DB Corp Limited

Q1-FY19 Earnings Conference Call Transcript
July 19, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY19 Earnings Conference Call of DB Corp. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand the conference over to Ms. Malini Roy from CDR India. Thank you and over to you madam.

Malini Roy: Thank you. Good afternoon everyone. Welcome to Q1 FY19 Conference Call of DB Corp Limited. We will be sharing the key operating and financial highlights for the quarter ended 30th June 2018. We have with us today the senior management team of DB Corp Limited – Mr. Pawan Agarwal – Deputy Managing Director, Mr. Girish Agarwaal – Non-executive Director, Mr. P G Mishra – Group CFO 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 been mailed to you.

I invite Mr. Agarwal to share his outlook on DB Corp's performance for this quarter.

Pawan Agarwal: Thank you Malini and good afternoon everyone. We would like to share some key highlights of our financial and operating performance for the quarter ended June 2018, post which we will be happy to respond to your queries. Similar to previous call let me first begin the discussion with a brief update about our circulation expansion strategy.

We are pleased to share that we have maintained a strong momentum on our circulation efforts across key markets delivering a growth of around 12% in terms of number of copies sold since the initiation of our circulation campaign in June 2017.

To put it in numbers, we had around 58 lakh copies as of June 2018 compared with around 51 lakh copies in June 2017, an increase of 7 lakh copies across markets of Bihar, Rajasthan, Gujarat and Madhya Pradesh.

In revenue terms, over the past 5 years from FY 2012-13 to FY 2017-18 Dainik Bhaskar has delivered 12% CAGR growth driven by yield in core legacy markets much above industry reported numbers.

The Board of Directors at its meeting held on May 26, 2018 approved the proposal of buyback of 92 lakh equity shares of Rs. 10 each representing approximately 5% of total equity share capital from the shareholders of the Company through the tender offer route as prescribed under the Securities and Exchange Board of India. Regulations at a price of Rs. 340 per equity share aggregating to approximately Rs. 312.8 crore. The buyback has been approved by the shareholders on July 6, 2018. The public announcement was published on July 10, 2018. The draft letter of offer was filed with SEBI on July 17, 2018.

Moving onto financial performance:

Our consolidated total revenue stood at Rs. 6,392 million as against Rs. 5,997 million reported during Q1 FY18 higher by around 7%. As revenues for the quarter stood at Rs. 4,549 million as against Rs. 4334 million reported in Q1 FY18 higher by 5%. Circulation revenues grew by impressive 10.3% Y-o-Y to Rs. 1,345 million as against Rs. 1,220 million generated during Q1 FY18 largely an outcome of circulation expansion strategy. EBITDA for that quarter stands at Rs. 1,749 million as against Rs. 1,933 million reported in Q1 of last year after considering FOREX loss of Rs. 24.9 million and circulation expansion strategy related non-recurring expenditure of Rs. 58.6 million. PAT for the quarter stood at Rs. 976 million as against profit of Rs. 1,101 million after considering FOREX loss of Rs. 31 million and circulation expansion strategy related non-recurring expense of Rs. 58.6 million. We have maintained our leadership and legacy markets of Madhya Pradesh, Chhattisgarh, Chandigarh, Punjab, Haryana, Urban Rajasthan and Urban Gujarat. As per Indian readership survey Dainik Bhaskar Group has maintained its leadership position as the largest newspaper group of Urban India.

Our performance this quarter reflects our continued trust on our circulation efforts which we have been undertaking over the last few years as well as on executing well-planned editorial initiative and exciting reader engagement activities, which have attracted good growth in new audiences. DBCL's non-print businesses continue to create stronger bonds which includes digital and radio audiences; through quality programs, content and unique activations. www.dainikbhaskar.com continues to maintain No. 1 spot for Hindi news website and www.divyabhaskar.com continues to remain No. 1 Gujarat news website. I am also pleased to share that we have recently revamped the Divya Bhaskar site as a global destination for Gujarat content with a new look and new appeal of a wide range of interesting and popular content. DBCL's radio business continues to be the largest player in rest of Maharashtra and #1 player in Chandigarh, Haryana, Punjab, Rajasthan, Madhya Pradesh and Chhattisgarh.

Our radio advertising revenues for this quarter stood at Rs. 370 million as against Rs. 311 million in the same period last year. EBITDA grew by 26% Y-o-Y basis to Rs. 71 million from Rs. 56 million. I am also delighted to share that the stations acquired during phase 3 have turned EBITDA positive on the back of growing program popularity and prudent cost controlling initiatives.

