

Muted ad growth drags earnings

We maintain our BUY rating on DB Corp with a target price of Rs435 as we roll forward to FY20E and value the company based on our conservative Adj. OCF based methodology. Ad growth declined during the quarter on the back of early festive season and higher base in last year pertaining to private treaty. We expect the ad growth to bounce from Q4FY18 while circulation revenues would be double digit given the aggressive expansion in the state of Bihar, Gujarat and Rajasthan. Despite decrease in margins, we have modelled margin expansion on the back of ad growth leading to healthy operating leverage.

- **Q3FY18 result disappoint:** DB Corp posted 4.6% YoY decline in revenue to Rs5,986mn on 5.7% YoY decline in print ad revenues while radio revenues declined by 7.5%YoY. Circulation growth was 6% on increase in yields. Operating profit was down 30% YoY to Rs1,396mn, with operating margin compression of 829bps to 23.3%. Increase in circulation related expense impacted operating profit. PAT was down 34% YoY to Rs781mn (14% below expectation).
- **Early festive season impacts ad revenue:** Ad growth was impacted during the quarter since Rs400mn billing happened in Q2FY18 on the back of early festive season while Rs118mn of incremental ad revenue was booked in Q3FY17 on sale of shares of Gitanjali Gems. Further sectors such as real estate (down 40%), education (down 7%) and electronics (down 20%) impacted growth while government, response and healthcare posted growth. Yields were up 2% while volumes declined by 8% for the company. In the radio business, legacy stations posted a decline while the new station has started to contribute to operating profit.
- **Margins to expand despite increase in RM cost:** Management has guided for 8-10% increase in newsprint prices in H1FY19 which was flat in the quarter and up mere 3.1% in 9MFY18. The company has further increased circulation by 5.3% in Q3FY18 while the management expects the circulation to reach ~6mn copies by FY18. Company spend incremental Rs250mn for the expansion in copies in the state of Bihar, Gujarat and Rajasthan during the quarter. However, we believe with the increase in ad revenues from FY19 and lower other expenses would drive margins.
- **Estimates lowered, Maintain BUY:** We have reduced our revenues by 5%/3% for FY18E/FY19E on lower ad growth while operating profit has been reduced by 18%/17% for FY18E/FY19E on higher RM cost and other expenses. PAT has been reduced by 20%/19% on lower revenues. We maintain BUY rating on the stock, with a TP of Rs435 as we value the company on adjusted OCF (AOCF = OCF – Interest) to EV yield based on five year average cash flows and roll forward to FY20. Key downside risks are an increase in newsprint prices.

Y/E Mar (Rs mn)	Q3FY18	Q3FY17	YoY%	Q2FY18	QoQ%	Q3FY18E	Variance %
Net sales	5,986	6,273	(4.6)	5,683	5.3	6,181	(3.1)
Employee Cost	1,091	1,085	0.6	1,088	0.3	1,100	(0.8)
Raw Material Cost	1,879	1,769	6.2	1,786	5.3	1,946	(3.4)
Admin and other exp	1,620	1,436	12.8	1,411	14.8	1,550	4.5
EBITDA	1,396	1,982	(29.6)	1,399	(0.2)	1,585	(11.9)
EBITDA Margin (%)	23.3	32	(829) bps	24.6	(130) bps	26	(233) bps
Depreciation	232	218		229		230	
Interest	11	30		20		20	
Other income	39	36		57		60	
PBT	1,191	1,771	(32.7)	1,207	(1.3)	1,395	(14.6)
Tax	410	590		421		488	
Adj PAT	781	1,181	(33.9)	787	(0.7)	907	(13.8)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
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	23,250	3.0	5,901	25.4	3,361	(10.3)	18.3	20.1	17.8	19.5	10.6
FY19E	26,137	12.4	6,993	26.8	4,032	20.0	21.9	21.9	19.5	16.2	8.7
FY20E	28,892	10.5	8,056	27.9	4,694	16.4	25.5	22.9	20.4	13.9	7.3

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	Rs435	Key Data			
CMP*	Rs355	Bloomberg Code	DBCLIN		
Upside	23%	Curr Shares O/S (mn)	184.0		
Previous Target	Rs445	Diluted Shares O/S(mn)	184.0		
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	65.5/1		
Price Performance (%)*		52 Wk H / L (Rs)	424.2/283.6		
	1M	6M	1Yr		
			5 Year H / L (Rs)	424.2/170	
DBCL IN	3.4	(4.6)	0.2	Daily Vol. (3M NSE Avg.)	110801
Nifty	4.1	10.1	28.5		

*as on 18 January 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Dec- 17	Sep- 17	Jun - 17	Mar - 17
Promoter	69.8	69.9	69.9	69.9
FIs	16.7	15.6	15.8	18.4
DIs	6.0	7.3	7.1	6.4
Others	7.4	7.2	7.3	5.4

