarwaal Yes.

Abneesh Roy What would you attribute that to because for one quarter that is a very sharp movement?

Girish Agarwaal I believe my team is really working hard.

Abneesh Roy Secondly in terms of cover price, we have managed a very healthy increase. So is the competition in those markets also taking similar hikes? How is the consumer psyche everywhere in print in these inflationary times? How are the consumers reacting to these hikes and how are you managing the same?

Girish Agarwaal Fortunately, in whichever market we have increased the cover price we have not seen any decline in circulation. I think that has been a very positive thing and credit for that goes to my editorial team straight away because the kind of content we have been able to create, due to which the reader is really hooked on to our product. So, wherever we have taken a cover price increase, some of the competition has also followed the path.

Abneesh Roy But if everyone is not hiking the price, are you saying that you are not seeing any shift from your paper to the non-price hike papers?

Girish Agarwaal Generally, if a market leader increases the cover price first, then the number two or number three publications watch the market for almost 15 days to a month. When they see that there is nothing happening in the market, it is better to increase the cover price. So, they follow the suit.

Abneesh Roy You said that the Patna launches will be restricted to the city. So, are there any learning's from Jharkhand because these two markets are close to each other and in fact were part of the same state earlier. So, is there any learning that has led to a more restricted launch in the market? Obviously, this is a bigger market and players will fight it out more seriously. Is that the reason for going for a more sedate launch?

Girish Agarwaal In our Jharkhand experience, we realized that the way we expected Jharkhand market to grow, it did not happen unfortunately because of the political instability in that market. The market per se is not growing the way we are expecting in the last 3 to 4 years' time. In case of Patna, we realized that rather than looking at Bihar as the overall market, we should look at the market which is the most paying and concentrated market. So we realized in case of Bihar, the advantage Patna offers is not offered by Ranchi in Jharkhand. In case of Jharkhand, the business is not centralized in Ranchi but in case of Bihar, a large portion of business is centralized in Patna. So, that is the reason we are starting with Patna. We plan to get the numbers right over there, gain the required strength and then we will look at other markets going forward.

- Abneesh Roy** Coming back to the advertising scenarios, you said economy seems to have bottomed out this time. Monsoon has been good on a national basis. So, has there been a sharp positive impact in your specific states of operation in the past when monsoons have been good? What kind of lag have you seen from an advertising revenue perspective? Also, if may be you could give some correlation along with the circulation revenue in such a scenario?
- Girish Agarwaal** Monsoon has no impact on the circulation revenue or the circulation, as such. But looking at the advertising, since our economy is still largely governed by the monsoon, the season has still been very good for the market. However, since in few markets monsoon has prolonged, the soya bean crop especially got affected in those markets. Having said that, I think there has overall been a positivity of monsoon and we're going to see the result in this month and next month because of that.
- Abneesh Roy** But when you are saying that economies have bottomed out, are you considering that as one of the drivers?
- Girish Agarwaal** We are going by the indication that we are receiving from the government and the statement being made by various authorities, that they feel that the worst is kind of over. So, because of that we are hoping that it is over and the things should only look better going forward.
- Abneesh Roy** My last question is on the competitive intensity in Madhya Pradesh market. Can you comment on the UP base players coming there and expanding? Similarly, can you comment on the Bennett Coleman strategy of expanding in some of the UP markets? Is that a long-term threat for you?
- Girish Agarwaal** Let me start with Madhya Pradesh. I'm happy to share with you that in the last 12 to 18 months' time, we have increased almost 50,00-60,000 copies there in spite of a price hike which means that the cover price has been increased there in most of the markets and yet we have been able to increase the number of copies. So, that clearly indicates that the market is very much under control because if you look at the readership numbers, the nearest competition is not even half of ours. So, that clearly indicates that in spite of various multiple competitions in the state of Madhya Pradesh we have been able to drive the numbers over there. At the same time, on the other markets and other competition, fortunately in whichever market we have been operating we have multiple competitions and we have posed competition to various players in those markets. We do not shy away from competition and in fact, we feel that competition helps improve the market. So, I think how competition reacts and how we react, depends on how well it actually happens.
- Abneesh Roy** One last follow up on advertising front. The latest technology in terms of geo-targeted ads on TV, of course, is currently in infancy. But can it be a long-term risk from a 2 to 3 year perspective, because of the fact that geo-targeted advertising will come on TV and the local flavor, local appeal of print etc. which is there for advertisers, will no longer exist?
- Pawan Agarwal** Bulk of our business i.e. 68% is local, so geo-targeting will first have to be monitored in Delhi, Mumbai, Bangalore, Chennai and Calcutta because this is where the geo targeting will first happen and we are yet to see as to how the whole environment performs in these markets. So, I do not see that as a threat at all, going forward.
- Moderator** We will move to the next question that is from Dhireesh Pathak from Goldman Sachs.
- Dhireesh Pathak** Can you share the number for the print ad market in Bihar and how much is the contribution of Patna towards that?

