

Steep increase in newsprint prices to impact margins

We maintain our BUY rating on DB Corp with a revised target price of Rs368. We believe the ad growth for the company in FY19E would be back ended driven by volumes and uptick in selective categories. Further the company would benefit in medium term as the increase in circulation would translate into readership leading to ad yield increase. Circulation revenue would continue to grow at double digit on the back of increase in copies while new radio stations have turned ebidta positive in Q4FY18 translating in margin expansion. We believe near term margins would be impacted with steep increase in newsprint prices. While dividend payout of ~7% for FY18 is a disappointment, management remains committed to share excess cash with shareholders over next 2 quarters.

- **Q4FY18 result below expectation:** Company posted healthy 9.7% YoY growth in revenue to Rs5.7bn on 8.9% YoY growth in print ad revenues and 8.5% YoY growth in circulation revenues. Radio revenue was up by 9.3%YoY while digital posted a decline of 7.6%. Operating profit was down 12.8% YoY to Rs979mn with operating margin compression of 444bps to 17.3%. RM cost was up 20.5% on 18% growth in absolute circulation in last 9 months while other expense was up 20.3% YoY. PAT was down 11% YoY to Rs571mn (3.5% below expectation).
- **Increase in circulation to benefit in long run:** While the print ad growth for Q4FY18 was at 8.9%, for FY18 it was mere 2.9% YoY. Sectors like education, FMCG, BFSI and certain smaller categories contributed to the growth. Management believes when the big sectors like real estate start to grow double digit, company would be able to post double digit ad growth in FY19E. Further the management strategy to increase circulation would help them in long run as its starts to reflect in readership and further in ad yields. Currently more than 80% of the ad growth was on the back of volumes while yield increase contributed ~20% of the growth.
- **High newsprint prices to impact profitability:** We expect the newsprint prices to increase by 12-15% for FY19E while the management has increased copies by 14% in FY18 and further plans to add by 6-8% in FY19. While the company could save cost by lowering pagination, lowering imported newsprint consumption, marginally reducing the size of the newspaper we believe the operating margins would compress by 80bps to 23.4% in FY19. In FY18, operating profit had declined by 12% YoY to Rs5.6bn. However adjusting for gains from private treaty, radio royalty benefits in FY17 and one-time expansion expenses in FY18, operating profit would have been flat in FY18.
- **Estimates cut; maintain BUY:** We have reduced our revenues by 1.8%/1.9% for FY19E/FY20E on lower ad growth while operating profit has been cut sharply by 14.1%/10.2% for FY19E/FY20E on increase in newsprint cost. PAT has been reduced by 14.3%/8.8% on same period. We maintain BUY rating on the stock, with a revised TP of Rs368 as we value the company on adjusted OCF (AOCF = OCF – Interest) to EV yield based on five year average cash flows. Key downside risks being pressure on ad growth and sustained increase in newsprint cost.

Y/E Mar (Rs mn)	Q4FY18	Q4FY17	YoY%	Q3FY18	QoQ%	Q4FY18E	Variance %
Net sales	5,673	5,171	9.7	5,986	(5.2)	5,545	2.3
Employee Cost	1,095	1,059	3.3	1,091	0.3	1,100	(0.5)
Raw Material Cost	1,935	1,606	20.5	1,879	3.0	1,799	7.6
Admin and other exp	1,664	1,384	20.3	1,620	2.7	1,550	7.4
EBITDA	979	1,122	(12.8)	1,396	(29.8)	1,097	(10.7)
EBITDA Margin (%)	17.3	22	(444) bps	23.3	(605) bps	20	(251) bps
Depreciation	243	218		232		235	
PBT	789	950	(17.0)	1191	(33.8)	897	(12.0)
Provision for tax	218	309		410		305	
Adj PAT	571	642	(11.1)	781	(26.9)	592	(3.5)

