ECON/FIN F-315 FINANCIAL MANAGEMENT COURSE ASSIGNMENT

PART-2: QUALITATIVE ANALYSIS

COMPANY ALLOTTED: HINDUSTAN MEDIA VENTURES LTD.

SUBMITTED BY:

AKASH CHANDRA	2020A2PS1773P
AKHAND PRATAP SINGH	2020A2PS1753P
AMAN GOYAL	2020A2PS0245P
DEEPANSHU GUPTA	2020B4PS1276P
GAURANG KRISHNA	2020A2PS1489P

COURSE IC:
DR. RAJAN PANDEY

Part I: Fundamental Financials of the Company

A) Industry classification

Hindustan Media Ventures Ltd. is a publishing company that publishes the "Hindustan" Hindi newspaper, covering news across the entire spectrum of international, national, and local news related to business, politics, business, sports, and other general interests.

Patent organization: HT Media

Headquarters: India

Subsidiaries: HT Content Studio LLP, Ht Learning Centers Limited

Founded: 1918 (the firm is about 104 years old), Its IPO was launched on July 21, 2010.

B) Last 3 years' ratio analysis:

Variables	FY22	FY21	FY20	Company Average	Industry Average
P/E ratio	7.99	6.34	7.63	7.32	10.2167
Tobin's-q ratio	0.01	0.02	0.02	0.017	0.016
EBITDA / Total Assets (%)	12.93	22.75	26.13	20.60	9.76
Enterprise Value / EBITDA	6.13	3.71	1.63	3.82	-0.75
Intangible assets / Total assets (%)	3.1	3.24	3.51	3.28	1.97
Dividend yield (%)	0.00	0.00	0.00	0.00	1.88
Total liabilities / Total Assets (%)	22.2	24.8	27.2	24.73	28.23
Long-term debt / Total Assets (%)	0.72	2.35	4.21	2.43	0.14
Total asset turnover	0.31	0.33	0.41	0.35	0.5767
Return on assets (%)	1.85	3.29	6.05	3.73	7.68
Growth rate in sales (%)	12.16	-21.28	-7.66	-5.59	12.77
Net Profit margin (%)	5.43	10.46	14.95	10.28	11.4217
Operating Profit Margin	8.47	17.17	22.28	15.97	17.49
Return on Equity	2.55	4.38	7.68	4.87	12.94
Free cash flows (Cr.)	52.18	152.93	121.11	108.74	175.53 Cr.

- **HMV Ltd.** has a **Price to Earnings ratio of 7.32** (3-year average), which is lower than the industry average. It signifies that its stock is **undervalued** and can perform better in upcoming years.

- The company has a **Tobin's-q ratio** of **0.017** which is very **less than 1**. Implying that the company is **undervalued** and its market value of assets is lower than the book value.

- The company has an EBITDA/Total asset ratio of 20.6% which has been **decreasing for 3 year**s and an **Enterprise value/EBITDA ratio of 3.82%** which has been increasing for 3 years, both ratios are much higher than their industry average numbers, which signifies that company has a **good EBITDA** and is using its assets properly to generate sales.

- The company has **very few Intangible assets**, **3.28%** of total assets, implying that the company doesn't own many patents and doesn't have protection from unauthorized exploitation of its technologies and inventions.

- The company has paid **no dividends in the last 3 years**, meanwhile, its competitors have an average dividend yield of 1.88%.

- **Total Liabilities/Total Asset being 24.73%** shows that the company doesn't have many outstanding liabilities to pay as compared to its industry average, also there is a decrease in the ratio shows the **company is decreasing its liabilities every yea**r.

- There has been a **substantial decrease in the total long-term debt/total asset ratio**. This means the company is paying back its debt every year, but it still has higher debt than its industry average.

- The company has had more or less the **same total asset turnover ratio for 3 years**, but it's lower than its industry average, which means the company needs to **use its assets wisely** to generate sales. Also, the company's **Return on assets** is also **decreasing** for 3 years, showing it's not able to manage its assets wisely.

