

Focus on increasing circulation

We maintain our BUY rating on DB Corp with a target price of Rs445 as we value the company based on our conservative Adj. OCF based methodology. We believe the ad growth has bottomed out and expect an uptick in H2FY18 as key sectors begin to advertise. Real Estate is expected to bounce back as RERA has been notified in most of the key states. Further management strategy on increase circulation would pay dividends and help in ad growth in medium term coupled with strengthening market share. Stable newsprint cost and prudent cost management is an added positive.

- **Q2FY18 result highlights:** DB Corp posted 5.4% YoY revenue growth to Rs5,683mn on 6% print ad growth against expectation of 4% growth. Circulation growth was 8% while radio business posted growth of 16.7%. Operating profit was down 7.1% YoY to Rs1,399mn, with operating margin compression of 331bps to 24.6% on 19% YoY increase in admin & other expenses as company had Rs132mn one-time expenses on initiative to increase circulation. PAT was down 11% YoY to Rs787mn (6% below expectation).
- **Ad growth remains under pressure:** Ad growth continues to remain under pressure due to implementation of GST. Real Estate sector posted 30% drop while classifieds also posted a decline. Sectors such as auto, FMCG, lifestyle posted positive growth along with Government advertising. Early festive season helped in 3% yield increase while the remaining growth was on the back of volumes. In the radio vertical the company posted healthy growth of 16.7% while operating margin was 26.4% on high cost of new stations.
- **Focusing on circulation growth:** Company has increased circulation by 8% to 54.3mn copies through expansion in the key markets of Bihar and Gujarat. Management plans to further increase penetration on the Bihar by reaching all the 38 districts from current presence in only 11. This would have a negative impact on RM cost which was up 9.3% YoY on the back of newsprint inflation (2%), pagination (5.5%) and PO (2%). We believe margins would expand going forward on the back of expected uptick on ad revenues, lower other expenses and savings from GST which was at Rs80mn in Q2FY18. Operating margins from mature editions was at 30.5% compared to 31.9% while emerging editions posted Rs134mn loss.
- **Estimates lowered, Maintain BUY:** We have marginally reduced our revenues by 1.3% for FY18E on lower ad growth while operating profit has been reduced by 5.1%/1.2% for FY18E/FY19E on higher RM cost and other expenses. PAT has been reduced by 4.6%/1.6% on lower operating profit. We maintain BUY rating on the stock, with a TP of Rs445 as we value the company on adjusted OCF (AOCF = OCF – Interest) to EV yield based on five year average cash flows. Key downside risks are an increase in newsprint prices coupled with pressure on ad growth.

Y/E Mar (Rs mn)	Q2FY18	Q2FY17	YoY%	Q1FY18	QoQ%	Q2FY18E	Variance %
Net sales	5,683	5,391	5.4	5,943	(4.4)	5,590	1.7
Employee Cost	1,088	1,066	2.1	1,091	(0.2)	1,101	(1.2)
Raw Material Cost	1,786	1,634	9.3	1,708	4.6	1,749	2.1
Admin and other exp	1,411	1,185	19.0	1,281	10.1	1,300	8.5
EBITDA	1,399	1,505	(7.1)	1,864	(24.9)	1,440	(2.9)
EBITDA Margin (%)	24.6	28	(331) bps	31	(675) bps	26	(115) bps
Depreciation	229	216		220		225	
Interest	20	6		16		10	
Other income	57	41		70		65	
PBT	1,207	1,325	(8.9)	1,698	(28.9)	1,270	(5.0)
PAT (reported)	787	885		1,101		838	
Adj PAT	787	885	(11.1)	1,101	(28.6)	838	(6.2)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY15	20,096	8.1	5,622	28.0	3,163	3.2	17.2	25.4	20.8	19.9	11.0
FY16	20,493	2.0	5,348	26.1	2,921	(7.7)	15.9	21.3	18.6	20.6	11.2
FY17	22,580	10.2	6,422	28.4	3,748	28.3	20.4	25.1	21.7	18.3	10.4
FY18E	24,183	7.1	6,847	28.3	4,010	7.0	21.8	24.0	21.2	16.6	9.3
FY19E	27,083	12.0	8,303	30.7	4,877	21.6	26.5	26.3	23.3	13.6	7.5

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	Rs445	Key Data				
CMP*	Rs361	Bloomberg Code	DBCLIN			
Upside	24%	Curr Shares O/S (mn)	183.9			
Previous Target	Rs470	Diluted Shares O/S(mn)	183.9			
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	66.5/1			
Price Performance (%)*		52 Wk H / L (Rs)	424.2/283.6			
		1M	6M	1Yr	5 Year H / L (Rs)	424.2/170
DBCL IN	(4.4)	(5.2)	(6.7)	Daily Vol. (3M NSE Avg.)	62420	
Nifty	5.6	11.1	19.8			