- Girish Agarwaal** Out of the total print market in Bihar, I think almost 55% is out of Patna for simple reason because government is one of the larger contributors of advertising in Bihar and that is centralized out of Patna. That is one of the reasons for that. The exact print market depends on the various categories. So, there are two ways of looking at the market, one is looking at the state overall and one is looking at the city. Overall, Bihar estimation number is Rs.400 crore, of which Patna contributes Rs.200 crore which constitutes the government portion and other segments. So, we are yet to understand as to how much from there can we look at the local market as such.
- Dhireesh Pathak** Within Patna what would be the size of local versus national mix? Like overall, your peer companies have said it is at about 70:30, as of now.
- Girish Agarwaal** For the other publications, number may not be 70:30. The number may be different, so we really cannot give you the exact breakup because we do not have that breakup available with us.
- Moderator** Next question Is from Amit Kumar of Kotak Securities.
- Amit Kumar** My first question pertains to the breakdown of financial into emerging and mature editions because there is a shift from emerging, few editions always keep moving from emerging to mature. It does not give us a complete picture but it looks like over the last three quarters, the revenues in emerging edition seem to be static at around Rs.37 to 30 crore number, when we would have expected QoQ increase especially with Jharkhand and few edition in Maharashtra maturing. We would have seen an increasing trend out there. So, could you just comment on how are the two markets doing on a YoY basis in terms of ad growth, circulation growth, etc.?
- Girish Agarwaal** The overall growth in terms of print is 17%. The growth in case of Maharashtra has been to the tune of almost 28%. So, you can understand that the growth is larger in the emerging markets as their base is smaller. Now as you said the overall top-line remains there, but the edition that matures keeps moving out of the emerging market segment. For example, if a particular market at X revenue moves out that revenue goes away but the growth of those left out markets within the emerging markets fill up that void. So that is the reason you may be seeing the stagnation in the top-line numbers.
- Amit Kumar** Forgetting the spillover editions in legacy markets, has any edition in Jharkhand and Maharashtra achieved breakeven and moved into the mature category as yet?
- Girish Agarwaal** Maharashtra is just a two-year-old market for us and Jharkhand is almost 3 years old in terms of our market presence. So, we still have more time for them to mature. We are hoping that Ranchi and Jamshedpur in Jharkhand will become the first one to move to the mature category.
- Amit Kumar** And when is that expected to happen broadly?
- Girish Agarwaal** Hopefully, in another 12 months' time.
- Amit Kumar** My second question was that since you have been looking at this market for a very long time, how much does a good monsoon really impact consumption in a rural market? What kind of a pickup do you expect to see in terms of advertising spends at the back of that and what is the share of rural in your total advertising revenues at a company level? If you could just add some color on that?
- Girish Agarwaal** Agriculture does not affect only the rural markets. Agriculture affects the overall economy. If the crop is good, the farmer makes money. The middleman makes money because the crop is not sold in one stage or two stages, but in multiple stages. So, people make money at every level. We can see the impact of monsoon

on various categories. For example, automobile, (two-wheelers in the upper end), real estate to some extent get impacted directly. So, there are categories that have a direct correlation with the good monsoon. Like recently, we did a camp for real estate projects in Chhattisgarh and in Bhopal and the response was amazing just because of the good monsoon the assumption was that a lot of people are booking going forward. So, there is a direct impact on the number straightaway due to the good monsoon.

