

ANNEXURE I

IPO GRADING



(One-time assessment)

Hindustan Media Ventures Limited IPO Grading Rationale

Hindustan Media Ventures Limited

CRISIL IPO Grade 4/5 (Above average)

May 17, 2010

Grading summary

CRISIL Equities has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Hindustan Media Ventures Ltd (HMVL). This grade indicates that the fundamentals of the IPO are **above average** relative to the 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

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, 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.

Since HMVL was carved out recently, the financials for 9MFY10 include 8 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.

Contacts:

Media

Mitu Samar
Head, Market Development &
Communications

CRISIL Limited
Phone: +91-22-3342 1838
Mobile: +91-9820061934
Fax: +91-22-3342 3001
Email: msamar@crisil.com

Analytical

Tarun Bhatia
Director – Capital Markets
Phone: +91-22-3342 3226
Email: tbhatia@crisil.com

Chetan Majithia
Head, Equities
Phone: +91-22-3342 4148
Email:
chetanmajithia@crisil.com

CRISIL Limited
Phone: +91-22-3342 3000
Fax: +91-22 -3342 3501

Client - servicing

Client servicing
Phone: +91-22-3342 3561
Email:
clientservicing@crisil.com

1



About the company

Hindustan Media Ventures Ltd (HMTV) is a 98.85% subsidiary of the HT Media Ltd (HT Media), a leading print media company in India. HMTV 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, HMTV purchased the Hindi 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.

HMTV publishes four editions and 113 sub-editions of 'Hindustan'. Over the years, HMTV 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. 'Hindustan' is the third largest Hindi daily newspaper in India with a readership base of 9.9 mn readers (source: IRS Q1 2010). Hindustan is the market leader in Bihar/Jharkhand and is the second largest Hindi daily in Delhi. It ranks third amongst the Hindi dailies in UP/Uttarakhand.

2

Issue details

Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the Issue	<ul style="list-style-type: none">• Setting up new publishing units – Rs 660 mn• Upgrading existing plant and machinery – Rs 550 mn• Repayment of loans – Rs 1,350 mn• General corporate purposes – not mentioned
Amount proposed to be raised	Rs 3,000 mn (approximate)
Price Band	Not available at the time of grading
Lead managers	Edelweiss Capital Limited, Kotak Mahindra Capital Company Limited

Detailed Grading Rationale

A. Business Prospects

- *Hindi newspaper industry is poised for >15% CAGR over the next four years*

On a readership basis, about one-third of total 172 mn Indian readers (in 2009) prefer to read Hindi dailies, followed by English, Marathi, Tamil and Telegu language dailies.

Circulation and, hence, readership are directly correlated with the economic well-being and literacy of the addressable population. Hindi-speaking states, primarily Bihar, Jharkhand, Uttar Pradesh (UP), Uttarakhand, Rajasthan, MP, Delhi and Haryana have registered strong economic growth over the past few years. Higher disposable income, improved literacy and, hence, increased penetration of newspapers will continue to drive the readership in most Hindi-speaking states. Given this backdrop, we believe the Hindi newspaper industry is poised for >15% growth over the next four years. This growth will beat the growth of the entire newspaper industry. CRISIL Research expects the Indian newspaper industry (~92% of the print media industry) to grow at a four-year CAGR of 9.6% to Rs 219 bn in 2013. During the same period, the advertisement revenue is expected to grow at a CAGR of 11.6% to Rs 145 bn and the circulation revenue is expected to grow at a CAGR of 6.1% to Rs 74 bn.

3

- *'Hindustan' is India's third most-read Hindi daily newspaper*

HMVL's newspaper 'Hindustan' is the third most-read Hindi daily in India with a readership of 9.9 mn (as per IRS Q1 2010). Dainik Jagran (16.3 mn readers) and Dainik Bhaskar (13.3 mn readers) are the leading dailies in India.

Regions	Readership (mn)	Market share (%)
Total	9.91	16.9%
Delhi/NCR	1.19	27.8%
Bihar/Jharkhand	5.83	55.7%
UP/Uttarakand	2.78	13.6%
Others	0.12	0.7%

Source: IRS Q1 2010.

- *Shift to higher proportion of domestic newsprint consumption to reduce raw material cost*

Over the years, HMVL has been using newsprint which is a mix of imported (30-40% costlier than domestic newsprint) and domestic newsprint. The 30:70 mix of imported to domestic newsprint resulted in an overall increase in cost per copy. Hence, HMVL's raw material cost has been in the range of 50% to 55% of revenues during FY07-09 as against 35% to 50% for other Hindi newspaper companies. However, HMVL now uses more of domestic newsprint, which has reduced its raw material cost to 40% of 8MFY10 revenues.