*as on 31 October 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	69.9	69.9	69.9	69.9
FIs	15.6	15.8	18.4	18.6
DIs	7.3	7.1	6.4	6.2
Others	7.2	7.3	5.4	5.3

Source: BSE, *as on 31 October 2017

Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	24,183	24,511	(1.3)	27,083	26,969	0.4
EBITDA	6,847	7,212	(5.1)	8,303	8,402	(1.2)
Ebitda margin (%)	28.3	29.4	(111) bps	30.7	31.2	(50) bps
Adj PAT	4,010	4,205	(4.6)	4,877	4,955	(1.6)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	24,183	24,572	(1.6)	27,083	26,970	0.4
EBITDA	6,847	7,249	(5.5)	8,303	8,314	(0.1)
PAT-adj.	4,010	4,269	(6.1)	4,877	4,987	(2.2)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
17	1	4	452	445	(1.2)

*as on 31 October 2017; Source: Bloomberg, Centrum Research Estimates

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Valuation

We value DB Corp on AOCF/EV yield methodology. We ascribe a discount of 10% to historical long-term average AOCF/EV yield of FY13-17E and arrive at a target AOCF/EV yield of 5.2% for DB Corp, and hence, the implied EV/AOCF multiple of 19.2x. We use average cash flows generated over five years (and hence remain conservative) during FY15-19E and apply 5.2% Adj OCF yield to arrive at our target EV and our TP of Rs445. Reiterate Buy.

Exhibit 1: Cash Flow based Valuation

5 Year average Adj. OCF Yield (AOCF/EV) - % (FY13-17)	4.7
10% discount	5.2
Implied EV/AOCF Multiple (x)	19.2
Average Adj. OCF (Rs mn) - FY15-19E	4044
Target EV (Rs mn)	77,610
Less: Net debt (FY19E)	(4,479)
Target market cap (Rs mn)	82,089
No. of shares (mn)	184
Target Price/share (Rs)	445

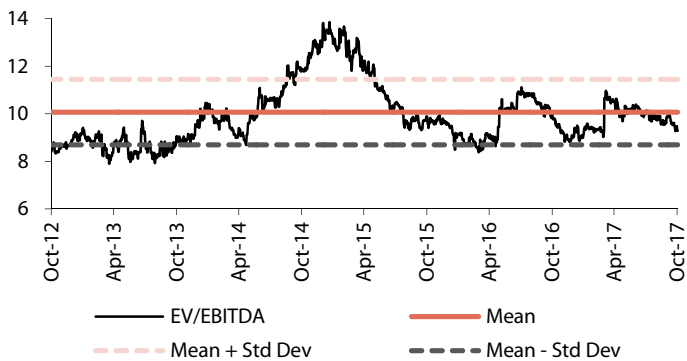
Source: Centrum research Estimates

Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY18E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	2.5	2.8
RM Cost	1	1.1	1.2

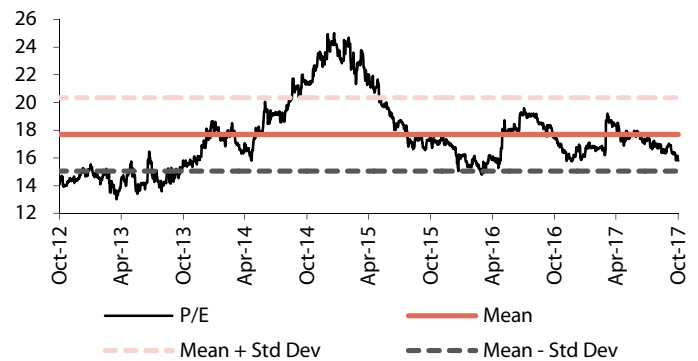
Source: Company, Centrum Research Estimates

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

Sector	Mkt Cap (Rsmn)	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
DB Corp	66,584	9.5	13.7	14.1	28.4	28.3	30.7	18.3	16.6	13.6	10.4	9.3	7.5	25.1	24.0	26.3	1.1	3.0	3.6
HT Media	23,845	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
Jagran Prakashan	58,076	8.8	10.8	16.9	28.0	28.5	29.0	16.8	13.1	11.6	8.2	7.1	6.1	18.4	19.9	21.8	1.7	3.1	3.7

Source: Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 6: Quarterly Financials