Amit Kumar

So will it be difficult to sort of categorize?

Girish Agarwaal

I will tell you why. For example, if the real estate category is doing good because of the monsoons and suddenly the bank starts deciding to increase the rate by 1% then the whole feeling or the excitement goes down or it is the other way when bank provides support and reduces the rates by 50 basis points and then suddenly the market is much better because of that.

Amit Kumar

So are there multiple variables that actually act?

Girish Agarwaal

There are multiple variables going around.

Amit Kumar

Specific to the Patna launch, I'm just trying to understand in the last few months our advertising strategy at a company level has been essentially unbundling instead of selling all the states together and selling the network together. We have been trying to sell specific areas together. Now, Jharkhand and Maharashtra are probably at that stage where you have some bit of scale also available but if you go only in Patna in Bihar how does the advertising sales really happen at the national level? Local level anyway will be taken care of by the local team. How do you manage the somewhat change in strategy that we have seen on the national advertising sales side with what we are doing in Bihar?

Pawan Agarwaal

In a new launch, a really large chunk of revenue comes from the local advertising and not from national advertisers. Let me tell you that about 90% of revenues come from local ads in a first year and only 10% comes from the national advertisers and that 90% lays the foundation for expanding the national revenues because the moment the dealers, the moment the local clients, the agencies start buying the product, seeing the response it starts travelling to the national market and that is how our strategy has been.

Amit Kumar

My point is that would you have a sort of separate sales team specifically for Patna at the national level or would you sort of look at Bihar plus Jharkhand? I am just struggling to understand that within your new national sales strategy of unbundling, how will Patna sort of fit into that?

Girish Agarwaal

To provide support to the Patna market initially, we will club our partner with the strongest team of ours. So, for example I will attach the partner to one of my strongest markets and I will tell the advertiser if you want to buy this market with me support me in Patna and I will support you in the other market.

Moderator

Our next question is from Vikas Mantri of ICICI Securities.

Vikas Mantri

What was the ad for equity booked for the quarter? And could you provide some details about the jewellery deal? Secondly, how much has been the increase in political cum government spend in this quarter and how much is it expected to continue?

Girish Agarwaal

To answer your first question, in this quarter we have booked Rs. 82 lakh in revenue for the ad equity deals. As for the government spend, there has been a huge growth in that category because MP, Chhattisgarh and Rajasthan are in the election mode so there is a lot of government spending in terms of popularizing



their schemes, letting people know what all good the government has done etc. So, that number is pretty higher in those markets.

- Vikash Mantri** So, will this be a one-off? Can you quantify the same for us so that we do not go and over build it?
- Girish Agarwaal** Frankly speaking, whatever number that has been achieved in this quarter, in the next quarter those numbers will be practically come down to half, albeit not zero because the election is actually in the month of November and there will be victory ads of the political parties that will appear. So, the Q3 numbers will also be on the higher side. On the Q4, the numbers will be practically zero but during that point of time maybe the advertising for the national elections that are taking place in May may start. So, we're hoping that that will be the additional benefit coming that point of time.
- Vikash Mantri** So now coming to Bihar, if my memory serves right, readership in Patna contributes to just 10% of the overall Bihar state readership and you told that advertising is 55% contributed from Bihar. So, do advertisers really value a Patna reader 11 times more than non-Patna city readers? Is that the kind of variation that you see in Bihar?
- Girish Agarwaal** Let me answer your question a bit more technically. I do not have the exact Patna number with me, but supposing the overall readership of a particular market say is 50 lakhs out of that almost 55%- 60% is rural advertising that advertiser does not count in so we have to straight away knock that off. Then you are left with 23-24 lakh readers, out of that you have to see where is the SEC-A (Socio Economic Class A) reader sitting. In case for example, out of the total readership of Bhaskar in Madhya Pradesh for example which is 38 lakhs readers, we have only have 6 lakh readers sitting in Indore. If you look at Rajasthan where I have almost 63 lakh readers, there are around 11 lakh of them sitting in Jaipur. But that is a market that contributes the largest in terms of revenue because advertiser is not looking at the rural market at all and then it looks at the SEC-A which generally sits in the main cities. Also furthermore, as I told you the government advertising in Bihar originates out of Patna. So, whether the ad is for Bhagalpur or whatever market it is originating and released out of Patna; the decision maker or the advertising is sitting in Patna.
- Vikash Mantri** Is this true for all capital cities across states?
- Girish Agarwaal** Yes, you can look at it that way. It is true for all the cities.
- Vikash Mantri** And therefore between Indore and Bhopal, would Bhopal have that kind of contribution?
- Girish Agarwaal** But if you look at Madhya Pradesh, Bhopal and Indore enjoy the equal status because one is the commercial capital and the other is the state capital. In case of Rajasthan, it is Jaipur and Jodhpur that are strong market whereas Kota has become an educational hub. So, it depends from state to state. I'm not getting your question. What exactly you want to understand?
- Vikash Mantri** I'm just worried as to why are the other players in those markets actually looking at markets other than Patna when 20% of your circulation can target 55% of your advertising revenues and more importantly if government ad is very big in Patna, I can get a contribution from that because it might be for Bhagalpur or other places but because I'm present in Patna as a newspaper, government will be ready to give me that advertising?
- Girish Agarwaal** So, do you want me to answer this on behalf of other publications too?