Source: BSE, *as on 18 January 2018

Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	23,250	24,511	(5.1)	26,137	26,969	(3.1)
EBITDA	5,901	7,212	(18.2)	6,993	8,402	(16.8)
Ebitda margin (%)	25.4	29.4	(404) bps	26.8	31.2	(440) bps
Adj PAT	3,361	4,205	(20.1)	4,032	4,955	(18.6)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	23,250	24,391	(4.7)	26,137	26,930	(2.9)
EBITDA	5,901	6,974	(15.4)	6,993	8,093	(13.6)
PAT-adj.	3,361	4,095	(17.9)	4,032	4,843	(16.7)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
15	1	5	428	435	1.6

*as on 18 January 2018; 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 FY14-18E and arrive at a target AOCF/EV yield of 5.3% for DB Corp, and hence, the implied EV/AOCF multiple of 18.8x. We use average cash flows generated over five years (and hence remain conservative) during FY16-20E and apply 5.3% Adj OCF yield to arrive at our target EV and our TP of Rs435. Reiterate Buy.

Exhibit 1: Cash Flow based Valuation

5 Year average Adj. OCF Yield (AOCF/EV) - % (FY14-18E)	4.8
10% discount	5.3
Implied EV/AOCF Multiple (x)	18.8
Average Adj. OCF (Rs mn) - FY16-20E	3,926
Target EV (Rs mn)	73,700
Less: Net debt (FY20E)	(6,310)
Target market cap (Rs mn)	80,010
No. of shares (mn)	184
Target Price/share (Rs)	435

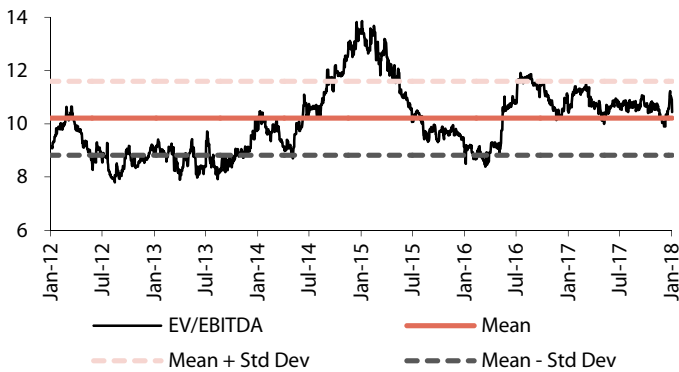
Source: Centrum research Estimates

Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY18E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	2.8	3.2
RM Cost	1	(1.2)	(1.4)

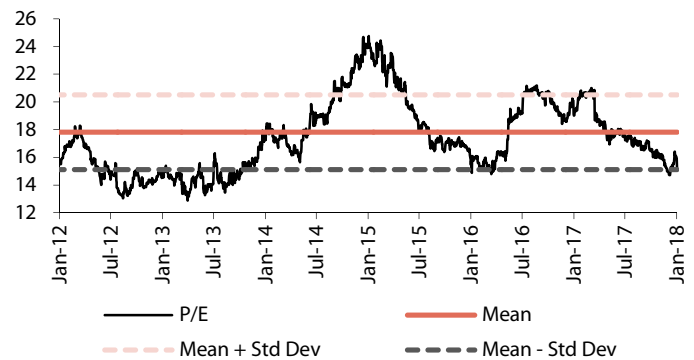
Source: Company, Centrum Research Estimates

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	65,473	7.6	4.4	3.7	23.3	24.5	23.1	18.3	19.5	16.2	10.4	10.6	8.7	25.1	20.1	21.9	1.1	2.6	2.8
HT Media	24,823	1.3	23.1	21.5	12.2	17.3	18.0	11.1	7.9	9.8	2.2	1.4	1.2	7.9	11.4	9.6	0.5	0.4	0.4
Jagran Prakashan	54,030	6.7	7.6	8.5	28.0	27.4	28.5	16.8	15.4	13.2	8.2	7.5	6.2	18.4	16.6	18.9	1.7	2.3	2.9

Source: Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 6: Quarterly Financials