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
FY18P	23,285	3.1	5,638	24.2	3,240	(13.6)	17.6	18.6	16.2	20.6	11.3
FY19E	25,666	10.2	6,006	23.4	3,456	6.7	18.8	17.4	15.9	14.1	7.5
FY20E	28,333	10.4	7,232	25.5	4,279	23.8	23.3	19.7	18.0	11.4	5.9

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	Rs368	Key Data	
CMP*	Rs265	Bloomberg Code	DBCLIN
Upside	39%	Curr Shares O/S (mn)	184.0
Previous Target	Rs435	Diluted Shares O/S(mn)	184.0
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	48.8/719.4
Price Performance (%)*		52 Wk H / L (Rs)	424.2/283.6
	1M 6M 1Yr	5 Year H / L (Rs)	424.2/170
DBCL IN	(15.6) (27.3) (26.3)	Daily Vol. (3M NSE Avg.)	143110
Nifty	2.0 5.2 12.9		

*as on 16 May 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	69.8	69.8	69.9	69.9
FIs	17.6	16.7	15.6	15.8
DIs	3.6	6.0	7.3	7.1
Others	9.1	7.4	7.2	7.3

Source: BSE, *as on 16 May 2018

Earning Revision

Particulars (Rsmn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	25,666	26,137	(1.8)	28,333	28,892	(1.9)
EBITDA	6,006	6,993	(14.1)	7,232	8,056	(10.2)
Ebitda margin (%)	23.4	26.8	(336) bps	25.5	27.9	(236) bps
Adj PAT	3,456	4,032	(14.3)	4,279	4,694	(8.8)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	25,666	25,677	(0.0)	28,333	27,983	1.3
EBITDA	6,006	7,050	(14.8)	7,232	8,056	(10.2)
PAT-adj.	3,456	4,132	(16.4)	4,279	4,791	(10.7)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
13	2	5	401	368	(8.2)

*as on 16 May 2018; Source: Bloomberg, Centrum Research Estimates

Ankit Kedia, ankit.kedia@centrum.co.in; 91 22 4215 9634

Valuation

We value DB Corp on AOCF/EV yield methodology. We ascribe a discount of 20% to historical long-term average AOCF/EV yield of FY14-18 and arrive at a target AOCF/EV yield of 5.7% for DB Corp, and hence, the implied EV/AOCF multiple of 17.4x. We have increased our discount from 10% to 20% to factor the pressure on earnings from sudden increase in newsprint prices and lower ad growth resulting in compression of return ratios. We use average cash flows generated over five years (and hence remain conservative) during FY16-20E and apply 5.7% Adj OCF yield to arrive at our target EV and our TP of Rs368. Reiterate Buy.

Exhibit 1: Cash Flow based Valuation

5 Year average Adj. OCF Yield (AOCF/EV) - % (FY14-18)	4.8
20% discount	5.7
Implied EV/AOCF Multiple (x)	17.4
Average Adj. OCF (Rs mn) - FY16-20E	3,544
Target EV (Rs mn)	61,744
Less: Net debt (FY20E)	(6,046)
Target market cap (Rs mn)	67,790
No. of shares (mn)	184
Target Price/share (Rs)	368

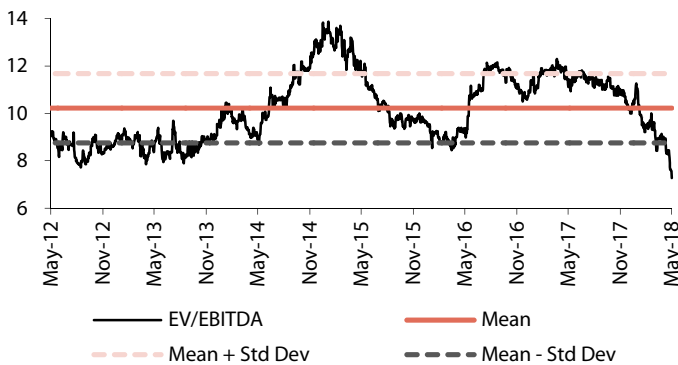
Source: Centrum research Estimates

Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY19E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	2.7	3.1
RM Cost	1	(1.3)	(1.5)

