

Strong margin expansion

We downgrade our rating to Hold rating on HT Media and revise our TP to Rs108 as we continue to value the company on our conservative Adj. OCF/EV yield based methodology. Stock has given 27% return since we upgraded the stock to buy in Jan'17. Ad growth continues to remain challenging with a 8% decline in Q2FY18 while we have modelled 3% decline for FY18E on hope of a sharp recovery in H2FY18. Further we believe the cost measures undertaken by the management in last one year has yielded results as other expenses were down 22% YoY and employee expenses were down 20% YoY. We believe separate listing of HTDVL is unwarranted given the synergies with both HTML and HMVL.

- **Q2FY18 result ahead of expectation:** HT Media's revenue was down 7% YoY to Rs5.6bn on the back of 8% decline in blended ad revenues. However operating profit grew by 107% to Rs799mn on 1027bps margin expansion on the back of cost restructuring, cost optimization and favourable forex and newsprint cost. Radio business posted strong 18% revenue growth with operating margins at 28% compared to 18.8% in Q2FY17. Digital business posted revenue decline of 10% while EBIT loss was mere Rs116mn. Adj. PAT after MI rose 104% YoY to Rs631mn (83% above expectations).
- **Advertising continues to remain sluggish:** Advertising continues to be challenging for core print due to high level of uncertainty across industries on the account of GST implementation coupled with subdued macro environment. English ad revenue posted 8.4%YoY decline while Hindi ad revenue was down 7.7%YoY led by double digit volume decline while yields increased mid-single digit. Sectors such as auto, banking & finance, entertainment, luxury and e-commerce posted positive growth while muted ad spends in Government, education, health and fitness, real estate, FMCG and travel sector impacted growth. Circulation revenue was down ~9% on the back of rationalisation of unproductive copies in English business and increasing competition in Hindi vertical.
- **Sustainable margin expansion:** We believe the operating margins expansion witnessed in Q2FY18 is sustainable given the reduction in head count, focus on reducing fixed cost and GST set-off benefit. During the quarter employee cost was down 20% YoY (7% QoQ) while other expenses was down 22% YoY and QoQ. Management plans to transfer of B2C division of Bridge School of Management which is into higher education business from HT Media to HMVL given its synergies with Tier-II cities. Further Hindustan Times Digital Streams (HTDSL) (Revenue Rs2308mn, PAT loss of Rs93mn for FY17) along with some small properties in digital innovation business would demerge from HTML into Hindustan Times Digital Venture and list separately. HTDVL would buy the 42.8% shares of HTDSL from HMVL for Rs767mn in a cash deal while for every 4 share of HTML the shareholders would get 1 share of HTDVL. This would be the third listed entity of the group and have the digital content assets.
- **Downgrade to Hold:** We have cut our revenue estimates by 7% each for FY18E and FY19E on lower ad revenues, while operating profit estimates have been increased by 13.5% and 14.7% for FY18E and FY19E respectively on the back of prudent cost management. PAT has been increased by 6.1% for FY18E and 4.6% for FY19E. We downgrade the stock to hold and revise our TP to Rs108 as we value the company on an adjusted OCF to EV yield based methodology, taking its account five year average cash flows. Key upside risk is stronger than expected ad growth while downside risk continues to be effective utilisation of cash.

Y/E Mar (Rsmn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Var (%)
Net Sales	5,606	6,022	(6.9)	5,990	(6.4)	5,807	(3.5)
Employee cost	1,218	1,528	(20.2)	1,313	(7.2)	1,330	(8.4)
Raw Material	1,615	1,782	(9.4)	1,643	(1.7)	1,580	2.2
Admin & Other Exp	1,728	2,208	(21.7)	2,235	(22.7)	2,170	(20.4)
EBITDA	1,045	505	107.1	799	30.8	727	43.8
EBITDA margin (%)	18.6	8.4	1027 bps	13.3	531 bps	12.5	613 bps
PBT	997	736	35.5	817	22.0	707	41.0
Tax	219	224	(2.3)	239	(8.4)	212	3.2
MI & Associates	116	202		162		150	
Adjusted PAT after MI	631	309	104.0	415	51.9	345	83.0