Vikash Mantri No, I'm asking you whether the Patna government advertising will come to you because it is originating from Patna but is meant for other cities?

Girish Agarwaal Let me answer you in another manner. We are launching the Patna edition. We have done our number crunching for that market and that is the reason we have entered the market. We want to start with Patna and we have made a certain business plan, about which we are confident and feel we will go ahead with that and will be able to answer you much in detail once the launch is done and show you the result going forward.

Moderator Our next question is from Ram Hegde from Primus Investment Advisors.

Ram Hegde Any idea as to what is the cover price rolling today in Patna?

Girish Agarwaal The Patna cover price today is Rs. 4, of all the leading newspapers and there is one newspaper which is at Rs. 2.

Ram Hegde And how much is it in Jharkhand today?

Girish Agarwaal When we launched the price was again Rs.3 to Rs.4 over there and after our launch everybody started pricing at Rs.1.50-Rs.2.

Ram Hegde What is the circulation of the number-one and the number two in number of copies per day?

Girish Agarwaal In Patna, Bihar, as per our estimation and this number may not be proven by any audit bureau of circulation, the circulation of Hindustan is roughly around 1,20,000.

Moderator Our next question is from Ajay Vora of Enam Asset Management.

Ajay Vora I just needed one clarification on the CAPEX number which you gave for Patna as Rs.20 crore, I assumed that some portion of the CAPEX had already been incurred in the past. So, is this Rs.20 crore number adjusted for that or is it an incremental number?

Girish Agarwaal It is an incremental number because earlier CAPEX was a very smaller one.

Ajay Vora And on the margins, you very well explained the three levers which had resulted in a 13% increase. How are you seeing margins going forward, considering all those three factors?

Girish Agarwaal I wish I could answer that in detail but that is totally uncertainty. Only two of it are in our control, one is the number of copies which I know how much I can increase in which market and the pagination too is not largely in my control because if the volume goes up for the business, I cannot say no to the pages. But the biggest of it is the newsprint price. That suddenly is not in our control or there is no clear prediction of that.

Ajay Vora But considering whatever is the current inventory for you, how do you see that moving forward for the next two quarters, at least?

Girish Agarwaal We maintained an inventory of only 15 to 20 days' time for the Indian one and for almost 3 to 4 months for the imported one. So, based on that we already feel that it is on the higher side.

Ajay Vora Just wanted to understand your perspective or maybe your philosophy on this entire equity for revenue aspect. After the deal with the jewelry player, there was a thought process of not doing anything of that sort going forward. Still in this quarter,

we have booked as per you, about Rs. 80 lakh to Rs. 82 lakh revenue. So, going forward what is your thought process on this?