To conclude:

I would like to reiterate that over the next few years with the growing consumption trends of tier 2 and 3 towns, DB Corp is well placed to tap this growing potential as we make strong inroads into these markets. We have undertaken several aggressive strategic initiatives across circulation, editorial, cost management etc. to ensure strong organizational performance and we are going much beyond our capabilities to deliver desired level of growth and create greater shareholder value. My colleagues and I will now be happy to respond to questions. We look forward to continuing our interactions and please contact our investor relations department headed by Mr. Prasoon Pandey for the requests and queries.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Abneesh Roy from Edelweiss, please go ahead.

Abneesh Roy: My first question is on the advertising growth. So, in Q4 your growth was 8.8% which has slowed down this quarter. In the Q4 con-call you had said in FY19 you expect to grow in double digits if FMCG, Real estate and auto grow in double digits. So, are you still expecting FY19 to be double-digit growth and how have these three sectors done in Q1?

Girish Agarwaal: So, if you look at the FMCG growth in this quarter it is almost at around 8.5%. So, FMCG is moving in the right direction. Education growth is also at around 7%. But the dampener in this quarter has been two categories, especially the Real estate which is down in double digits and also the Banking & Financial services. But happy to say that government spending has started seeing the growth in our market I think considering the elections in MP, Chhattisgarh and Rajasthan, so governments have started leasing advertising to showcasing the work what they have done in last 4-4.5 years' time. So, I think that also may have a positive impact going forward on the advertising this year.

Abneesh Roy: Sir two follow-ups here. If you see Hindustan Unilever's ad spend in this quarter was up 27%, Zee's ad growth was 22%. So, your own growth of 8.5% it seems much lower than that what the sector FMCG advertising seems to be, although we need to wait for results. If Hindustan Lever is spending so much, I think others would have also done reasonable high. So, could you answer why your growth should be much lower than Zee's growth and Hindustan Unilever's spends?

Girish Agarwaal: I think I totally agree with you. That is what we are discussing these teams that since you have seen a growth and higher advertising spend compared to last year, because Unilever in fact last year took some beating in terms of total advertising spend because of GST and all that. So, they are coming back now. We are also talking to them for a larger deal and other FMCG categories also. In fact what has happened, lot of unorganized sector clients those who are small advertisers with us in FMCG they have kind of gone down in the FMCG sector after the GST and all that. So, the growth of 8.5% has largely come from the organized sector clients. But we are confident that those smaller clients also will have to revamp their brand and approach to stay alive in the market and they will start advertising again with us.

Abneesh Roy: And what was the reason for Banking not doing well? Was it PSU banks cutting and in terms of Real estate you had a bit more optimism in Q4, but recovery has not happened. So, you still expect recovery in real estate in balance three quarters?

Girish Agarwaal: You are right, all the PSU banks advertising have practically gone down to almost nil, hardly any advertisement coming from the banks in the last 2-3 quarters, that is one issue. And Real estate unfortunately it has not shown any great sign of revival as yet. But in couple of markets this affordable housing advertising has started which is okay but still the base is much larger, so we still have a lot of grounds to catch up on the Real estate.

Abneesh Roy: Next question is on the radio, it is flat on a YoY basis and slower than print that was surprising. What was the reason here?

Pawan Agarwal: Radio suffered a degrowth on government actually, the central government revenue experienced a double-digit decline. And the local revenue saw a marginal dip. However the corporate revenue was a high double-digit growth and there the sentiment was very positive, went in the right direction. In retail, the category again of Real estate which is one of the large category along with lifestyle – those two categories did not perform in Q1 compared to last year.

Abneesh Roy: And sir last question on digital – you are targeting direct ads versus getting indirectly from social media. When do you see that impacting favorably on your numbers because currently obviously the growth is limited?

Pawan Agarwal: So, our entire emphasis going forward is seeing that how do we build loyalty actually. When I say direct-direct means building loyalty directly to the brand, so people should either log into the app or come to the site directly. So, the entire product offering is going through major changes. So, I said on the call Divya Bhaskar language launch has been an attempt in that direction itself, how do we make these properties a destination for people to come and consume rather than going towards social and consuming India. And if we have direct traffic it will also enable us to sell direct advertising. So, we are going in the right direction on that front.

Abneesh Roy: But you are not putting any timeframe to the recovery?

Pawan Agarwal: We do have internal timeframe but one thing if you notice this time our cost also has gone down drastically in digital for simple reasons, because all the costs what we are spending on feeding the social media that we have kind of controlled, cut down a lot actually, because we realized you cannot be dependent on the social media for long. You need the reader or consumer to come to your site and read it, then only the advertiser will give you the right value. So, we are happy to share with you that internally we feel that we are in the right direction.

Moderator: We will take the next question from the line of Vikash Mantri from ICICI Securities, please go ahead.