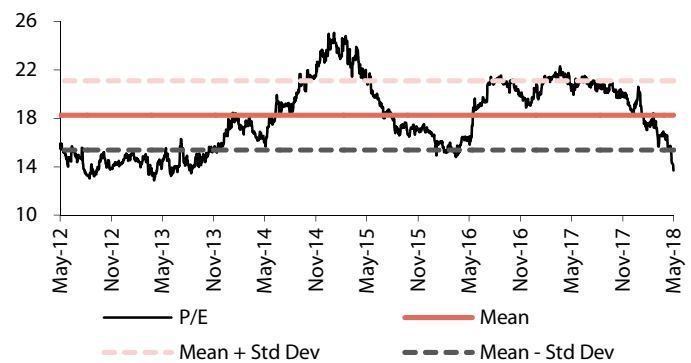
Source: Company, Centrum Research Estimates

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 FY18-FY20E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
DB Corp	48,770	10.3	13.3	14.9	24.2	23.4	25.5	20.6	14.1	11.4	11.3	7.5	5.9	18.6	17.4	19.7	0.3	3.0	3.8
HT Media	18,410	6.5	1.3	(7.0)	17.0	14.9	15.4	7.1	8.7	7.7	1.5	0.7	0.3	12.8	8.8	9.1	0.4	0.5	0.5
Jagran Prakashan	51,570	8.7	12.4	15.6	26.6	27.4	28.4	17.4	13.9	12.0	8.3	6.4	5.4	15.6	17.7	18.7	2.2	3.0	3.6

Source: Centrum Research Estimates

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 6: Quarterly Financials

Y/E Mar (Rsmn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Sales	5,704	5,391	6,273	5,171	5,943	5,683	5,986	5,673
<i>Growth (%)</i>	20.5	12.7	6.3	1.5	4.2	5.4	(4.6)	10
Raw Materials	1,600	1,634	1,769	1,606	1,708	1,786	1,879	1,935
<i>% of sales</i>	28.0	30.3	28.2	31.1	28.7	31.4	31.4	34
Employee Cost	1,068	1,066	1,085	1,059	1,091	1,088	1,091	1,095
<i>% of Sales</i>	18.7	19.8	17.3	20.5	18.4	19.1	18.2	19
Admin & other expenses	1225	1185	1436	1384	1281	1411	1,620	1,664
<i>% of sales</i>	21.5	22.0	22.9	26.8	21.6	24.8	27.1	29
EBITDA	1,812	1,505	1,982	1,122	1,864	1,399	1,396	979
<i>EBIDTA Margins (%)</i>	31.8	27.9	31.6	21.7	31.4	24.6	23.3	17.3
Depreciation	211	216	218	218	220	229	232	243
EBIT	1601	1290	1765	904	1644	1170	1,163	737
Interest expenses	34.0	5.6	30.2	4.8	15.6	20.4	11.1	19.9
Other Income	41.2	41.5	36.3	50.8	69.6	57.3	38.8	71.9
PBT	1,608	1,325	1,771	950	1,698	1,207	1,191	789
Provision for tax	568	440	590	309	597	421	410	218
<i>Effective tax rate (%)</i>	35.3	33.2	33.3	32.5	35.1	34.8	34.4	27.6
Net Profit	1,040	885	1,181	642	1,101	787	781	571
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	1,040	885	1,181	642	1,101	787	781	571
Margins %								
<i>Gross</i>	72.0	69.7	71.8	68.9	71.3	68.6	68.6	65.9
<i>EBIDTA</i>	31.8	27.9	31.6	21.7	31.4	24.6	23.3	17.3
<i>EBIT</i>	28.1	23.9	28.1	17.5	27.7	20.6	19.4	13.0
<i>PBT</i>	28.2	24.6	28.2	18.4	28.6	21.2	19.9	13.9
<i>PAT</i>	18.2	16.4	18.8	12.4	18.5	13.8	13.0	10.1
Growth %								
<i>Revenue</i>	20.5	12.7	6.3	1.5	4.2	5.4	(4.6)	9.7
<i>EBIDTA</i>	51.6	38.5	4.5	(3.2)	2.9	(7.1)	(29.6)	(12.8)
<i>Adj PAT</i>	61.6	55.9	6.6	6.2	5.9	(11.1)	(33.9)	(11.1)
KPI's %								
<i>Print Ad growth</i>	20.2	7.3	2.4	(2.8)	4.5	6.0	(5.7)	8.9
<i>Circulation Growth</i>	15.1	11.5	8.9	7.1	4.9	8.0	6.1	8.5
<i>Radio Rev growth</i>	30.5	24.6	12.4	10.9	11.3	16.8	(7.6)	9.3
<i>Digital Rev growth</i>	20.8	19.6	33.1	18.5	(1.2)	(17.9)	(5.1)	(7.6)

