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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Hindustan Media Ventures Limited

CRISIL Equities has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Hindustan Media Ventures Limited (HMVL). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to HMVL takes into account its presence in the Hindi newspaper industry, which is expected to grow faster than the overall newspaper industry. The higher growth in the Hindi newspaper industry is expected as a result of a rise in readership due to an improvement in literacy rate, increasing penetration and strong domestic consumption-driven growth in the rural markets especially where HMVL is present. HMVL's newspaper 'Hindustan', the third largest Hindi newspaper with readership of 9.9 mn (Source: IRS – Q1 2010), is poised to benefit given the strong growth potential. HMVL is the market leader in Bihar/Jharkhand, the second largest Hindi daily in Delhi/NCR and the third largest Hindi daily in UP/Uttarakhand.

The grade also takes into account HMVL's strategy to deepen its presence in the existing markets through (a) establishing new printing units in sub-pockets and (b) increasing the printing capacities of its existing units. Also, the company's plans to consume higher proportion of domestic newsprint will help reduce overall newsprint cost and effectively manage raw material costs. The grade also factors in HMVL's zero debt position post the IPO.

The Hindi newspaper business was carved out from HT Media, the parent company, in December 2009. However, CRISIL Equities believes that synergies between the parent company and HMVL will continue to benefit HMVL in terms of access to national content, combined go-to-the-market options, raw material procurement, industry experience and corporate governance practices.

The grade has factored in the entry of DB Corp (the second largest Hindi daily) in Bihar/Jharkhand expected in H2CY10, which will increase competition in the region. Also, in UP/Uttarakhand, which is the largest market for Hindi newspapers, HMVL currently has a smaller presence compared to competitors like Dainik Jagran and Amar Ujjala.

About the company and the issue

Hindustan Media Ventures Limited (HMVL) is a 98.85% subsidiary of HT Media Ltd (HT Media), a leading print media company in India. HMVL was incorporated in 1918 under the name The Behar Journalist Ltd. The company primarily used to undertake printing and job work for 'Hindustan', the then Hindi newspaper of the HT Media. In November 2008, the name of the company was changed to Hindustan Media Ventures Ltd. In November 2009, HMVL purchased the Hindi newspaper business from HT Media, comprising Hindi daily newspaper 'Hindustan' along with 'Ravivasriya Hindustan', 'Nandan' and 'Kadambini' magazines, and the internet portal of the said publications, including all assets, liabilities and employees pertaining to the Hindi business. The purchase was done on a slump sale basis for a total consideration of ~Rs 1.4 bn.

HMVL publishes four editions and 113 sub-editions of 'Hindustan'. Over the years, HMVL has spread across Delhi/NCR, Bihar/Jharkhand, UP/Uttarakhand and Chandigarh with printing carried out at 16 facilities and an installed capacity of 0.78 mn copies per hour.

Since the Hindi newspaper business was carved out into HMVL recently, the financials for 9MFY10 include eight months of job work done for the Hindi newspaper business for the parent company and one month of Hindi newspaper sales. Thus, the company's financials for 9MFY10 are not comparable with its historical financials. For 9MFY10, the company posted revenue of Rs 514 mn which included Rs 141 mn as the job work-related revenue for 8MFY10. It also includes Rs 256 mn as the advertisement revenue and Rs 103 mn as the circulation revenue only for the month of December 2009. For 9MFY10, the EBITDA margin was 14.8% and the PAT margin was 6.8%. The EBITDA and PAT margins will improve going forward as the Hindi newspaper business had recorded a higher EBITDA margin of 20.5% and PAT margin of 11.3% for 8MFY10.

HMVL is a professionally run company and focuses a lot on adopting good corporate governance practices. It is a subsidiary of HT Media which has been acknowledged as one of the top 25 companies adopting good corporate governance practices for 2009 by the Institute of Company Secretaries of India. HMVL draws its governance practices from HT Media itself and is expected to have similar robust board practices. HMVL has a completely different senior and second line of management. CRISIL Equities believes that the management is capable and has been given reasonable autonomy to take business decisions independently.

The IPO proceeds will be utilised by HMVL to finance setting up of new publishing units amounting to Rs 660 mn and upgrading existing plant and machinery amounting to Rs 550 mn. Part of the proceeds will also be utilised to repay the existing loan amount of Rs 1,350 mn and to finance general corporate expenses.

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