Y/E Mar (Rsmn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Sales	5,900	5,097	5,704	5,391	6,273	5,171	5,943	5,683
<i>Growth (%)</i>	6.4	5.0	20.5	12.7	6.3	1.5	4.2	5.4
Raw Materials	1,663	1,580	1,600	1,634	1,769	1,606	1,708	1,786
<i>% of sales</i>	28.2	31.0	28.0	30.3	28.2	31.1	28.7	31.4
Employee Cost	1022	995	1068	1066	1085	1059	1091	1088
<i>% of Sales</i>	17.3	19.5	18.7	19.8	17.3	20.5	18.4	19.1
Admin & other expenses	1319	1363	1225	1185	1436	1384	1281	1411
<i>% of sales</i>	22.4	26.7	21.5	22.0	22.9	26.8	21.6	24.8
EBITDA	1,896	1,159	1,812	1,505	1,982	1,122	1,864	1,399
<i>EBIDTA Margins (%)</i>	32.1	22.7	31.8	27.9	31.6	21.7	31.4	24.6
Depreciation	226	216	211	216	218	218	220	229
EBIT	1671	943	1601	1290	1765	904	1644	1170
Interest expenses	25.1	29.7	34.0	5.6	30.2	4.8	15.6	20.4
Other Income	47.5	51.8	41.2	41.5	36.3	50.8	69.6	57.3
PBT	1,693	965	1,608	1,325	1,771	950	1,698	1,207
Provision for tax	585	361	568	440	590	309	597	421
<i>Effective tax rate (%)</i>	34.6	37.4	35.3	33.2	33.3	32.5	35.1	34.8
Net Profit	1107	604	1040	885	1181	642	1101	787
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	1,107	604	1,040	885	1,181	642	1,101	787
Margins %								
<i>Gross</i>	71.8	69.0	72.0	69.7	71.8	68.9	71.3	68.6
<i>EBIDTA</i>	32.1	22.7	31.8	27.9	31.6	21.7	31.4	24.6
<i>EBIT</i>	28.3	18.5	28.1	23.9	28.1	17.5	27.7	20.6
<i>PBT</i>	28.7	18.9	28.2	24.6	28.2	18.4	28.6	21.2
<i>PAT</i>	18.8	11.9	18.2	16.4	18.8	12.4	18.5	13.8
Growth %								
<i>Revenue</i>	6.4	5.0	20.5	12.7	6.3	1.5	4.2	5.4
<i>EBIDTA</i>	2.7	(3.0)	51.6	38.5	4.5	(3.2)	2.9	(7.1)
<i>Adj PAT</i>	5.4	(5.6)	61.6	55.9	6.6	6.2	5.9	(11.1)
KPI's %								
<i>Print Ad growth</i>	(0.6)	(0.1)	20.2	7.3	2.4	(2.8)	4.5	6.0
<i>Circulation Growth</i>	17.8	15.3	15.1	11.5	8.9	7.1	4.9	8.0
<i>Radio Rev growth</i>	25.8	11.4	30.5	24.6	12.4	10.9	11.3	16.8
<i>Digital Rev growth</i>	32.2	33.7	20.8	19.6	33.1	18.5	(1.2)	(17.9)

Source: Company, Centrum Research

Exhibit 7: Assumptions

Assumptions	FY14	FY15	FY16	FY17	FY18E	FY19E
<i>Blended Ad growth %</i>	17.4	7.0	(2.3)	7.9	7.8	13.1
<i>Circulation growth %</i>	15.2	16.5	16.3	10.5	10.9	9.3

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	20,096	20,493	22,580	24,183	27,083
Materials cost	6,479	6,186	6,609	7,329	7,933
% of revenues	32.2	30.2	29.3	30.3	29.3
Employee Cost	3,457	3,909	4,286	4,414	4,768
% of revenues	17.2	19.1	19.0	18.3	17.6
Others	4,537	5,050	5,264	5,593	6,079
% of revenues	22.6	24.6	23.3	23.1	22.4
EBITDA	5,622	5,348	6,422	6,847	8,303
EBIDTA Margins (%)	28.0	26.1	28.4	28.3	30.7
Depreciation & Amortisation	881	853	863	924	994
EBIT	4,741	4,496	5,559	5,923	7,309
Interest expenses	76	138	74	77	73
PBT from operations	4,666	4,357	5,485	5,846	7,236
Other Income	257	241	170	230	210
PBT	4,923	4,599	5,654	6,076	7,446
Taxes	1,759	1,678	1,907	2,066	2,569
Effective tax rate (%)	35.7	36.5	33.7	34.0	34.5
Net Profit	3,163	2,921	3,748	4,010	4,877
Minority interest	-	-	-	-	-
Reported Net Profit	3,163	2,921	3,748	4,010	4,877
Adj Net Profit	3,163	2,921	3,748	4,010	4,877