Vikash Mantri: Sir can you help me with what is the current landed newsprint cost? You have reported Rs. 40,000 odd for Q1. What is it currently that we are procuring and is there an inventory reasons that the entire impact is not seen or are we already seeing that?

Girish Agarwaal: Our current cost is around Rs. 40,000 per ton which is a mix of Indian and imported but this cost is on the consumed basis. So, we have certain inventory of imported lying with us, we have certain inventory of Indian lying with us, so based on that average. So, if I have to see the impact of the price in this quarter it is roughly around 12%. But the overall impact has been higher because almost 14%-15% is the impact on the overall news print. Consumption increased because of our higher circulation base also. Now going forward, I think in the next quarter the full impact of the price increase of new prints will be seen based on the consumption patterns.

Vikash Mantri: And what is the current prices that we are getting? You can give me a mixed price.

Girish Agarwaal: So, what happened right now we show in the quarter based on our consumption. So, depending on the consumption in Q2 what is the quantity we have lying in our stock at what price then only we will be able to give you the exact number.

Vikash Mantri: So, sir if you were to procure now imported and domestic, what would it cost you?

Girish Agarwaal: $750 is the imported pricing.

Vikas Mantri: And domestic?

Girish Agarwaal: Almost same, domestic depending on the quality because if it is A grade stuff which is same quality -

Vikas Mantri: Whatever we use sir?

Girish Agarwaal: So, we use a mix of A and B both depending on the price available because Indian stock we do not stock more than 15 days a month. So, depending on the availability and pricing we keep shifting between A and B.

Vikas Mantri: And what is the cost of that sir?

Girish Agarwaal: A would be almost at par with imported.

Vikas Mantri: Sir I was asking for the mix of imported and domestic on an annualized basis generally that we have as usage.

Girish Agarwaal: I would say it will be almost 70:30.

Vikas Mantri: And sir given that this spike in news print has suddenly happened over the last few months and clearly while we are a large corporate and a cash-rich one, our ability to sustain and still maintain circulation and cover prices higher, does this increase wipe away a lot of the smaller competition?

Girish Agarwaal: I would answer this slightly differently. This certainly gives the advantage to the more serious players like us, to give more value offering to our customer and acquire more market share.

Moderator: We will take the next question from the line of Jay Doshi from Kotak Securities, please go ahead.

Jay Doshi: Couple of questions on newsprint again. So, do you see the way the prices have increased, do you expect supply at a global level to increase at some point of time and what are your thoughts on the newsprint demand-supply at a global level from a 2-3 year perspective and where do you see the prices sort of stabilizing?

Girish Agarwaal: So, what we have been given to understand that the supplies from the global market has stabilized. So, there is no reduction happening in that supply. At the same time there is no addition happening in the quantity they have. And the spike in the newsprint prices which happened because of certain reasons. We are hopeful that in the coming quarters, may be in Q3 and Q4 that prices should settle down as it was earlier. Let us hope for that.

Jay Doshi: Understood, So, I am just sort of curious, why is it that there is no addition happening given that the prices are lot more attractive?

Girish Agarwaal: What happens see at the same time the prices of the other papers also like, writing and printing paper also has gone up. So, the parity between the news print for a manufacturer and between the copywriting paper and all remains the same. So, that is the reason they are not shifting any quantity from other category to this category. And if somebody has to put up a separate unit for the newsprint that itself will take about 2-3 years time to put up a new capacity. And nobody is sure that going forward whether American demand will continue or not.

Jay Doshi: And sir you mentioned about $750, which is roughly a little over Rs. 50,000 of landed cost for the import and if the A grade quality in India costs a similar number then on a blended basis the mix that you are consuming today will that be, if you were to procure at spot rates today will that be closer to Rs. 50,000? So, I am just wondering whether the Rs. 40,000 rate that you have reported this quarter is there a potential that it can go up by another 15-20%?

Girish Agarwaal: So, what happens this landed price in case of Indian news print goes down because the cost of the transportation is less. So, that is the saving which we get on the Indian newsprint and that is the reason why 70% quantity is still using Indian because the transportation cost is much lesser in the Indian newsprint because we procure from the mills in Gujarat and Punjab and Jharkhand and all that. So, that is one reason. If I have to procure something today only as an imported newsprint then what you are saying, that is the price.

Jay Doshi: But at a full year level at FY18 the numbers that you reported in matrix sheet it was Rs. 36000, little over that. And I think you had indicated about 12% odd percent potential of increase in FY 2019. So, do you think that that number will be much higher now at a full year level?

Girish Agarwaal: Yes, looking at the last quarter trend it looks like that number will be higher.