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY15	22,815	3.7	2,604	11.4	1,937	(6.6)	8.4	10.5	10.6	13.8	5.0
FY16	25,015	9.6	3,227	12.9	1,735	(10.5)	7.5	8.7	8.2	11.8	3.4
FY17	24,521	(2.0)	2,983	12.2	1,703	(1.9)	7.4	7.9	8.5	11.1	2.2
FY18E	23,862	(2.7)	4,240	17.8	2,179	28.0	9.5	9.3	8.9	10.8	1.9
FY19E	25,559	7.1	4,702	18.4	2,459	12.9	10.7	9.6	9.6	9.6	0.9

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs108	Key Data	
CMP*	Rs102	Bloomberg Code	HTML IN
Upside	5.9%	Curr Shares O/S (mn)	232.7
Previous Target	Rs102	Diluted Shares O/S(mn)	232.7
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	23.7/365.1
Price Performance (%)*		52 Wk H / L (Rs)	108.9/68.9
	1M 6M 1Yr	5 Year H / L (Rs)	145.1/68.9
HTML IN	4.2 20.2 10.6	Daily Vol. (3M NSE Avg.)	549384
Nifty	1.5 12.0 20.1		

*as on 17 October 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-17	Mar-17	Dec-16	Sep-16
Promoter	69.5	69.5	69.5	69.5
FIs	7.7	7.3	7.4	10.3
DIs	10.2	9.4	9.6	7.3
Others	12.6	13.9	13.5	12.9

Source: BSE, *as on 17 October 2017

Earning Revision

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	23,862	25,682	(7.1)	25,559	27,512	(7.1)
EBITDA	4,240	3,735	13.5	4,702	4,098	14.7
EBITDA Margin (%)	17.8	14.5	323 bps	18.4	14.9	350 bps
PAT	2,179	2,054	6.1	2,459	2,351	4.6

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	23,862	25,770	(7.4)	25,559	27,610	(7.4)
EBITDA	4,240	3,786	12.0	4,702	4,142	13.5
PAT	2,179	1,983	9.9	2,459	2,244	9.6

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
5	5	3	95	108	13.9

*as on 17 October 2017, Source: Bloomberg, Centrum Research Estimates

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Valuation

We value HT Media on AOCF/EV yield methodology. We have ascribed 75% value to HMTL's Adj OCF and net cash as HT Media holds a 75% stake in HMTL and has been further given a 30% holding company discount. We have calculated HT Media's net cash and Adj OCF after reducing the 25% share of minority shareholders and holding company discount in HMTL. We have further ascribed a discount of 20% to historical long-term average AOCF/EV yield of FY13-17 to HMTL and arrived at a target AOCF/EV yield of 14.9% for HT Media, and hence, the implied EV/AOCF multiple of 6.7x. We use average cash flows generated over five years (and hence remain conservative) during FY15-19E and apply a 14.9% Adj OCF yield to arrive at our target EV and our TP of Rs108.

Exhibit 1: Cash Flow based Valuation

HMTL Av Adj OCF (Rs Mn) FY15-19E	1,425	5 Year average Adj. OCF Yield (AOCF/EV) - % (FY13-17)	12.5
25% share of minority shareholders	356	20% discount	14.9
30% Holding company discount	321	Implied EV/AOCF Multiple (x)	6.7
HMTL share of HMTL in Adj OCF	748		
HMTL Av Adj OCF (Rs Mn) FY15-19E	2,479	Average Adj. OCF (Rs mn) - FY15-19E	1,802
After Adjustment for HMTL	1,802	Target EV (Rs mn)	12,052
		Less: Net debt (FY19E)	(12,793)
HMTL Net Cash (Rs Mn) FY19E	13,499		
25% share of minority shareholders	3,375	Target market cap (Rs mn)	24,846
30% Holding company discount	3,037	No. of shares (mn)	231
HMTL share of HMTL in Net Cash	7,087		
HMTL Net Cash (Rs Mn) FY15-19E	19,205	Target Price/share (Rs)	108
After Adjustment for HMTL	12,793		