Source: Company, Centrum Research

Exhibit 7: Assumptions

Assumptions	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Blended Ad growth %</i>	7.0	(2.3)	7.9	2.8	9.9	11.2
<i>Circulation growth %</i>	16.5	16.3	10.5	8.0	12.5	9.2

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY16	FY17	FY18P	FY19E	FY20E
Revenues	20,493	22,580	23,285	25,666	28,333
Materials cost	6,186	6,609	7,307	8,899	9,757
% of revenues	30.2	29.3	31.4	34.7	34.4
Employee Cost	3,909	4,286	4,364	4,626	4,904
% of revenues	19.1	19.0	18.7	18.0	17.3
Others	5,050	5,264	5,976	6,135	6,440
% of revenues	24.6	23.3	25.7	23.9	22.7
EBITDA	5,348	6,422	5,638	6,006	7,232
EBIDTA Margins (%)	26.1	28.4	24.2	23.4	25.5
Depreciation & Amortisation	853	863	924	1,028	1,073
EBIT	4,496	5,559	4,714	4,978	6,159
Interest expenses	138	74	67	40	45
PBT from operations	4,357	5,485	4,647	4,937	6,114
Other Income	241	170	238	275	340
PBT	4,599	5,654	4,885	5,212	6,454
Taxes	1,678	1,907	1,645	1,757	2,175
Effective tax rate (%)	36.5	33.7	33.7	33.7	33.7
Net Profit	2,921	3,748	3,240	3,456	4,279
Minority interest	-	-	-	-	-
Reported Net Profit	2,921	3,748	3,240	3,456	4,279
Adj Net Profit	2,921	3,748	3,240	3,456	4,279

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
Growth ratios (%)					
Revenues	2.0	10.2	3.1	10.2	10.4
EBIDTA	(4.9)	20.1	(12.2)	6.5	20.4
Adj Net Profit	(7.7)	28.3	(13.6)	6.7	23.8
Margin ratios (%)					
EBIDTA Margins	26.1	28.4	24.2	23.4	25.5
PBT from operations Margins	21.3	24.3	20.0	19.2	21.6
Adj PAT Margins	14.3	16.6	13.9	13.5	15.1
Return Ratios (%)					
ROCE	18.6	21.7	16.2	15.9	18.0
RoIC	19.4	24.4	18.8	18.8	23.4
RoE	21.3	25.1	18.6	17.4	19.7
Turnover Ratios (days)					
Gross block turnover (x)	1.6	1.6	1.5	1.5	1.6
Debtors	67.2	67.5	84.9	85.0	80.0
Creditors	21.0	20.6	24.9	22.0	22.0
Inventory	29.8	32.1	25.1	29.0	29.0
Cash conversion cycle	76.0	79.0	85.1	92.0	87.0
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	3.5	4.1	4.3
Interest coverage ratio	32.5	74.6	70.4	123.3	137.3
Gross debt/EBITDA	0.3	0.1	0.1	0.1	0.1
Per Share (Rs)					
FDEPS (Adjusted)	15.9	20.4	17.6	18.8	23.3
CEPS	20.5	25.1	22.6	24.4	29.1
Book Value	76.1	86.7	103.0	112.2	123.5
Dividend	11.0	4.0	1.0	8.0	10.0
Dividend Payout (%)	83.4	23.6	6.8	51.1	51.6
Valuations (x)					
PER	20.6	18.3	20.6	14.1	11.4
P/BV	4.3	4.3	3.5	2.4	2.1
EV/EBIDTA	11.2	10.4	11.3	7.5	5.9
Dividend yield (%)	3.4	1.1	0.3	3.0	3.8
5 Yr Avg AOCF/EV yield %	4.8	4.6	5.2	7.6	8.3