Jay Doshi: So, should we go ahead with about 20% odd or this will be even more than 20%? Can you give us some guidance because it is a little difficult for us?

Girish Agarwaal: We are hoping that the average price – should be around that number what you just mentioned.

Jay Doshi: 20% inflation of FY18, right?

Girish Agarwaal: Yes, correct.

Moderator: We will take the next question from the line of Yogesh Kirve from B&K Securities, please go ahead.

Yogesh Kirve: Starting with a bookkeeping question, can you tell us what is the circulation at the end of the first quarter, the number of copies?

Girish Agarwaal: 57.50 is the average for the quarter. Last 10 days it has been roughly touching 58 plus.

Yogesh Kirve: Sir in the fourth quarter we had a figure of about 6 million, so is there any seasonality playing out?

Girish Agarwaal: Because of summer there is a fall of 1-1.5 lakh copies.

Yogesh Kirve: So, is it now safe to assume that the circulation increase strategy that is behind us for the time being?

Girish Agarwaal: Almost because see Bihar we are done. The entire launch in Bihar has been completed already. Gujarat, we have already increased copies, Rajasthan we have increased copies. So, large expansion is kind of taken care of.

Yogesh Kirve: Right, so related to this I mean if you look at our other expenses which had grown in double digit over the last four quarters, and I think lot of that has to do with the circulation strategy. So going ahead what kind of trend we should expect in terms of the other expenses? Should there be a lower growth on the higher business?

Girish Agarwaal: See if you look at our overall expenses our personell cost has been in fact in negative. Our other operational cost has gone up by 10% compared to last year quarter but if you see Q4 to Q1 there is reduction of almost 12.5% in that cost. Other costs are all in control. I think it is just the news print which is playing up.

Yogesh Kirve: Sir my second question is regarding to Gujarat market, I mean we understand that it is a market where the realizations have been low and we are able to increase some copies over there. So, are the things shaping up well there in terms of our position in the market and the realizations not just for us but overall all the players in that market.

Girish Agarwaal: So, the growth in circulation in Gujarat has certainly made our standing in advertising market much more stronger. We are able to now increase now couple of percentage market share in our volume and also wherever possible we are able to push the rates also. So, our growth part is now very clear that we are a must player in Gujarat and we need to see how we can capitalize on this going forward and increase the realization in that market.

Yogesh Kirve: And finally, just a bookkeeping, can you also share this realization for our copies?

Girish Agarwaal: So, realization of copy if you see has been almost maintaining the same number. Our average realization for this quarter is Rs. 2.59.

Moderator: We will take the next question from the line of Amit Kumar from Investec Capital, please go ahead.

Amit Kumar: Quickly on the advertising side, 2 questions actually. One, if you can break down this 5% to 6% ad growth on the print side between pricing and volumes. And the second one was you talked about in the category we talked about FMCG, education, real estate and a few others, what about autos? Autos is a big category for us. If you can give us some color on that as well.

Girish Agarwaal: So, let me first of all answer that, the entire growth largely has come because of the volume. Actually, not largely, entire growth has come because of volume only because there has been hardly any improvement in the yields in this quarter and auto unfortunately in this quarter has been flat. There has been no growth in the auto as overall because last year there was a couple of rush because of the GST issue happening. But this year that kind of rush was not there. So, this year auto has been flat in this quarter.

Amit Kumar: But sir when we look at underlying auto volumes growth, that sort of continues to remain fairly healthy and I am not even sort of counting June because again last year pre-GST June was slightly I mean primary sales, secondary sales is slightly different, but April-May have been sort of good. The numbers going forward are also expected to be in double digits and I know surprisingly even the two-wheeler side is actually performing quite well after a long gap. So, any sort of reason and is there sort of structural shift towards digital or I mean how do we look at this?

Girish Agarwaal: If I have to break this automobile into 2-3 categories, into 2-wheeler, 4-wheeler and the commercial vehicle. So, 2-wheeler has actually grown much better, 4-wheeler has been negative, and the commercial vehicle also has been kind of negative overall. But 2-wheeler has performed very well.

Amit Kumar: So, any reason, I mean I do not know how much relevant that is but in terms of 4-wheelers it is always been a big advertiser on the print side. They seem to be delivering. Any sort of specific reason why they are not spending money on advertising?

Girish Agarwaal: What happens is 4-wheelers generally advertise in print when the launch is happening, unlike 2-wheelers. 2-wheelers advertise routine products also. While a 4-wheeler comes out in the print with the large announcement when there is a new launch. We did not see many launches in the last quarter, so because of that the 4-wheeler was much subdued.