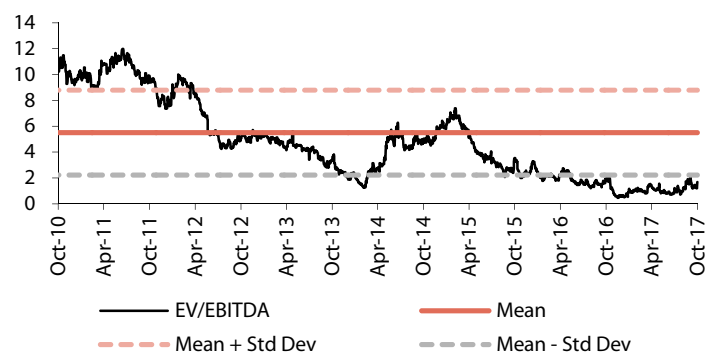
Source: Centrum Research Estimates

Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY18E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	4.1	4.3
Newsprint Cost	1	(1.6)	(1.7)

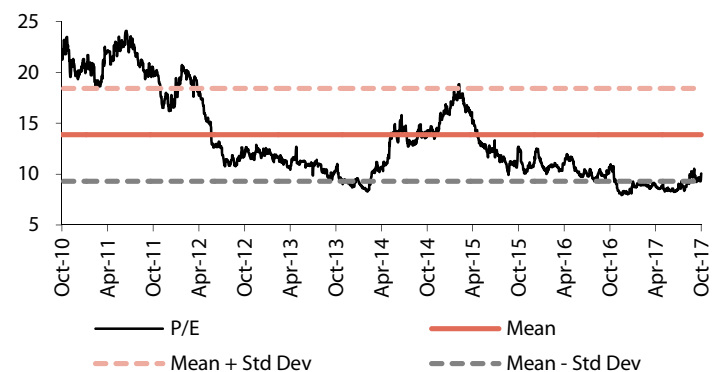
Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
HT Media	23,705	2.1	25.5	20.2	12.2	17.8	18.4	11.1	10.8	9.6	2.2	1.9	0.9	7.9	9.3	9.6	0.5	0.4	0.4
DB Corp	67,734	9.3	14.4	15.0	28.4	29.4	31.2	18.3	16.1	13.6	10.4	8.9	7.4	25.1	25	26.4	2.2	3.0	3.6
Jagran Prakashan	56,409	8.8	10.8	16.9	28.0	28.5	29.0	16.8	12.7	11.3	8.2	6.8	5.9	18.4	19.9	21.8	2.0	3.8	4.5

Source: Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 6: Quarterly Financials

Y/E Mar (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total Revenues	6,809	6,316	6,147	6,022	6,499	5,853	5,990	5,606
RM Cost	1,901	1,770	1,804	1,782	1,789	1,589	1,643	1,615
Employee Cost	1,433	1,259	1,489	1,528	1,448	1,371	1,313	1,218
Admin & Other exp	2,265	2,520	2,211	2,208	2,157	2,163	2,235	1,728
EBIDTA	1210	767	643	505	1105	731	799	1045
Depreciation/Amortisation	240.8	286.7	295.1	303.8	312	336.7	320.2	316.8
EBIT	969	480	348	201	793	394	479	729
Interest Cost	208	201	247	245	241	218	194	199
Other income	286	538	478	780	549	488	531	435
PBT from operations	1047	817	579	736	1100	664	817	965
Exceptional Items	0	0	0	0	0	0	0	31
PBT	1047	817	579	736	1100	664	817	997
Tax	195	232	186	224	36	225	239	219
PAT	852	585	392	512	1064	440	578	778
Minority Interest	165	154	168	202	150	184	162	116
Adj PAT after MI	688	431	224	309	914	256	415	631
Margins %								
Gross	72.1	72.0	70.6	70.4	72.5	72.9	72.6	71.2
EBIDTA	17.8	12.1	10.5	8.4	17.0	12.5	13.3	18.6
EBIT	14.2	7.6	5.7	3.3	12.2	6.7	8.0	13.0
PBT	15.4	12.9	9.4	12.2	16.9	11.4	13.6	17.8
PAT	12.5	9.3	6.4	8.5	16.4	7.5	9.6	13.9
Growth %								
Revenue	12.4	9.5	4.5	0.2	(4.6)	(7.3)	(2.5)	(6.9)
EBIDTA	40.4	58.8	8.7	(23.4)	(8.7)	(4.7)	24.3	107.1
Adj PAT	7.5	9.8	(9.4)	(16.0)	32.8	(40.8)	85.4	104.0
KPI's								
Ad growth %	8.4	5.8	1.5	(3.7)	(8.6)	(12.5)	(4.6)	(8.1)
Circulation Growth %	4.8	6.5	5.9	2.4	2.2	(3.8)	(7.8)	(8.7)
Radio growth %	25.0	22.2	35.4	23.1	39.3	44.2	29.5	18.4