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY16	FY17	FY18P	FY19E	FY20E
Share Capital	1,837	1,839	1,840	1,840	1,840
Reserves & Surplus	12,138	14,105	17,124	18,813	20,884
Total Shareholders Funds	13,975	15,944	18,964	20,653	22,724
Total Debt	1,373	809	449	449	449
Minority Interest	-	-	-	-	-
Deferred Tax Liab	813	781	804	804	804
Total Liabilities	16,161	17,533	20,217	21,906	23,977
Gross Block	13,983	14,967	16,804	17,504	18,304
Less:- Accumulated Depreciation	5,047	5,865	6,788	7,816	8,889
Net Block	8,936	9,103	10,016	9,688	9,415
Capital WIP	459	214	213	213	213
Total net assets	9,395	9,316	10,229	9,901	9,628
Investments	440	269	356	356	356
Inventory	1,675	1,987	1,599	2,039	2,251
Debtors	3,773	4,177	5,418	5,977	6,210
Loans & advances	3,330	3,288	3,533	3,710	3,896
Cash & bank balances	900	1,744	2,893	3,725	5,823
Total current assets	9,679	11,196	13,443	15,452	18,180
Trade payables	1,180	1,276	1,591	1,547	1,708
Other current liabilities	1,970	1,753	2,028	2,053	2,267
Provisions	203	219	193	202	212
Net current assets	6,326	7,948	9,632	11,649	13,993
Total	16,161	17,534	20,217	21,906	23,977

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY16	FY17	FY18P	FY19E	FY20E
CF before WC changes	5,674	6,454	5,638	6,006	7,232
Working capital changes	(517)	(1,198)	(535)	(1,184)	(246)
Cash from Operations	3,411	3,315	3,481	3,065	4,811
Adj. OCF (OCF-Interest)	3,273	3,240	3,414	3,025	4,766
Change in Fixed assets	(1,991)	(525)	(1,837)	(700)	(800)
Adj. FCF (AOCF-Capex)	1,282	2,715	1,578	2,325	3,966
Cash from investing	(1,831)	(34)	(1,686)	(425)	(460)
Cash from financing	(2,449)	(2,436)	(647)	(1,807)	(2,253)
Net change in cash	(869)	845	1,149	833	2,098

Source: Company, Centrum Research Estimates

Appendix A

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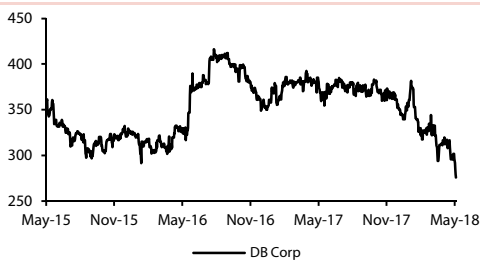
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DB Corp price chart



Source: Bloomberg, Centrum Research

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran
 (022) 4215 9842; Email ID: Compliance@centrum.co.in

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Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near VidyaNagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000