Amit Kumar: Then sir, going on radio, you mentioned that corporate grew in high double-digit kind of growth. So, the subdued overall performance was because of DAVP government advertising. Could you just help us understand the growth in terms of legacy station versus the new stations that you have added?

Pawan Agarwal: So, the legacy stations they grew in almost stronger double digit touching almost 20% plus. But the legacy stations were able to just maintain through, hardly maintain. Actually, they were negative by a couple of percentages.

Amit Kumar: For new stations given the fact that current sort of inventory utilization would be very-very low. Actually 20% growth seems to be small, some of the other companies which also launched stations in a similar timeframe we have seen revenues also double in a few cases. So, any sort of comment that you have on new station growth essentially?

Girish Agarwal: So, I think what has happened when we look at the legacy stations growth, we realized last year they went overboard on the government advertising and some of the retail advertising but this year unfortunately government advertising almost fall flat especially DAVP from Delhi was bad. Even these 4 years for Modi government there was hardly any business on the radio this year. So, I think what all they could push last year and get extra revenue, this year came back haunting to the radio business in the legacy station.

Amit Kumar: I was actually talking about the new station essentially. So, I understand legacy stations were obviously same pressure points, the macro pressure points will be there because your inventory utilization is almost sort of 100% there, so a good swing. But for new stations what is the kind of inventory utilization that you are running on new stations, I think that will be probably a good thing.

Pawan Agarwal: The new stations are still under 50% inventory utilization. They still have a lot of opportunity to add corporate advertising. Happy to share that all of our legacy news stations have the highest market share. These are stations where there already was a frequency which existed for over 7 or 8 years.

Amit Kumar: And when do you expect this 50% to sort of go to utilization levels similar to your legacy markets, 2-3 years or will it take more time? The only point which I was asking is that the 50% utilization, I mean I presume your legacy stations are sort of fully utilized in inventory terms. When do we expect the new stations to basically sort of scale up to the legacy station level essentially?

Pawan Agarwal: Another 18 to 24 months we should think that we would start probably filling their inventory especially with the corporate revenues. So, the retail revenues have been optimized completely, as I said we have the highest market share, but we are working on growing the volume in those stations. So, another 18 to 24 months we should be able to grow the volumes. Now when I say 50% utilization most of the competitive stations are also actually under-utilized specially in these markets because these are all smaller stations slightly in case of Maharashtra and even the volumes by corporates is low because they have not focused. We are focusing so we are hopeful that we will be able to utilize on that.

Moderator: Next question is from the line of Vivekanand Subbaraman from Ambit Capital, please go ahead.

V Subbaraman: So, pressing further a little bit on the news print prices, what can we do to mitigate the news print price inflation? Is there any plan to cut pagination or alter the add-edit ratio? Is there any way we can cut consumption? That is question one. Secondly the other operating income of Rs. 43 crore was higher by around 20%, what was this pertaining to and related financial questions – the 5.9 crore of non-recurring expense pertaining to circulation expansion, what was this? And last financial question was on the buyback – so what is the thinking here? Will we have an annual buyback or is this going to be a periodic one-off thing?

Girish Agarwaal: Let me answer it one by one. So, first is that, what are we doing to mitigate the news print impact. So, we have increased the ad-edit ratio by a couple of percentages. We are also analyzing that is there a way we can cut down the size of the paper by say maybe a half an inch or a quarter inch to have some percentage of saving over there. But that is a technical thing, we are still evaluating that can we still do that. We do not want to play much with the quality of newsprint because that impacts the readers directly and pagination also we are keeping under control that in spite of volume growth we have not increased a major pagination this time. So we are still working on whatever best we can do. Second question you talked about the other income, that other income is largely because of the job work done by printer. Also, the sale of the wastage of newsprint that 3% wastage happens, and also the newsprint wastage price has gone up. So, because of that there has been a growth of 12.4% in that category. Third thing is the buyback, So, on the buyback it is not a regular feature. As per the SEBI guidelines we cannot do it. Whatever the guideline of SEBI we will follow for that. So, as of now as you already know that we have announced the buyback for Rs. 313 crore and we have already filed the draft with the SEBI and we are on track with that.

V Subbaraman: One small question pertaining to the non-recurring expense. What was that related to? I mean you mentioned that it is related to circulation expansion, but can you give more specific details?

Girish Agarwaal: So, this expense is about that circulation drive which we are driving in Rajasthan and Gujarat and Madhya Pradesh this time which is now almost done, so that is kind of non-recurring.

V Subbaraman: So, it is like a promotional campaign spend?

Girish Agarwaal: Exactly. We have employed a survey team of almost 1,000 people in these two places and this reflects the cost of the survey team and contacting those lakhs of households.