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Growth ratios (%)					
Revenues	8.1	2.0	10.2	7.1	12.0
EBIDTA	12.4	(4.9)	20.1	6.6	21.3
Adj Net Profit	3.2	(7.7)	28.3	7.0	21.6
Margin ratios (%)					
EBIDTA Margins	28.0	26.1	28.4	28.3	30.7
PBT from operations Margins	23.2	21.3	24.3	24.2	26.7
Adj PAT Margins	15.7	14.3	16.6	16.6	18.0
Return Ratios (%)					
ROCE	20.8	18.6	21.7	21.2	23.3
RoIC	23.1	19.4	24.4	25.6	30.2
RoE	25.4	21.3	25.1	24.0	26.3
Turnover Ratios (days)					
Gross block turnover (x)	1.7	1.6	1.6	1.6	1.7
Debtors	61.0	67.2	67.5	67.5	67.5
Creditors	22.1	21.0	20.6	20.0	20.0
Inventory	25.5	29.8	32.1	31.0	31.0
Cash conversion cycle	64.4	76.0	79.0	78.5	78.5
Solvency Ratio					
Debt-equity	0.1	0.1	0.1	0.0	0.0
Net Debt-equity	(0.1)	(0.0)	(0.1)	(0.2)	(0.2)
Current ratio	3.2	2.9	3.4	3.6	4.0
Interest coverage ratio	62.7	32.5	74.6	77.1	100.4
Gross debt/EBITDA	0.2	0.3	0.1	0.1	0.1
Per Share (Rs)					
FDEPS (Adjusted)	17.2	15.9	20.4	21.8	26.5
CEPS	22.0	20.5	25.1	26.8	31.9
Book Value	73.2	76.1	86.7	95.3	106.2
Dividend	7.8	11.0	4.0	11.0	13.0
Dividend Payout (%)	54.0	83.4	23.6	60.5	58.8
Valuations (x)					
PER	19.9	20.6	18.3	16.6	13.6
P/BV	4.7	4.3	4.3	3.8	3.4
EV/EBIDTA	11.0	11.2	10.4	9.3	7.5
Dividend yield (%)	2.3	3.4	1.1	3.0	3.6
5 Yr Avg AOCF/EV yield %	4.4	4.8	4.6	5.6	6.5

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	1,836	1,837	1,839	1,839	1,839
Reserves & Surplus	11,615	12,138	14,105	15,688	17,696
Total Shareholders Funds	13,451	13,975	15,944	17,527	19,535
Total Debt	1,189	1,373	809	809	809
Minority Interest	-	-	-	-	-
Deferred Tax Liab	817	813	781	781	781
Total Liabilities	15,457	16,161	17,533	19,116	21,125
Gross Block	12,287	13,983	14,967	15,867	16,767
Less:- Accumulated Depreciation	4,233	5,047	5,865	6,788	7,783
Net Block	8,054	8,936	9,103	9,079	8,984
Capital WIP	45	459	214	214	214
Total net assets	8,099	9,395	9,316	9,292	9,198
Investments	533	440	269	269	269
Inventory	1,402	1,675	1,987	2,054	2,300
Debtors	3,361	3,773	4,177	4,472	5,009
Loans & advances	3,387	3,330	3,288	3,452	3,625
Cash & bank balances	1,767	900	1,744	3,187	4,616
other assets	-	-	-	-	-
Total current assets	9,916	9,679	11,196	13,165	15,549
Trade payables	1,215	1,180	1,276	1,325	1,484
Other current liabilities	1,694	1,970	1,753	2,056	2,167
Provisions	181	203	219	230	241
Net current assets	6,826	6,326	7,948	9,555	11,657
Total	15,457	16,161	17,533	19,116	21,125

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
CF before WC changes	6,033	5,674	6,454	6,847	8,303
Working capital changes	(95)	(517)	(1,198)	(164)	(674)
Cash from Operations	4,253	3,411	3,315	4,617	5,061
Adj. OCF (OCF-Interest)	4,178	3,273	3,240	4,540	4,988
Change in Fixed assets	(715)	(1,991)	(525)	(900)	(900)
Adj. FCF (AOCF-Capex)	3,463	1,282	2,715	3,640	4,088
Cash from investing	(1,529)	(1,831)	(34)	(670)	(690)
Cash from financing	(2,051)	(2,449)	(2,436)	(2,504)	(2,942)
Net change in cash	674	(869)	845	1,443	1,429

Source: Company, Centrum Research Estimates

Appendix A

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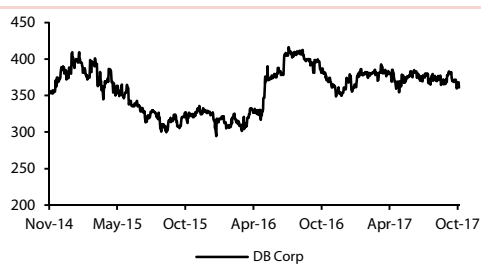
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DB Corp price chart



Source: Bloomberg, Centrum Research

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