Y/E Mar (Rsmn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Sales	5,097	5,704	5,391	6,273	5,171	5,943	5,683	5,986
<i>Growth (%)</i>	5.0	20.5	12.7	6.3	1.5	4.2	5.4	(4.6)
Raw Materials	1,580	1,600	1,634	1,769	1,606	1,708	1,786	1,879
<i>% of sales</i>	31.0	28.0	30.3	28.2	31.1	28.7	31.4	31.4
Employee Cost	995	1,068	1,066	1,085	1,059	1,091	1,088	1,091
<i>%of Sales</i>	19.5	18.7	19.8	17.3	20.5	18.4	19.1	18.2
Admin & other expenses	1363	1225	1185	1436	1384	1281	1411	1,620
<i>% of sales</i>	26.7	21.5	22.0	22.9	26.8	21.6	24.8	27.1
EBITDA	1,159	1,812	1,505	1,982	1,122	1,864	1,399	1,396
<i>EBIDTA Margins (%)</i>	22.7	31.8	27.9	31.6	21.7	31.4	24.6	23.3
Depreciation	216	211	216	218	218	220	229	232
EBIT	943	1601	1290	1765	904	1644	1170	1,163
Interest expenses	29.7	34.0	5.6	30.2	4.8	15.6	20.4	11.1
Other Income	51.8	41.2	41.5	36.3	50.8	69.6	57.3	38.8
PBT	965	1,608	1,325	1,771	950	1,698	1,207	1,191
Provision for tax	361	568	440	590	309	597	421	410
<i>Effective tax rate (%)</i>	37.4	35.3	33.2	33.3	32.5	35.1	34.8	34.4
Net Profit	604	1,040	885	1,181	642	1,101	787	781
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	604	1,040	885	1,181	642	1,101	787	781
Margins %								
<i>Gross</i>	69.0	72.0	69.7	71.8	68.9	71.3	68.6	68.6
<i>EBIDTA</i>	22.7	31.8	27.9	31.6	21.7	31.4	24.6	23.3
<i>EBIT</i>	18.5	28.1	23.9	28.1	17.5	27.7	20.6	19.4
<i>PBT</i>	18.9	28.2	24.6	28.2	18.4	28.6	21.2	19.9
<i>PAT</i>	11.9	18.2	16.4	18.8	12.4	18.5	13.8	13.0
Growth %								
<i>Revenue</i>	5.0	20.5	12.7	6.3	1.5	4.2	5.4	(4.6)
<i>EBIDTA</i>	(3.0)	51.6	38.5	4.5	(3.2)	2.9	(7.1)	(29.6)
<i>Adj PAT</i>	(5.6)	61.6	55.9	6.6	6.2	5.9	(11.1)	(33.9)
KPI's %								
<i>Print Ad growth</i>	(0.1)	20.2	7.3	2.4	(2.8)	4.5	6.0	(5.7)
<i>Circulation Growth</i>	15.3	15.1	11.5	8.9	7.1	4.9	8.0	6.1
<i>Radio Rev growth</i>	11.4	30.5	24.6	12.4	10.9	11.3	16.8	(7.6)
<i>Digital Rev growth</i>	33.7	20.8	19.6	33.1	18.5	(1.2)	(17.9)	(5.1)

Source: Company, Centrum Research

Exhibit 7: Assumptions

Assumptions	FY15	FY16	FY17	FY18E	FY19E	FY20E
<i>Blended Ad growth %</i>	7.0	(2.3)	7.9	3.6	13.1	11.2
<i>Circulation growth %</i>	16.5	16.3	10.5	8.7	11.3	9.6

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	20,493	22,580	23,250	26,137	28,892
Materials cost	6,186	6,609	7,273	8,388	9,058
% of revenues	30.2	29.3	31.3	32.1	31.4
Employee Cost	3,909	4,286	4,372	4,721	5,099
% of revenues	19.1	19.0	18.8	18.1	17.6
Others	5,050	5,264	5,704	6,035	6,679
% of revenues	24.6	23.3	24.5	23.1	23.1
EBITDA	5,348	6,422	5,901	6,993	8,056
EBIDTA Margins (%)	26.1	28.4	25.4	26.8	27.9
Depreciation & Amortisation	853	863	924	994	1,049
EBIT	4,496	5,559	4,977	5,999	7,007
Interest expenses	138	74	65	73	81
PBT from operations	4,357	5,485	4,913	5,926	6,926
Other Income	241	170	218	230	240
PBT	4,599	5,654	5,131	6,156	7,166
Taxes	1,678	1,907	1,770	2,124	2,472
Effective tax rate (%)	36.5	33.7	34.5	34.5	34.5
Net Profit	2,921	3,748	3,361	4,032	4,694
Minority interest	-	-	-	-	-
Reported Net Profit	2,921	3,748	3,361	4,032	4,694
Adj Net Profit	2,921	3,748	3,361	4,032	4,694