- *Synergies on being part of HT Media*

As a part of HT Media group, HMVL derives synergies in various forms from the parent company. Use of existing printing infrastructure, strong relationship with advertisers build over more than 70 years, economies

of scale in procuring materials (mainly newsprint and ink), riding on distribution reach established over the years are few of the many benefits that would accrue to HMVL.

HMVL and HT Media have entered into various agreements - sales, printing, representative and support services. As indicated to us by the management, prices for all mutual services offered are at arm's length commercial terms and have been specified in the agreement. The same has also been vetted by the company's auditor and consultant for carve out of the Hindi newspaper business.

Management synergies:

The two companies have a common Chairperson - Ms Shobhana Bhartia. She is the chairperson at HMVL as well as in HT Media. Also, some key management personnel at HMVL used to be a part of HT Media for a long period and, hence, are aware of the group's philosophies and values. Further, the relationship with HT Media will ensure access to national and international news which will help enhance editorial content of the newspaper.

4

- *Strong balance sheet*

HMVL has a debt of Rs 1,350 mn which was taken to finance the purchase of Hindi newspaper business from the parent company. HMVL plans to utilise part of the IPO proceeds to repay the entire amount of debt. We believe that zero debt significantly improves the financial profile of the company and will support its future expansion plans.

- *Dainik Jagran and Amar Ujala dominate the UP/Uttarakhand market*

HMVL currently holds a smaller share of the overall UP/Uttarakhand advertisement market. HMVL faces stiff competition from Dainik Jagran (DJ) and Amar Ujala (AU) in this region. DJ and AU combined have a strong foothold with around 80% of the total advertisement market. Given the mammoth presence of DJ and AU in the region, which has been established over many decades, HMVL will face a stiff challenge.

- *Competition from DB Corp in Bihar/Jharkhand*

HMVL is the market leader in Bihar/Jharkhand. DB Corp is a recent entrant in that region and is expected to follow the market penetration strategy of lower cover price for its newspaper. It has initiated its pre-launch process and plans to gradually penetrate the region starting with Jharkand in H2CY10. However, HMVL is geared up to face the competition.

- *Exposure to ad-for-equity nature of advertisement revenue*

Currently, HMVL has no such exposure where it takes equity stake in companies for providing advertisement inventory in its newspapers. The HT Media group has adopted this strategy to the extent of 7% of the total advertisement revenue. In the past, during bad capital markets HT Media had to write down some portion of the investment book. HMVL does not have such exposure currently, but it would be a key monitorable if it had any.

B. Financial Performance

Historically, the company has been involved in doing job-work for the parent company for the Hindi newspaper business. On December 2009, the company purchased the Hindi newspaper business from the parent company for Rs 1,430 mn, which included purchase of assets and related working capital. HMVL had raised debt worth Rs 1,350 mn to fund this purchase. Thus, 9MFY10 financials 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, Rs 256 mn as the advertisement revenue and Rs103 mn as the circulation revenue for the month of December 2010. For 9MFY10, the EBITDA margin was 14.8% and the PAT margin was 6.8%. For FY05-09, due to dependence on the low-margin job-work business, the EBITDA margin has been in the range of 2.9% to 9.5% and the PAT margin has been in the range of -0.7% to 5%. As of end-FY10, the company had a debt of Rs1,350 mn.

The Hindi newspaper business had revenue of Rs 2.8 bn for 8MFY10 with EBITDA margin of 20.5% and PAT margin of 11.3%. For 8MFY10, the advertisement to circulation revenue ratio was 70:30 as against 59:41 in FY07. For FY07-09, due to investments in new editions, the EBITDA margin has been low in the range of -3.8% to 3.8% with a net loss for the three-year period. The Hindi business has historically had zero debt on its books.

5

Financial performance snapshot

		FY08 Actual 12 months	FY09 Actual 12 months	9MFY10 Actual 9 months
Operating income	Rs mn	168	176	521
Operating margins	%	4.7	2.9	14.8
Net profits	Rs mn	3	1	36
Net margins	%	1.7	0.7	6.8
ROCE	%	5.0	1.7	8.1
RONW	%	3.0	1.1	25.0
Basic EPS	Rs	0.7	0.2	5.1
Diluted EPS	Rs	0.7	0.2	5.1
No. of equity shares	Mn.	4.0	7.0	7.0
Net worth	Rs mn	111	113	173
Book value (FV Rs 10)	Rs	27.9	16.2	24.7
Current ratio	Times	1.8	1.6	1.1

* Note: Numbers have been re-classified as per CRISIL standards
Source: DRHP

C. Management Capabilities and Corporate Governance

HMVL has a strong management team. The senior management comprises people with a lot of experience in diverse industries. The chairman, one independent director, one non-executive director and the whole-time director are common to HT Media and HMVL - drawing synergies as well as focus. The management is highly professional and focuses a lot on adopting good corporate governance practices.