- Girish Agarwaal** Whatever deals that we have done, this business which we have published is part of that. What we told you last time was that we have decided that we're not going to go and sign up any new deals and we stand by that but wherever the deals have been done, we will have to honor the implementation of those agreements.
- Ajay Vora** Has that resulted in this Rs.82 lakh in revenue during the quarter?
- Girish Agarwaal** Exactly and we are also regularly providing for it as per our auditors' recommendation.
- Ajay Vora** In this quarter have we entered into any fresh equity for revenue deal?
- Girish Agarwaal** We have closed down that division itself in the company.
- Moderator** Our next question is from Miten Lathia from HDFC Mutual Fund.
- Miten Lathia** You said that the copies have increased by 4% YoY (a) would it be possible for you to sort of split it into emerging edition and mature editions? I know it is hairsplitting but this is just to understand as to what is the sort of organic rate of growth in mature editions that you see. The follow up to that would be if you look at the business over the next two or three years, what in your mind would be a good organic rate of growth of circulation in your mature markets leaving aside the emerging editions?
- Girish Agarwaal** As per our experience in the last three years' time, the organic growth of circulation is actually again decided by the organization. For example, if I want to grow X percentage of copies in a particular market I need to see whether those copies are really beneficial for me or not. Like 1.5 years back, we took the call that we want to increase the copies in Madhya Pradesh, and we increased the copies. Then we took a call that we need to increase the copy in Rajasthan as well as in Gujarat but that too in the cities. Similarly, we took a call that we want to reduce the copies in the rural market of Jharkhand, so we reduced the number of copies there. So, I think it is all based on how the markets are behaving and resulting in terms of advertising and that is how we as an organization are taking a call on the increase of the copy. We do not allow any circulation to increase just on its own because then the copies will increase even in the non-productive market of mine where I may not be able to really use those copies to increase my advertising percentage.
- Moderator** Our next question is from Nihar Shah of Enam Holdings.
- Nihar Shah** You mentioned that the costs for the newsprint are escalating. Is that largely because of the currency depreciation or are you also seeing sort of international newsprint rates go up and as a fall out of that can you just tell me how domestic newsprint manufacturers are behaving and have you seen price hikes over there being taken as well due to the dollar depreciation?
- Girish Agarwaal** I would first like to answer the question which was asked by the last participant. He was asking about the circulation growth that had been achieved. Out of two lakh copies, 1.5 lakh copies have come from the mature edition and around 48,000 copies have come from the emerging markets. Coming to your question now, on the newsprint side can you just give me one line again please?
- Nihar Shah** This is just basically to understand whether the newsprint price increases that you are seeing are largely because of the dollar depreciation or are you also seeing that increase in prices both in terms of the domestic and the international newsprints?

Girish Agarwaal The domestic manufacturers simply follow the landed cost of the imported. So, whether there is a dollar impact happening or not, they try to somewhat follow that. In the international market, we have seen that there has been a dollar impact but there has been some absolute number growth too. To that extent, of around 2% in the dollar to dollar rate too.

Nihar Shah My second question may be a follow-up to that. In your co-markets, what is the kind of organic advertising growth that you can see if you were to exclude out the new or the emerging editions? What is the kind of growth rate that you are seeing?

Girish Agarwaal If I exclude the emerging market, then 17% growth would be to the extent of roughly around 16.9% because the base of the mature market is much higher. So, even if the emerging markets are growing at 24%, they do not change the number by couple of decimal points.

Nihar Shah During the last couple of weeks, we have seen very heavy rainfall both in Gujarat and Madhya Pradesh. Do we see any sort of impact of that on your advertising in terms of the on ground situation in both the states in terms of the economics?

Girish Agarwaal Yes, we have seen certain hindrances because of the excess rains. The soya bean crop in Madhya Pradesh took a major beating. So, because of that there was a sudden dampener in the whole market. Hence, I think the number could have been higher in Madhya Pradesh in terms of growth had that not have happened.

Nihar Shah And do you say this following in the festival season as well?

Girish Agarwaal Now things have kind of improved in that market, so let us see how that goes.

Moderator Our next question is from Hiren Dasani of Goldman Sachs Asset Management.

Hiren Dasani With respect to newsprint, what is the share of imported versus domestic now and the price which was at about Rs.34.9 per Kg in Q2, as things stand today do you think it can move to Rs. 36 or Rs. 37 or even higher than that?