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Growth ratios (%)					
Revenues	2.0	10.2	3.0	12.4	10.5
EBIDTA	(4.9)	20.1	(8.1)	18.5	15.2
Adj Net Profit	(7.7)	28.3	(10.3)	20.0	16.4
Margin ratios (%)					
EBIDTA Margins	26.1	28.4	25.4	26.8	27.9
PBT from operations Margins	21.3	24.3	21.1	22.7	24.0
Adj PAT Margins	14.3	16.6	14.5	15.4	16.2
Return Ratios (%)					
ROCE	18.6	21.7	17.8	19.5	20.4
RoIC	19.4	24.4	21.5	25.0	28.5
RoE	21.3	25.1	20.1	21.9	22.9
Turnover Ratios (days)					
Gross block turnover (x)	1.6	1.6	1.5	1.6	1.7
Debtors	67.2	67.5	67.5	67.5	67.5
Creditors	21.0	20.6	20.0	20.0	20.0
Inventory	29.8	32.1	31.0	31.0	31.0
Cash conversion cycle	76.0	79.0	78.5	78.5	78.5
Solvency Ratio					
Debt-equity	0.1	0.1	0.0	0.0	0.0
Net Debt-equity	(0.0)	(0.1)	(0.2)	(0.2)	(0.3)
Current ratio	2.9	3.4	3.7	4.1	4.4
Interest coverage ratio	32.5	74.6	76.9	82.4	86.6
Gross debt/EBITDA	0.3	0.1	0.1	0.1	0.1
Per Share (Rs)					
FDEPS (Adjusted)	15.9	20.4	18.3	21.9	25.5
CEPS	20.5	25.1	23.3	27.3	31.2
Book Value	76.1	86.7	95.4	105.3	117.6
Dividend	11.0	4.0	8.0	10.0	11.0
Dividend Payout (%)	83.4	23.6	52.5	54.7	51.7
Valuations (x)					
PER	20.6	18.3	19.5	16.2	13.9
P/BV	4.3	4.3	3.7	3.4	3.0
EV/EBIDTA	11.2	10.4	10.6	8.7	7.3
Dividend yield (%)	3.36	1.07	2.25	2.81	3.09
5 Yr Avg AOCF/EV yield %	4.8	4.6	5.5	6.2	6.6

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	1,837	1,839	1,839	1,839	1,839
Reserves & Surplus	12,138	14,105	15,700	17,526	19,792
Total Shareholders Funds	13,975	15,944	17,539	19,365	21,631
Total Debt	1,373	809	809	809	809
Minority Interest	-	-	-	-	-
Deferred Tax Liab	813	781	781	781	781
Total Liabilities	16,161	17,534	19,129	20,954	23,220
Gross Block	13,983	14,967	15,867	16,767	17,667
Less:- Accumulated Depreciation	5,047	5,865	6,788	7,783	8,832
Net Block	8,936	9,103	9,079	8,984	8,835
Capital WIP	459	214	214	214	214
Total net assets	9,395	9,316	9,292	9,198	9,049
Investments	440	269	269	269	269
Inventory	1,675	1,987	1,975	2,220	2,454
Debtors	3,773	4,177	4,300	4,834	5,343
Loans & advances	3,330	3,288	3,452	3,625	3,806
Cash & bank balances	900	1,744	3,321	4,573	6,447
other assets	-	-	-	-	-
Total current assets	9,679	11,196	13,047	15,251	18,050
Trade payables	1,180	1,276	1,274	1,432	1,583
Other current liabilities	1,970	1,753	1,976	2,091	2,311
Provisions	203	219	230	241	253
Net current assets	6,326	7,948	9,567	11,487	13,902
Total	16,161	17,534	19,129	20,954	23,220

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
CF before WC changes	5,674	6,454	5,901	6,993	8,056
Working capital changes	(517)	(1,198)	(42)	(667)	(541)
Cash from Operations	3,411	3,315	4,089	4,202	5,042
Adj. OCF (OCF-Interest)	3,273	3,240	4,024	4,129	4,961
Change in Fixed assets	(1,991)	(525)	(900)	(900)	(900)
Adj. FCF (AOCF-Capex)	1,282	2,715	3,124	3,229	4,061
Cash from investing	(1,831)	(34)	(682)	(670)	(660)
Cash from financing	(2,449)	(2,436)	(1,830)	(2,280)	(2,508)
Net change in cash	(869)	845	1,577	1,252	1,874

Source: Company, Centrum Research Estimates

Appendix A

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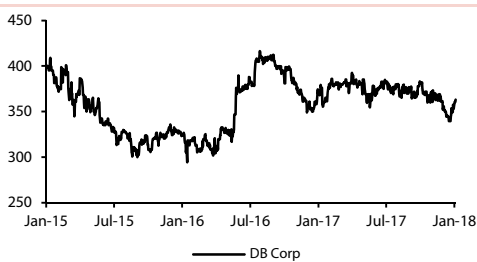
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DB Corp price chart



Source: Bloomberg, Centrum Research

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