HMVL has a strong and experienced second line in place. Majority of them have been associated with the HT Media group and have tremendous experience in the industry. Other functional heads have good domain expertise and are well aware of the business opportunities, their strengths and weaknesses. We feel that the second line of management is capable and has been given adequate autonomy to take independent decisions.

Independent directors have a fair understanding of the sections of the overall business of the company. The board includes Mr. Ajay Relan, who is also an independent director on the board of the parent company. The board includes people like Mr. Ashwini Windlass, who has over 30 years of experience; he was managing director of Hutchinson Max Telecom, a founder member of Max India Limited, and vice chairman and MD of Reliance Telecom Ltd.

HT Media has been acknowledged as one of the top 25 companies adopting good corporate governance practices for 2009 by Institute of Company Secretaries of India. HMVL draws its governance practices from HT Media. As per our discussions, we believe that HMVL is implementing sound board practices.

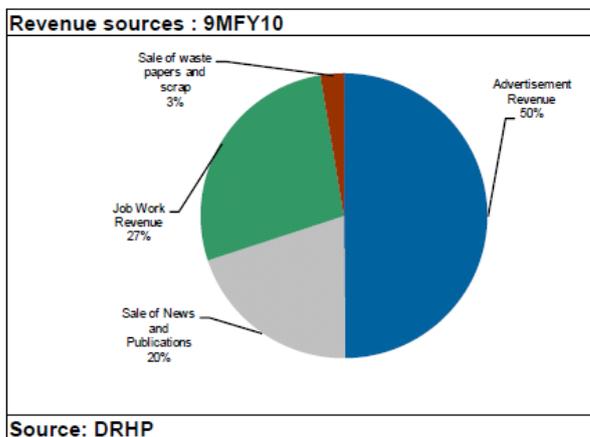
Annexure I Business Profile

HMVL has only one business line viz. print media, largely comprising the Hindi newspaper business. Magazines form a very small part of the overall business along with event management which is used as a support function to the print media business. The publication of 'Hindustan' was started in 1936 and has evolved as one of the renowned Hindi newspaper dailies over the past 74 years. HMVL publishes four editions and 113 sub-editions of 'Hindustan'. Over the years, HMVL has spread to 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. 'Hindustan' is the third largest Hindi daily newspaper in India with a readership base of 9.9 mn readers (source: IRS, Q1 2010).

HMVL's editorial team comprises ~775 editorial and reporting staff, headed by Mr Shashi Shekhar who has over 29 years of experience in journalism.

HMVL derives its revenues primarily from two sources: circulation and advertisement. Hindi newspaper dailies generally command a higher cover price. Advertisement revenues comprise a significant portion of the companies' revenue (69% of the Hindi business). The advertising rates for Hindi and other regional dailies are generally lower than that of the English dailies primarily because of the profile of the target market.

Historically, the company has been involved in doing job-work for the parent company for the Hindi newspaper business. On December 2009, the company purchased the Hindi newspaper business from the parent company for a total consideration of Rs 1,430 mn which included purchase of assets and related working capital. HMVL had raised debt worth Rs 1,350 mn to fund this purchase. Thus, 9MFY10 financials are not comparable with the historical financials. HMVL reported operating revenues of Rs 513.4 mn for 9MFY10.



Management and Board Profile

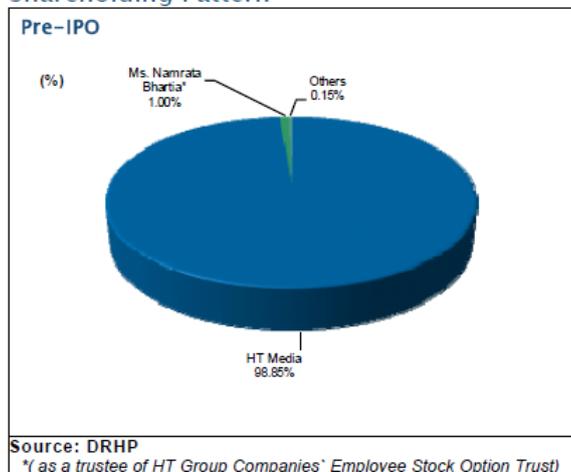
The company has a strong management in place. Ms Shobhana Bhartia is the non-executive Chairperson of HMVL's board. She is also on the board of Hindustan Times Group and HT Media. Ms Bhartia has been associated with HT Media since its inception and with HMVL since January 2010. She has over 25 years of work experience in the newspaper industry. She is also a recipient of the Padma Shri award by Government of India in 2005 for contribution to the field of journalism.