Moderator: We take the next question from the line of Rohit Dokania from IDFC Securities, please go ahead.

Rohit Dokania: Just 2-3 questions, one is if you can sort of talk about even if qualitatively as to how one should look at in terms of full year ad growth?

Girish Agarwaal: So, ad growth, we are focusing again on three categories. One is Real estate because we are very clear that the biggest weakness in the numbers is because of Real estate and we cannot just let it go. So, as a team we all are putting all our efforts in Real estate working very closely with most of the clients to see they get response and they sell their products. In some places we have also done some sales link deal with the client. So, we are trying to work whatever possible in this category of Real estate to see this should turn around. Another focus area is automobile, because that is again a big category. And obviously FMCG we are working on to see what we can do for this year. Now we are also working with the clients on our 360-degree solutions, like Real estate category is not very keen on advertising because they want response. They do not do brand building. They want response. So, we are working with them on an event. Like recently with one of the economically affordable household client we did an event with them and it was an amazing response. The guy wanted to sell 180 units in weeks' time, he sold 180 units in a day's time. Bad for us because we wanted him to release three ad but in one ad only he was done with the real estate fair also we organized for him. But I think these are the smaller things we will have to do to create the confidence on the ground to get the clients back into the system that the product will be sold. So, I think we will have to do everything possible what can be done on the ground to attract every possible category.

Rohit Dokania: So, will it be closer to sort of high single digit kind of a number especially given the fact that in H2 elections will be close by?

Girish Agarwaal: We are very confident and hopeful for that especially last year Q2 was very weak because of the GST impact. So, this year the Q2 should be very good because of there is no GST impact this year and also election in three states happening. So, we are very confident that this should look brighter.

Rohit Dokania: So, continuing on this part, so now obviously you highlighted that newsprint prices on a weighted average basis could increase by 20% odd plus. So, in this light how should one look at margins from an overall company level for a full year FY19?

Girish Agarwaal: So, this 20% newsprint we have given you on an estimation basis based on the overall full year. So, let us see on a consumption basis what happens and how newsprint prices play up. Based on that every quarter we will have to keep on evaluating what the number exactly and the margins how does it play up. Because see margin depends on how the topline is playing up. If the topline is healthy and the newsprint price is wherever what we are today, then I think the margins should be able to improve. So, we will have to see how it goes month on month.

Rohit Dokania: I understand, I mean sitting where we are today would you believe that you would be able to sort of curtail any fall in margins in the range of about 100-150 basis points or it could be higher as well?

Girish Agarwaal: So, this quarter if you see the EBITDA margin is around 27.5%. We believe we should be able to maintain this or grow this margin.

Rohit Dokania: And the last bookkeeping question, can you talk about your sort of cash position?

Girish Agarwaal: Yes, so as on date based on the result presented to the Board today Rs. 363 crore is the cash with the company, out of which Rs. 313 crore will be used for the buyback which is happening, already announced and balance cash will be with the company.

Rohit Dokania: This is net, right?

Girish Agarwaal: As of 30th of June, yes net cash.

Moderator: We take the next question from the line of Ankit Kedia from Centrum Broking, please go ahead.

Ankit Kedia: Sir in the last con-call you had mentioned that the circulation will grow by about 6-10% this year on the 59 lakh copies we had in the end of March. So, do we maintain that guidance, or we think that 58 to 60 lakh copies for the full year average we would be doing given that you have mentioned that most of the expansion is behind us.

Girish Agarwaal: So, considering the newsprint cost increasing and all that we may go a bit easy on that.

Ankit Kedia: And sir last year we had around Rs. 35-40 crore as one-time expense for the expansion and this year given that only Rs. 5 crore we have done, and the expansion is not happening, so would that saving flow through in the other expenses this year?

Girish Agarwaal: No, last year the main expense was because of the Bihar launch. It was almost Rs. 58 crore last year overall and this year since most of the expansion is done, so I do not think there will be any larger cost on that, just routine expenditure on that.

Ankit Kedia: Sir but we have again gone with *Jito Rs. 15 crore Dobara* scheme. So, in that Rs. 15 crore already accounted for, so that will come in this year as well, right?

Girish Agarwaal: Not full, so a part of that will come this year and also with some of the expenses on the scheme of the prices we do a barter with client so there is no direct cost on that.

Ankit Kedia: So, around Rs. 15-20 crore odd again their expense would be there of the Rs. 58 Crore.

Girish Agarwaal: Depends, I have to just see the breakup of that Rs. 58 crore. I do not remember it offhand but on the promotional schemes I do not think this year will be Rs. 15-20 crore expenses, it will be much lower. But that Rs. 58 crore and this Rs. 15 crore I would request you to take it offline with us so that we can give you more clarity on that.