Girish Agarwaal The local to imported split is around 68-32. So, the imported is around 32% and the Indian is around 68% of consumption. In terms of the overall pricing, our newsprint price in this quarter has been around Rs.33,900 for the Indian and roughly around 37,000 for the imported and this number may slightly go up, as per the indications.

Hiren Dasani Will it go up by say 5 to 7%?

Girish Agarwaal Yes, could be.

Moderator Our next question is from Himanshu Shah of HDFC Securities.

Himanshu Shah Can I know the ad market size for the seven editions that have been launched in Maharashtra?

Girish Agarwaal Let me first of all thank you because in the last one hour, none of the participants actually complimented us on the right side or the good side of numbers. So, thank you very much for that because this encourages us and our team to further excel in the market. So, do you want to know our exact billing number for Maharashtra?

Himanshu Shah First of all, I'd like to know the ad market size for our seven editions followed by our billing number in reference to that.

Girish Agarwaal You will appreciate that we will not be able to disclose our billing numbers to you specifically for one particular market. Though the overall numbers for the markets

where we operate are our again a mixed set of numbers because we operate only in those seven markets but our competing publications operate in the whole of Maharashtra. So, we really do not know what percentage of revenue they apportion to those markets. So, it will be difficult for us to really give you the exact number of those seven markets in the overall market size.

- Himanshu Shah** Can you provide some color on the same, if possible?
- Girish Agarwaal** Again, it will boil to my revenue numbers. So, you'll appreciate that I will not be able to give you my revenue numbers.
- Moderator** Our next question is from Chitrangda Kapoor of Reliance Securities.
- Chitrangda Kapoor** My question is with regard to the competitive intensity which is increasing. I'm sure everybody is aware now that Bennett & Coleman is also launching a Gujarati paper probably in the next two or three weeks. What is the strategy towards the same because Divya Bhaskar has a good market share in SEC-A and B category. But Bennett Coleman is also launching in those markets with a very disruptive marketing strategy. So, what is your thought on that and how are we taking competitive intensity head on?
- Girish Agarwaal** As you know, we have anyway been fighting the other competition in Gujarat and so far we have been able to grow in spite of that and we are regularly monitoring the situation on ground and based on that we have taken some actions already not only to safeguard but we are actually seeing this as an opportunity that if there is some competition happening in the market and if there is some activity happening in the market how can we take the advantage of the situation. So, you are working with that strategy and so far things are looking under control.
- Moderator** We will move on to the next question that is from Bijal Shah of IIFL.
- Bijal Shah** Just going back in some time, we actually said that we will not go ahead with Bihar at this point in time and we will go to Maharashtra and the rationale that time was that Maharashtra is a much bigger market. Now you are going back to Bihar and that too with a slightly truncated launch as compared to what probably market was expecting. Does it mean that we have exhausted largely all the markets where we can expand into and or is it that southern language is much bigger barrier in terms of language barriers to cross? Any thoughts on that would be very useful.
- Girish Agarwaal** Maharashtra is a much bigger market than Bihar; that is the reason we chose Maharashtra at that point of time. During the last 2-2.5 years' time, we have been able to do the right work in Maharashtra and we now already have seven editions in Maharashtra and most of them are doing pretty good as per our vision. We realized that now we have the ability to move ahead and considered looking at Patna as a market. Once the Patna market is done with, then we will see what next can be taken care of.
- Bijal Shah** The only thing is that there is no other market which features in our preference list that is a much bigger market because there are many markets in South which are hardly explored by Hindi newspapers. So are you looking at them?
- Girish Agarwaal** As of now, we are looking at Patna market as such. Let us see how Patna goes and once the same stabilizes then certainly we will discuss with you again and decide what could be the strategy going forward for the other markets.
- Moderator** Ladies and gentlemen that was our last question, I now hand the floor back to Mr. Pawan Agarwal for the closing comments.

Pawan Agarwal

On behalf of the management I thank you for your participation and time on this Earnings Call. I hope that we have been able to respond to your queries adequately and we will be happy to be of assistance through our Investor Relations Department headed by Mr. Prasoon Pandey for further queries. Thank you, have a nice day.

Moderator

Ladies and gentlemen on behalf of DB Corp Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.