The senior management includes Mr Amit Chopra with over 13 years of experience in companies, which include HT Media, Hindustan Lever Limited and EXL India Private Limited and Mr Y C Agarwal (advisor – Hindi business and VP – Bihar/Jharkhand) with over 38 years of experience in the print media industry. The key management personnel at HMVL have more than 14 years of experience and have been associated with HT Media group for more than two years. HMVL has a strong and experienced second line of management in place. Majority of them have been associated with the HT Media group and have tremendous experience in the industry. Other functional heads have good domain expertise. We believe that adequate autonomy is given to the second line of management to take independent decisions.

8

The company's board comprises six directors which include three independent directors. The board includes Mr. Ajay Relan who is also an independent director on the board of the parent company. The board also includes people like Mr. Ashwini Windlass who has over 30 years of experience and was the former managing director of Hutchinson Max Telecom, a founder member of Max India Limited, and Vice Chairman and MD of Reliance Telecom Ltd. Mr Shardul Shroff, independent director, has experience of over 29 years as a corporate attorney in project finance, M&A, etc. He was a member of the JJ Irani Committee (2006) on corporate governance. He is also on the board of IDFC, NIIT and Ballarpur Industries. Given the diverse and vast experience, the board is well-equipped to provide guidance and exercise oversight over the management.

Shareholding Pattern





(One-time assessment)

Hindustan Media Ventures Limited IPO Grading Rationale

Annexure II: Profile of the Directors

Name of Directors	Designation	Age	Qualifications	Experience (years)	Previous Employment	Directorships / partnership in other entities
Ms. Shobhana Bhartia	Non-executive Chairperson	53	Graduate, Calcutta University	25+		The Hindustan Times Ltd Earthstone Holding Private Ltd Firefly e-Ventures Ltd Air Travel Bureau Ltd Nilgiri Plantations Ltd Goldmery Investment & Trading Company Limited Britex (India) Ltd Ronson Traders Ltd Usha Flowell Ltd Shradhanjali Investment & Trading Company Ltd Hero Honda Motors Ltd Udit (India) Ltd Yashovardhan Investment & Trading Company Ltd HT Media Ltd Earthstone Holding (One) Private Ltd Earthstone Holding (Two) Private Ltd Earthstone Holding (Three) Private Ltd HTL Investment & Trading Company Ltd
Mr. Ajay Relan	Non-executive Independent Director	56	B.A.(Economics), Delhi University Masters in Business Administration, IIM Ahmedabad	25+	Citicorp Venture Capital India CEO, Citicorp Securities & Investments Ltd	CX Advisors Private Ltd Suzlon Energy Ltd HT Media Ltd Micro Abrasives India Private Ltd Bendochy Agro-Products Private Ltd
Mr. Ashwani Windlass	Non-executive Independent Director	53	B.Com & Graduate in Journalism, Punjab University, Chandigarh Masters in Business Administration (finance & marketing), FMS, Delhi University	30+	Setting & managing of joint ventures in India with the Hutchison Group, Hong Kong; British Telecom UK, Comsat Corporation, USA, Avnet USA and Royal Gist Brocades, Holland; Elf Atochem (Total Group), 120 France, MGRM Technologies Inc. USA, Developed strategic relationships with AT&T, Motorola and Siemens, Managing director of Hutchison Max Telecom (now Vodafone Essar) and Vice Chairman and Managing Director of Reliance Telecom Limited. Executive Chairman, heading the Asia-Pacific responsibility for the MGRM Group.	Max India Ltd Argus eServices Private Ltd

9



(One-time assessment)

Hindustan Media Ventures Limited IPO Grading Rationale

Mr.Shardul S. Shroff	Non-executive Independent Director	54	B.Com, Sydenham College, Mumbai L.L.B, Government Law College, Mumbai	29		Infrastructure Development Finance Company Ltd Apollo Tyres Ltd NIIT Ltd Ashok Leyland Ltd DE Shaw India Advisory Services Private Ltd Nokia HCL Mobile Internet Services Ltd Ballarpur Industries Ltd Amarchand Towers Property Holdings Private Ltd Amarchand Mangaldas Properties Private Ltd Jindal Power Ltd PSNSS Properties Private Ltd Baghbaan Properties (P) Ltd
Mr. Rajiv Verma	Non-executive Director	51	Mechanical Engineering, Delhi	25+	Hindustan Lever, Nestle & Whirlpool	HT Media Ltd HT Music and Entertainment Company Ltd Firefly e-Ventures Ltd HT Digital Media Holdings Ltd HT Education Ltd HT Burda Media Ltd HT Mobile Solutions Ltd HT Learning Centers Ltd
Mr. Benoy Roychowdhury	Whole-time Director	49	Bachelor's in Economics, Presidency College, Calcutta University Post Graduate Diploma in Business Management, Xavier Labour Relations Institute, Jamshedpur	25+	Executive Director, HT Media Hindi Business Vice President, Whirlpool Regional director, Proctor& Gamble, Honk Kong Divisional Manager, Godrej Soaps	Metropolitan Media Company Private Ltd

Source: DRHP

Disclaimer

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