Moderator: We will take the next question from the line of Vikram Ramalingam from Maybank, please go ahead.

V Ramalingam: Most of my questions are answered but I will ask this. So, the circulation revenue has increased by 9% year on year whereas the number of copies has increased 12%. So, the 3% is because of the depression in the cover prices.

Girish Agarwaal: No, the circulation revenue has grown by 10.3%.

V Ramalingam: But it is lesser than 12% and it is mostly because of….

Girish Agarwaal: Because what happened in Bihar, the overall price of Bihar is not the average. So, for example my last year average realization was Rs. 2.65, this year it is Rs. 2.59 because Bihar we offered a scheme to the readers. So, the average realization of Bihar is lesser.

V Ramalingam: And all the competitive pricing that you had last year because you were entering new markets those are done with. I have a question on ads, so last year June 2017 the ads were higher or lower because of GST concerns I am not sure about that for June month.

Girish Agarwaal: For the June month last year ads were almost I would say higher because some of the companies were running schemes. Because they knew that GST is coming from 1st July, they were running schemes to clear the stocks. This year in June that impact was not there and especially last year we had a huge advertising from Government of India on explaining that GST will be coming forward. This year that was almost zero.

V Ramalingam: And so usually what are the collection days for corporate ads and government ads?

Girish Agarwaal: So, as per the policy of Indian Newspaper Society we allow 60 days credit period to all the recognized agencies by INS and government is generally ranged from 12 months to 18 months to 2 years. But largely government is almost 2 years.

Moderator: We take the next question from the line of Jay Doshi from Kotak Securities, please go ahead.

Jay Doshi: Just one quick question since you mentioned about real estate, are you doing ad for equity deal or sort of barter deals in real estate category or any other categories or you have stopped it? I mean I know you have stopped it sometime back, but I was not sure if you started again or not.

Girish Agarwaal: We are not doing any ad for equity deal, but we are doing some barter deals in the Real estate where we take the possession of a flat made by a particular real estate company and in lieu of that we allow them to advertise to help them in cash flow. We sell that particular flat in the market and recover the money.

Jay Doshi: Alright, so actually it does not sit on your balance sheet for long, it is largely very short term thing.

Girish Agarwaal: Yes, I would say it takes almost 2 years time because when we do a deal with a construction company they are under construction at that point of time. The construction takes 1 to 2 years time for them to hand over the flat to us and then we sell it out in the market. So, it takes around 2-3 years time. But the security in that is that we have a physical possession of a real estate property.

Jay Doshi: Understood, idea was in asking was whether is that a lever that you have not used already, or you have been using it?

Girish Agarwaal: We are using it but using it very cautiously because we are not doing deals with any builder unless and until, the first condition is that the project should be already under construction. So we can see the physical under-constructed flat because of compliance of RERA and all that.

Jay Doshi: Understood. Second is if I do a ballpark calculation a 20% price increase in newsprint sort of increases your cost per copy by about Rs. 0.75, is that correct at a ballpark level?

Girish Agarwaal: Yes, roughly.

Jay Doshi: So, what in your view, how is the industry thinking? Is it possible to pass on this entirely to the consumers? Will the industry take that route, or you think copy price increase will be relatively muted this year?

Girish Agarwaal: It depends on market to market. Like in certain markets where we feel that yes this price can be immediately passed onto the consumer we are doing it. If you notice in the last 3-4 years we have done that also. We have increased the prices on a regular basis, so may be if not now may be after 3 months to 6 months we may have to pass on this price to the consumer depending on the market competitive strengths.

Jay Doshi: So, would you be able to give an indicative number of what kind of circulation revenue increase that one should expect in FY2019?

Girish Agarwaal: I would say this year; we can safely say we will be in our double-digit growth in terms of circulation revenue.

Jay Doshi: And if my numbers are right here, average copy for FY 2018 would have been what, 54 lakh per day, roughly in that number full year leverage?

Girish Agarwaal: 55.25 lakhs was the average of last year.

Jay Doshi: Right, and right now you are at 58, so just about 58-59, that is the level you will sort of stabilize for this year, right?

Girish Agarwaal: Right now, we are at 57.50 for the June quarter and current number is 58 plus. So let us see how it goes for the year. So, expected around same number.

Jay Doshi: At a full year level there is not more than 5% increase in volumes or copies for FY19.

Girish Agarwaal: Yes, it looks like that.

Jay Doshi: And that you should be able to offset in terms of pagination, ad-edit ratio and the lever that you talked about in terms of cost rational optimization. Is it correct?

Girish Agarwaal: Yes, certainly we are working towards that.