Source: Company, Centrum Research

Exhibit 7: Assumptions

Assumptions	FY14	FY15	FY16	FY17	FY18E	FY19E
Print Ad growth %	8.8	4.4	9.0	(5.6)	(3.1)	5.2
Circulation growth %	15.4	10.8	4.0	2.6	(7.1)	5.0

Source: Company, Centrum Research

Financials

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	22,815	25,015	24,521	23,862	25,559
Material Cost	7,419	7,230	6,965	6,680	7,167
% of revenues	32.5	28.9	28.4	28.0	28.0
Employee Cost	4,835	5,487	5,835	5,077	5,432
% of revenues	21.2	21.9	23.8	21.3	21.3
Admin & other expenses	7,958	9,071	8,738	7,865	8,258
% of revenues	34.9	36.3	35.6	33.0	32.3
EBIDTA	2,604	3,227	2,983	4,240	4,702
EBIDTA Margins (%)	11.4	12.9	12.2	17.8	18.4
Depreciation & Amortisation	1,003	1,022	1,248	1,285	1,359
EBIT	1,601	2,205	1,735	2,955	3,342
Interest expenses	467	626	951	810	800
PBT from operations	1,134	1,579	784	2,145	2,542
Other income	1,757	1,562	2,295	1,880	2,010
Exceptional items	(139)	-	-	-	-
PBT	2,752	3,140	3,079	4,025	4,552
Taxes	574	803	671	1,047	1,184
Effective tax rate (%)	20.8	25.6	21.8	26.0	26.0
PAT	2,179	2,337	2,407	2,979	3,369
Minority/Associates	(380)	(459)	(488)	(800)	(910)
Adjusted PAT	1,937	1,735	1,703	2,179	2,459