- The company has seen **positive growth in sales** during the last financial year, showing its improvement upon its sales, but on the other hand **net profit margin has decreased from 14.95% to 5.43% in 3 years**, which implies that the

company is decreasing the price to generate more sale and beat its competitors, which in turn is decreasing its profit margins

- Following the trend of net profit margins, the **operating profit margin and free cash flows have also decreased since last year**, showing that the firm is not able to generate operating profit the same as before, due to price decrement.

- **Return on Equity** has fallen from **7.68% to 2.55%** showing the company is not performing very well on the stock markets and is **not able to provide good returns to its shareholders.**

C) About the board directors:

1. Is it a family-run business?

   No, It is a publicly traded company listed in stock exchange

2. Size of board

   8

3. Is the Chairman of the Board also the top manager of the firm (i.e. whether it's a case of CEO Duality), if so, is it benefitting the company? If CEO duality is not the case, mention the same and briefly highlight its impact on the firm's decision-making for your company

   - **No, Shobhana Bhartia** is the chairperson of the board while the CEO's position is held by **Mr. Samudra Bhattacharya**

   - Since no member of the board is holding an executive position in the company, it is greatly affecting the overall decision making process due to conflict of interests. We can clearly see its impact on the company with its **dropping revenue** even during the stable periods

4. Gender Diversity on the Board of Directors

- Out of the 8 board members, 6 of them are male and there are only two female members in the board of directors which is a clear indication that the board **lacks gender diversity**
- Although the position of chairperson is held by **Mrs. Shobhana Bhartia,** but the voting majority lies with the male members

5. Number of independent directors?

4 (Mr Ashwani Windlass, Dr. Mukesh Aghi, Ms. Savitri Kunadi, Mr. Sameer Singh)

6. Brief background of executive and non-executive directors – age, experience, qualification, competence etc.

NAME	AGE	EXPERIENCE	QUALIFICATION	AWARDS
Shobhana Bhartia	65	• 30 years of experience in the media industry • Current Pro-chancellor of BITS	Former Member of Rajya Sabha	• Global Leader of tomorrow, World Economic Forum, Davos 1996 • Padma Shri
Ashwani Windlass	67	• Chairman: SA and JVs • Managing Director: Hutchison	MBA from FMS	Gold Medal in journalism from Punjab University

		Max Telecom		
Savitri Kunadi	56	• First Secretary in Indian Embassy in Warsaw • Permanent member of India in UNESCO	Master's degree from University of Rajasthan in History and Political Science	None
Sameer Singh	56	• Head of Global Business Solutions for Asia	MBA from IIM Calcutta	None
Priyavrat Bhartia	59	• 25 years of experience in the fields of engineering, management, and finance • Director: Jubilant Enpro Pvt. Ltd	Masters degree in Business Administration from Stanford University	Gold Medalist at Stanford University
Shamit Bhartia	44	• Corporate Finance	Degree in Economics from	None

		and M&A Group, Lazard Frere	Dartmouth College, USA	
Praveen Someshwar	65	• 24 years experience at PepsiCo	CA/ICWA	PepsiCo's
Mukesh Aghi	66	• Member of board at L&T infotech	Advanced Business diploma from Harvard Business School	JRD Tata Leadership Awards

7. Auditor of the company : BSR and associates CA FIRM REGISTRATION NO. - 128901W

8. Auditor's experience regarding evaluating the financial statements of the company: Excerpts from the Auditor's report: "Based on the internal control over financial reporting criteria established by the Company taking into consideration the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting, we believe the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2018".

On assessing the above information, we found that there are **no members** in the board of directors who are holding an **executive management position** in the company. This creates a clear communication gap which greatly affects the decision making as there may be conflict of interests between top members of boards and management team. This has been clearly reflected in the dropping revenues of the company.

Yes, there is an **information asymmetry** between the board and top management.

Part II : IPO Analysis

INTRODUCTION:

IPO stands for Initial Public Offering, and as the name suggests, this is the first instance in the life of a company where it sells its shares to the general public in exchange for capital. The capital raised from an IPO may be used in various ways such as business expansion or shedding off the firm's liabilities. There are broadly two ways in which a company can issue shares, the first being a Fresh issue where the proceeds from the sale of new shares are used by the company, and the second being an Offer for sale, where money received is used by the promoter/investor selling the shares and not the company.