Jay Doshi: So, overall raw material cost also may not increase more than 20% even though you have indicated a 20% increase in newsprint price, RM cost should also be at a similar level. Is that right understanding?

Girish Agarwaal: Largely, I really cannot say 100% on that but depending on the quarter to quarter requirement of the ad space in the paper and all that.

Moderator: We take the next question from Amit Kumar from Investec Capital, please go ahead.

Amit Kumar: Just a couple of bookkeeping question. One book keeping question to begin with this $750 drive that you quoted what grammage of newsprint is this?

Girish Agarwaal: Imported at 42, Indian at 44-45..

Amit Kumar: Employee cost which we are sort of looking at just about flattish in this particular quarter, I am a little bit surprised because other markets Gujarat, etc., you already had the setup is already there. But in Bihar especially as you are sort of adding new editions you would know you need local reporting, local ad sales, etc., as well. So, could you help me understand, I mean is there sort of any one-off in this particular number and what should be the run-rate that we should be looking at for the rest of the year?

Girish Agarwaal: What we have done in our digital revision as well as print revision, we have done some rationalization of manpower across. So, the last billing has come from that and there is a reason including the Bihar expansion and all we have been able to not grow that number in terms of cost.

Amit Kumar: So, we should consider this to be the run-rate, of course there could be bonus revisions also.

Girish Agarwaal: See it could be a slight increase because the annual increment is going to come from this quarter, some percentages, so there could be some impact on that but not major.

Amit Kumar: Understood. Then I have these two sort of broader questions, one on the digital side I mean we were just playing around with your app a little bit and what we find is that the top sort of advertisers that you have on the print side, the FMCG, the education, the Real estate and autos of the world. I mean they are practically non-existent on the app. Mostly the advertising that we see is ecommerce and digital company advertising. I mean this is more performance led advertising rather than brand or display advertising essentially. So, any sort of thoughts out there, I mean why is it that as far as – our understanding is FMCG guys they are definitely there on search, they are definitely there on social. Similarly, with Real estate and auto as well, so why do not we sort of see much of that on your digital platforms?

Pawan Agarwal: See the biggest spenders on digital are actually clients, customers, companies who want performance, who have a call for action. So, let us say in case of an automobile company the call for action is only a trial, so the transaction does not happen there. So, mostly you will see Amazon very active on all the ecommerce companies because they do the entire fulfillment there. Companies like automobiles, FMCGs are actually at the bottom of the pyramid in case of digitals because they do not see fulfillment, they only see it as a source of branding. They do not see it as a source of fulfillment and that is why their spends on digital is much less compared to ecommerce and online only companies.

Amit Kumar: But sir our understanding is that FMCG companies are sort of expanding their digital footprint. They are fairly sort of active on social media and even search advertising which is I mean searches for the call for action in itself. So, any sort of reason, what are the challenges that you sort of see selling your digital platform to your legacy print clients essentially?

Pawan Agarwal: Our understanding is that FMCG and auto are not very digital friendly. They are still trying to figure out. While they have large budgets, they are experimenting on social to understand if they can build engagement, get consumers to comment etc.,. However, Amit, I would be thankful if you can help us understand a bit just more on offline because if there is opportunity in FMCG and automobile then we would have no reason as to why our team would not go after that and tap it also.

Amit Kumar: Sure, thank you. Just one final point, somebody mentioned this that given the fact that you are large players in the market, and very-very clearly, advertising market is still slightly on the weaker side and while the costs are going up. We have been talking about industry consolidation for a very long time. Some of your larger peers are looking at assets, but nothing really happens or not much has really happened given the fragmented nature of the industry. So, any thoughts on industry consolidation at this point in time? Can it move over the next 6 to 12 months?

Girish Agarwaal: See ideally it should move. It makes more sense because there are publishers those who are #3, #4 or #2 in the market not making great numbers. If they get consolidated with somebody else, the market can overall grow much faster. Yes, theoretically it looks fine but unfortunately there are no sellers sitting at the table. So, I think that is what is stopping the whole consolidation in the market.

Amit Kumar: Given the state of their finances why is it that there is nobody at the table basically?

Girish Agarwaal: I really do not know because lot of guys they are still happy making whatever money they make and some other side businesses they do and all that. So, I would not be able to really comment on their business model as such. But we do not have any proposals with us from those who want to sell out.

Moderator: Thank you. Ladies and gentlemen that seems to be the last question for today. I now hand the floor back to the management for their closing comments.

Pawan Agarwal: Thank you for your participation and time on this earnings call. I hope that we have responded adequately to your queries. We will be happy to be of assistance through our investor relation department headed by Mr. Prasoon Pandey for any further inquiries. Thank you and have a great day.