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Growth ratios (%)					
Revenues	3.7	9.6	(2.0)	(2.7)	7.1
EBIDTA	(16.7)	24.0	(7.6)	42.1	10.9
Adj Net Profit	(6.6)	(10.5)	(1.9)	28.0	12.9
Margin ratios (%)					
EBITDA	11.4	12.9	12.2	17.8	18.4
PBT from operations	5.0	6.3	3.2	9.0	9.9
Adjusted PAT	9.5	9.3	9.8	12.5	13.2
Return Ratios (%)					
ROE	10.5	8.7	7.9	9.3	9.6
ROCE	10.6	8.2	8.5	8.9	9.6
RoIC	16.4	11.9	10.2	16.8	19.6
Turnover Ratios					
Gross block turnover(x)	1.9	2.1	1.6	1.4	1.4
Inventory	24.4	23.6	23.0	24.0	23.0
Receivables	49.9	54.3	48.5	50.0	50.0
Creditors	76.4	62.5	59.9	60.0	60.0
Cash conversion cycle	(2.1)	15.4	11.6	14.0	13.0
Solvency Ratios (%)					
D/E (x)	0.2	0.5	0.5	0.5	0.4
Net debt/equity	(0.7)	(0.5)	(0.6)	(0.6)	(0.7)
Interest coverage ratio (x)	3.4	3.5	1.8	3.6	4.2
Current ratio	0.9	1.2	1.0	1.3	1.5
Gross debt/EBITDA	1.4	3.4	3.8	2.7	2.0
Per Share (Rs)					
FDEPS (Adjusted)	8.4	7.5	7.4	9.5	10.7
CEPS	12.8	12.0	12.8	15.0	16.6
Book Value	83.7	90.3	96.8	105.8	115.9
Dividend	0.4	0.4	0.4	0.4	0.4
Dividend payout(%)	6.1	6.5	6.6	5.3	4.7
Valuations (x)					
PER	13.8	11.8	11.1	10.8	9.6
P/BV	1.4	1.0	0.8	1.0	0.9
EV/EBIDTA	5.0	3.4	2.2	1.9	0.9
Dividend yield(%)	0.3	0.5	0.5	0.4	0.4
5 Yr Avg AOCF/EV yield %	16.9	18.8	34.7	29.2	57.5

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	461	461	461	461	461
Reserves & Surplus	18,829	20,356	21,858	23,921	26,265
Shareholders Funds	19,290	20,818	22,319	24,382	26,726
Total Debt	3,691	10,895	11,259	11,500	9,500
Deferred Tax Liab	284	213	369	369	369
Minority Interest	1,914	2,343	3,000	3,800	4,710
Total Liabilities	25,178	34,269	36,948	40,052	41,305
Gross Block	9,573	14,110	16,867	17,867	18,867
Accumulated Depreciation	-	1,138	2,528	3,813	5,172
Net Block	9,573	12,972	14,340	14,054	13,695
Capital WIP	424	358	372	372	372
Net Fixed Assets	9,997	13,331	14,712	14,426	14,067
Investments	15,808	19,119	22,634	22,634	22,634
Inventory	1,527	1,616	1,546	1,569	1,611
Sundry debtors	3,120	3,722	3,256	3,269	3,501
Loans & advances	1,669	3,669	2,297	2,412	2,533
Cash & bank balances	1,843	1,666	1,395	4,793	6,471
Other assets	101	89	78	78	78
Total current assets	8,259	10,763	8,573	12,121	14,194
Trade payables	4,778	4,282	4,026	3,922	4,202
Other current liabilities	3,848	4,244	4,626	4,857	5,003
Provisions	260	418	319	351	386
Net current assets	(627)	1,819	(398)	2,990	4,603
Total	25,178	34,269	36,948	40,052	41,305

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Operating profit bef working capital changes	3,267	3,954	3,317	4,240	4,702
Changes in working capital	1,436	(932)	489	9	65
Cash flow from operations	4,091	2,104	3,067	3,203	3,583
Adj. OCF (OCF-Interest)	3,625	1,478	2,116	2,393	2,783
Change in Fixed assets	(910)	(6,570)	(842)	(1,000)	(1,000)
Adj. FCF (AOCF-Capex)	2,715	(5,092)	1,274	1,393	1,783
Cash generated from investment activities	(1,792)	(8,790)	(2,691)	880	1,010
Cash generated from financing activities	(1,570)	6,356	(598)	(685)	(2,915)
Net increase/decrease in cash & cash equivalents	729	(329)	(222)	3,398	1,678

Source: Company, Centrum Research Estimates

Appendix A

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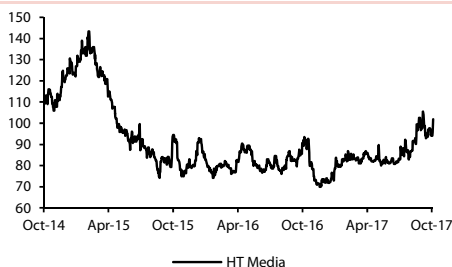
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HT Media price chart



Source: Bloomberg, Centrum Research

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