IPO analysis is a tricky process and requires a good amount of expertise as well as experience.
Although some of the indicators used by professional investors include the following:

1. Financials Performance: Profitability chart of the Company over the last 3-5 years.

2. The purpose behind the Company going for an IPO: The red herring prospectus of the IPO issue must be analyzed in order to decipher how the money mobilized through the IPO would be used.

3. Subscription Rate Analysis: An IPO may be oversubscribed or undersubscribed, an undersubscribed IPO is usually not preferred for investment as this indicates that the investors of the company are not much confident about the future performance of the company.

4. Future Prospects: The plans of the company in the foreseeable future also need to be analyzed. Investors must ensure that the profits are used to expand and are at par with peers in the industry.

Hindustan Media Ventures Ltd. Objects of the Issue:

The foundation of HMV Ltd. was laid in 1918 when India was still under British colonial rule. It has maintained its rich heritage and is currently the third largest daily newspaper in the country. The daily name ‘Hindustan’ has immense popularity in the Hindi belt of North India with almost 9 million readers.

HMV Ltd. came out with an Initial Public Offering(IPO) on 5th July 2010 to mobilize 270 Cr., with a fresh issue of equity shares having a face value of Rs. 10 and issue price in the range of 162 to 175 per share. The lead underwriters of the IPO were Edelweiss Financial Services Ltd. and Kotak Mahindra Capital Company Ltd. The company got listed on NSE as well as BSE on 21st July 2010. The company shares gained about 13% on the listing date, which indicates that the IPO was underpriced.

The objects of the IPO mentioned in the Red Herring Prospectus(RHP) include:

1. 8 new publishing units worth Rs. 66 crore are to be set up by FY 12.

2. Upgradation of existing plant and machinery for Rs. 55 crore during FY11.

3. Immediate pre-payment of unsecured loans, borrowed for discharging purchase consideration for Hindi business acquired from ht Media in Dec 2009 worth Rs. 135 crores.

IPO Success or Failure?

All the utilization of IPO money has been mentioned in the Objects of Issue section of the prospectus. The response to the IPO at the time of its launch was considered to be positive due to 3.16 times oversubscription which suggested strong investor interest. After the listing of the stock on NSE as well as BSE, the price of the stock increased significantly and thus boosted the market capitalization of the company.

Upon comparing the financials of the company in FY 10 and FY 11 it can be observed that the Long term borrowing of 135 crores to acquire business from HT Media Ltd. was entirely paid off by the end of FY 11. The total assets of the company also show significant growth during the span of FY10 and FY11.

Overall, the IPO of HMVL was considered to be a **success.**

Company performance post IPO:

The performance of the company has been mixed ever since the launch of the IPO due to the **volatile nature of the media industry**. The advertising revenue proves to be a major chunk of the entire revenue generated by the company which keeps on varying due to the seasonal nature of political elections and events of public attention.
Over the past 3-4 years, the COVID-19 pandemic has had a significant impact on the media industry.

In a nutshell, it is very difficult to comment upon whether the stock has performed better or worse after the launch of its IPO as the stock has been subjected to constant fluctuations due to various market conditions.

Part III : Price Movement Analysis

- There are multiple factors contributing to the underperformance of our company in recent times, with the primary cause being the **unsatisfactory financial performance** of Hindustan Media Ventures Ltd. A case in point is Hindustan Media Ventures, which has demonstrated a consistent decline in quarterly profits over the past two years. HMV has reported a weak set of numbers for the fourth quarter as its **revenue in constant currency terms slumped 13%** sequentially. The **operating margins were also under pressure at 6%**. Following the results, **HMV slumped nearly 59% in the last year.** The company's earnings per share (EPS) have also shown a negative trend and have been on a continuous decline. Furthermore, the fact that **the company is not paying dividends** has deterred many investors from showing interest in it. This lack of dividend payments can be attributed to the negative net income that the company has recorded over the past year.

