Hindustan Media Ventures Limited

October 18, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	400.0	400.0	[ICRA]A1+; reaffirmed
Long- term Borrowing Programme	25.0	25.0	[ICRA]AA+(Stable); reaffirmed
Total	**425.0**	**425.0**	

Rating action

ICRA has reaffirmed short term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus)[1] on the Rs. 400.0-crore[2] Commercial Paper programme and long-term rating outstanding of [ICRA]AA+ (pronounced ICRA double A plus) on the Rs. 25-crore long-term borrowing programme of Hindustan Media Ventures Limited ("HMVL" or "the company"). The outlook on the long-term rating continues to be 'Stable'.

Rationale

The reaffirmation of ratings continues to favourably factor in the healthy operational and business synergies of HMVL with its parent company, HT Media Limited (HTML), and strong brand recognition as well as leadership position of its key publication '*Hindustan'* in key Hindi-speaking markets in India. The ratings also take cognisance of the company's strong credit metrics, as evidenced by sizable equity base, significant unencumbered cash balances, long-term-debt free financial profile, healthy cash flows from operations and robust debt coverage indicators. While the company's operating revenues declined by 6% and 4% on year-on-year (YoY) basis in FY2018 and Q1FY2019, respectively, due to changes in taxation (GST implementation), lingering impact of demonetisation, UP election related revenue in base year and competitive pressures; the profitability was cushioned by cost optimisation programme undertaken at the Group level during FY2017 (concluded in July 2017). Notwithstanding the sharp decline in operating profits during Q1FY2019 due to adverse newsprint price movement, the profit growth momentum is expected to resume over the medium term as commodity price pressure subsides and cover price increase start yielding results. Furthermore, the advertisement revenues are expected to get a boost in H2FY2019 from the festive season and general elections in early FY2020.

Albeit favourable long-term industry growth drivers, supported by an increasing literacy rate in the key markets, offer opportunities to improve penetration and strong domestic consumption-driven growth in rural markets provide some comfort, the ratings continue to be constrained on account of the HMVL's single publication-driven revenue model and limited geographical diversity. Notwithstanding favourable demand prospects, ICRA notes that the competition in the Hindi print media sector has been growing, with most of the large print media players entering markets that have traditionally been the stronghold for *Hindustan.* This has impacted the growth in circulation revenues in FY2018 and Q1FY2019. Further, ICRA also takes note of the susceptibility of company's margins to volatility in newsprint prices (as is being witnessed currently) and vulnerability of revenue growth to economic cycles and/or specific events, on account of an advertising revenue-driven business model, inherent to the nature of the print media industry.

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[1] *For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications*
[2] *100 lakh= 1 crore= 10 million*

Going forward, the company's ability to maintain its leadership position in key markets (in the backdrop of rising competition from other major print players) and maintain its credit profile regardless of any chance funding of organic or inorganic growth initiatives through borrowings or cash pile usage, continue to remain the key rating sensitivities.

Outlook: Stable

ICRA believes that HMVL will continue to benefit from its established position in the print industry and healthy credit profile backed by consistent cash accruals and healthy liquidity. The outlook may be revised to Positive if the company is able to improve its operating profit margins by implementing successful ad-rate and cover price hikes while maintaining its stronghold in key markets. The outlook may be revised to Negative in case of a significant decline in the profit margins due to longer than anticipated price hikes in newsprint, delays in ad-rate recovery or circulation revenue losses.

Key rating drivers

Credit strengths

Healthy brand recognition and leadership position of *Hindustan* in key Hindi-speaking states - HMVL's key publication – *Hindustan* – is a leading Hindi daily, with circulation of 2.76 million copies[3] per day. It is ranked third in the Hindi daily segment and fourth highest circulated daily across languages in India as per the Audit Bureau of Circulations. As per the Indian Readership Survey (IRS) 2017, it is among the top newspapers in key Hindi speaking markets of Bihar, Jharkhand, Uttar Pradesh and Uttarakhand.

Healthy operational synergies within Hindustan Times Group with presence across media platforms - HMVL has strong operational linkages with its parent company–HTML-both having print media as their core business and HTML having a diversified presence across other media offerings. HTML publishes the leading English daily, Hindustan Times (circulation of 1.17 million copies per day and ranked third in the English Daily segment), and the financial daily, *Mint*. HTML also has considerable presence in the radio space (owns 15 frequencies in 13 cities branded under *Fever 104 FM* and *Radio Nasha*), digital (online versions of the key publications - *HT.com, Live Mint .com, Live Hindustan.com*- along with *shine.com*, *desimartini.com and HT Campus)* and multimedia content development. This provides operational synergies through leveraging a common brand with access to advanced technology and infrastructure (all investments towards same core business), common marketing teams, shared sourcing team among several others.

High financial flexibility and comfortable debt protection metrics – Despite the decline in operating income (6% YoY in FY2018) and profits (~11% YoY in FY2018) in FY2018, HMVL's financial profile continues to remain strong. This is evidenced by healthy cash accruals (~Rs. 182 crores in FY2018), a sizeable equity base (tangible net worth of ~Rs. 1331 crore as on March 31, 2018), low gearing (0.1 times as on March 31, 2018) and sizeable cash surplus (~Rs. 1,000 crore as on June 30, 2018) leading to comfortable coverage indicators.