- The second key reason for the decline in the stock price of Hindustan Media Ventures can be attributed to the **negative news about the company** that emerged in 2021-22. One such event was the **dispute between the company and its CEO, Rajeev Bothra**, which had a significant impact on investor trust and resulted in a major decline in stock value. This was not the only instance of such disputes, as on September 28 Vivek Khanna also faced a similar issue and he had to resign eventually. Moreover, the company has **undergone three CEO changes in the last year,** which is a worrisome sign for a large organization. Additionally, Hindustan Media Ventures has attempted to pivot from **traditional newspaper media to two different digital streams**, but its performance in this area has been underwhelming, and this has further contributed to the decline in the stock price. Furthermore, the **company's efforts to merge with India Education Services Private Limited failed** in two consecutive attempts, and only in the third attempt were they able to obtain tribunal approval for the merger.

- The third and final primary reason for the decline in our company's stock price can be attributed to the **changing industry and market conditions in the publishing sector**. Many companies in the media industry have been experiencing a **similar trend in net income** and a continuous decline in stock prices over the past year. **Increased competition within the media sector** has also led to reduced profitability for our company. Hindustan Media Ventures has struggled to compete with its rivals and has failed to generate positive profits over the past year. Additionally, the publishing industry has undergone regulatory changes regarding what can be published and how much can be published. **Navneet Education Limited**, which is our main competitor, has experienced significant gains in its stock position over the last year. Other competitors such as Print Digital Media, DigiContent Limited, Info Press Media Limited, and Quint Media Limited have already transitioned to digital media, while our company was slightly late in making this shift. As a result, Hindustan Media Ventures has been **unable to keep up with the digital media trend**.

Are the reasons deducible from the analysis carried out in Part I and II?

Hindustan Media Ventures Limited stock price has experienced a significant decline, and this can be attributed to several key factors identified in our analysis. Over the past year, the **company's financial results have consistently reflected negative income**, which has gradually decreased over time. These announcements have had a strong impact on the company's stock prices. Additionally, the company has experienced **instability in its top management**, with frequent changes in CEO positions. Furthermore, the fact that the top three executives are from the same family has created an **information asymmetry between the company and its top management.** The company's poor performance can also be attributed to **increased competition** within the media industry and **economic downturns**, which have resulted in decreased investor confidence and a sell-off of shares, ultimately leading to a decline in share prices. Our analysis also revealed that the company's performance has been particularly impacted by the COVID-19 pandemic, with **economic recession** significantly affecting its operations

Conclusion :

The recent decline in our company's overall performance can be attributed to the following factors:

- **Quarterly Result Announcement:** Every time our company has announced its quarterly results, the stock price has seen a significant decline because of the negative numbers of Net Income, EPS, EBITDA etc.Due to which more investors are willing to sell off their shares instead of buying new ones, it has created selling pressure, further contributing to the decline in stock price.

- **No Dividend Payment:** The company has not paid dividends to its investors for the last few years, which has resulted in an opportunity cost for investors who could have invested in other shares.

- **Incompetent and Unstable Top Management:** The company's top management seems to be significantly incompetent, as they have not taken any significant steps to fight off competitors who have entered the digital world or promoted their company in several ways.CEO of the company has changed 3 times over past 1 year which may be best cited the result of declining stock's prices of company.

- **Overvaluation:** The company's stock price is overvalued compared to the market average, which has proved to be a sign for investors to avoid purchasing the shares.

- **Lack of Investment And Raising Capital:** Due to the declining stock price, the company has not been able to spend much on the investment for the company. The company executives have become more conservative about the expansion of the company. Due to the company's poor performance and declining prices, the company has not been able to raise capital for the last year.

In summary, the decline in our company's stock price is justified due to the combination of several factors, including poor performance, lack of investment, and incompetent top management. The company's overvaluation and non-payment of dividends have also contributed to the decline in stock prices. These factors have created selling pressure to the investors, making it difficult for the company to raise capital and expand.

- **IPO Analysis:** Two of the primary objectives behind coming out with an IPO was to settle the long term borrowings of 135 Cr. and put the rest of the capital aside for investment. Although experienced IPO analysts are of the opinion that the capital mobilized through an IPO should not be used to settle debt obligations and instead should be used for scaling up the company.
- Overall, the IPO was subject to mixed reactions from the general public due to the highly volatile nature of the media industry.