Favourable industry growth drivers albeit competition may prevent margin expansion - Vernacular and Hindi newspapers have been driving the print industry growth momentum and are likely to continue doing so over the medium term. Their growth would be supported by improving literacy rates, higher penetration, strong domestic consumption-driven growth in markets, increasing hyper localisation, among other factors. While *Hindustan* enjoys leadership position, increased competition from peers is likely to prevent significant margin expansion over the medium term.

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[3]*As per data reported by the Audit Bureau of Circulation (ABC) for the July–December 2017 period. The ranking is amongst the member publications only.*

Credit challenges

Single-publication driven revenue model with limited geographical diversity – HMVL derives nearly entirety of its revenues from its key publication *Hindustan.* Moreover, more than three-fourth of its overall revenues emanate from Bihar, Jharkhand and UP markets. While segmental and geographical diversification of revenues remains a concern, operational synergies with parent company's English publications and HT group's diversified presence across media platforms –radio, internet, mobile -mitigates the risk to an extent.

Incremental investment requirement for maintaining market position in an intensely competitive industry; loss funding in new businesses – In the Hindi print segment, *Hindustan* faces competition from Dainik Bhaskar, Dainik Jagran, Amar Ujala among others. Increased competition in its key markets – Bihar and UP - has necessitated incremental investment in increasing circulation to maintain market leadership. While the high newsprint cost has driven the cover price hike across markets in Q1FY2019, the loss of copies and/or shift towards more subscription copies may impact company's circulation revenues while the investment requirements remain high. Going forward, the B2C division of Bridge School of Management which is into higher education business is proposed to be transferred from HTML to HMVL. This segment would also require funding support over then near to medium term.

Susceptibility of operating profit margins to global newsprint prices and foreign exchange fluctuations - As newsprint accounts for nearly 60% of the company's operating costs, its profitability is vulnerable to movements in its prices. Furthermore, since majority of its newsprint requirements were being met through imported newsprint over last few years, the cost is also susceptible to adverse movement in domestic currency. The on-going inflationary cycle in newsprint prices and depreciating rupee are likely to impacting the margins over next two to three quarters, as already witnessed in Q1FY2019. However, the HT group's bulk procurement capabilities and extensive relationship with the suppliers partially mitigates the risk.

Vulnerability of revenues to economic cycles and socio-politico events - The business model for newspaper publishers is susceptible to advertisers' preference based on the consumption cycles of the populace. These in turn are impacted by multitude socio-economic and political factors. Since the impact of such events varies among industries in the economy, the risk to revenues can be partially mitigated by a well-diversified end-user client profile, as available to HMVL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Print Media Industry

About the company

HMVL is a Patna-based company, primarily involved in the newspaper publishing industry. It is a part of the Hindustan Times Group, with 74.3% shareholding with HTML, and publishes the leading Hindi daily newspaper, *Hindustan*. The flagship publication of HMVL has one of the largest readership in key Hindi-speaking markets of Bihar and Jharkhand, with a strong and growing presence in Delhi NCR, UP and Uttarakhand. HMVL also publishes two Hindi magazines '*Nandan*', a children's magazine, and '*Kadambini*', a general interest magazine. Under a proposed realignment of businesses within the group, higher education segment – comprising of Bridge School of Management – is proposed to be transferred from HTML to HMVL. The Scheme of arrangement for the same is awaiting regulatory approvals.

Key financial indicators

	FY2017	FY2018
OI (Rs. crore)	933.3	880.1
PAT (Rs. crore)	193.6	171.2
OPBDIT/ OI (%)	22.1%	20.6%
RoCE (%)	23.1%	17.5%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.6	0.6
Interest Coverage (times)	12.8	16.0

*Source: Company results; ICRA research *Limited results; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; RoCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
					Oct-18	Sep-17	Jul-17*	May-17	Nov-16	Sep-16	Oct-15
1	Commercial Paper Programme	Short Term	**400.0**	**170.0**	**[ICRA]A1+**	**[ICRA]A1+**			**[ICRA]A1+**		**[ICRA]A1+**
2	Long Term Borrowing Programme	Long Term	**25.0**	**Nil**	**[ICRA]AA+ (stable)**	**[ICRA]AA+ (stable)**			**[ICRA]AA+ (stable)**		**[ICRA]AA+ (stable)**

* Update on Q1FY2018 results

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE871K14240	Commercial paper	Sep-18	--	Nov-18	60.0	[ICRA]A1+
INE871K14232	Commercial paper	Sep-18	--	Nov-18	50.0	[ICRA]A1+
INE871K14224	Commercial paper	Sep-18	--	Nov-18	60.0	[ICRA]A1+
NA	Unallocated Commercial Paper	NA	--	NA	230.0	[ICRA]A1+
NA	Long term Borrowing Programe	NA	--	--	25.0	[ICRA]AA+(stable)

Source: HMVL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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