

## Steep increase in newsprint prices to impact margins

We maintain our Hold rating on HT Media and revise our TP to Rs98. In last two month newsprint prices have increased by steep 40% led by China (world's largest paper recycler) to ban imports of mixed paper in its campaign against environment pollution. We believe this would have an impact of 200bps on the operating margins of HT Media despite strategies taken by the management by increasing cover prices. While the advertising revenue was impacted in both the English and Hindi print for FY18, we have modelled high single digit ad growth for FY19 on the back of low base and sectors such as auto, real estate bouncing back while government/political ad would be high on many state elections. Further there would be margin expansion in the radio business and probable lower losses in the digital business.

- **Q4FY18 result significantly below expectations:** Revenue for the company was down 4.1% YoY to Rs5612mn due to significant decline in advertising revenues in the Hindi print business. Radio business posted revenue growth of mere 1.5% YoY to Rs452mn while digital business posted a decline of 26% YoY. Operating profit was up 10.2% YoY to Rs805mn on 186bps margin expansion as employee cost and admin & other expenses was down 5% and 12% respectively. Adj PAT was up 194% YoY (10% above est.) to Rs750mn on steep increase in other income which was due to MTM gains and sale of investments under ad for equity.
- **High base impacts Hindi ad revenues:** Hindi ad revenue was down 14% YoY on the back of UP election led political ads in the base quarter while for FY18 the ad revenue was down 4.4%. Management maintains the ad revenue would be flattish ex-political ads. However sectors such as education, real estate and BFSI have started to show uptick. Management would continue to invest in the Hindi business and penetrate deeper in the existing geographies. English business posted ad growth of 15% YoY for Q4FY18 on low base while for FY18 ad revenue was down 3%. Consolidated circulation revenue was down 9% YoY on reduction of unproductive copies in English print and lower cover price in Hindi dailies due to high competitive intensity.
- **Increasing newsprint prices to hurt margins:** While overall operating margins increased by 186bps YoY to 14.3%, RM cost increased by mere 1.1% YoY. In HMVL while the newsprint cost increased by 3%, total RM cost was up 7.4%. We expect the newsprint prices to increase significantly in FY19 since the spot prices are currently at ~\$700-750MT from \$550MT in FY18. High inventory for international newsprint would mitigate the impact marginally while domestic newsprint inventory is less than 15 days in the system. Management believes that the margins would be impacted by 200bps on the increase in newsprint prices.
- **Maintain Hold:** We have marginally reduced our revenues on the back of lower ad revenues while operating profit has been reduced by 17.5% and 17.8% for FY19E and FY20E respectively on increase in newsprint prices. PAT is reduced by ~7% for both the years on lower operating profit. We maintain our hold rating with revised TP of Rs98 as we value the company on an adjusted OCF to EV yield based methodology. Key upside risk is stronger than expected ad growth while downside risk being increase in newsprint cost.

Y/E Mar (Rsmn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	Var (%)
<b>Net Sales</b>	<b>5,612</b>	<b>5,853</b>	<b>(4.1)</b>	<b>6,254</b>	<b>(10.3)</b>	<b>5,873</b>	<b>(4.4)</b>
Employee cost	1,302	1,371	(5.0)	1,299	0.2	1,300	0.1
Raw Material	1,607	1,589	1.1	1,757	(8.5)	1,620	(0.8)
Admin & Other Exp	1,898	2,163	(12.2)	1,852	2.5	1,850	2.6
<b>EBITDA</b>	<b>805</b>	<b>731</b>	<b>10.2</b>	<b>1,347</b>	<b>(40.2)</b>	<b>1,103</b>	<b>(27.0)</b>
EBITDA margin (%)	14.3	12.5	186 bps	21.5	(718) bps	18.8	(444) bps
Depreciation	284	337		307		310	
Interest	230	218		194		200	
Other Income	843	488		645		420	
Exceptional Item	0	0		0		0	
<b>PBT</b>	<b>1,134</b>	<b>664</b>	<b>70.7</b>	<b>1,491</b>	<b>(23.9)</b>	<b>1,013</b>	<b>11.9</b>
Tax	280	225	24.8	121	131.2	203	38.4
MI & Associates	103	184		126		130	
<b>Adjusted PAT after MI</b>	<b>750</b>	<b>256</b>	<b>193.7</b>	<b>1,244</b>	<b>(39.7)</b>	<b>681</b>	<b>10.3</b>

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
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	23,462	(4.3)	3,997	17.0	3,041	78.6	13.2	12.8	10.3	7.1	1.5
FY19E	25,045	6.7	3,731	14.9	2,338	(23.1)	10.1	8.8	8.3	8.7	0.7
FY20E	26,626	6.3	4,100	15.4	2,627	12.4	11.4	9.1	8.4	7.7	0.3

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	Rs98	Key Data	
CMP*	Rs88	Bloomberg Code	HTML IN
Upside	11%	Curr Shares O/S (mn)	232.7
Previous Target	Rs120	Diluted Shares O/S(mn)	232.7
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	20.2/303.6
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	118.5/78
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
		5 Year H / L (Rs)	
HTML IN	0.6	(14.7)	6.1
Nifty	4.3	2.2	14.8
		Daily Vol. (3M NSE Avg.)	
		285221	

\*as on 3 May 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	69.5	69.5	69.5	69.5
FIs	8.2	8.0	7.6	7.7
DIs	9.1	10.5	12.2	10.2
Others	13.2	12.0	10.7	12.6

Source: BSE, \*as on 3 May 2018

### Earning Revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	25,045	25,163	(0.5)	26,626	26,987	(1.3)
EBITDA	3,731	4,522	(17.5)	4,100	4,988	(17.8)
EBITDA Margin (%)	14.9	18.0	(307)bps	15.4	18.5	(309)bps
PAT	2,338	2,513	(6.9)	2,627	2,839	(7.5)

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	25,045	25,178	(0.5)	26,626	26,515	0.4
EBITDA	3,731	4,807	(22.4)	4,100	4,790	(14.4)
PAT	2,338	2,841	(17.7)	2,627	3,000	(12.4)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
7	1	5	108	98	(9.5)

\*as on 3 May 2018, 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 HMVL's Adj OCF and net cash as HT Media holds a 75% stake in HMVL 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 HMVL. We value HTML at historical long-term average AOCF/EV yield of FY14-18 and arrived at a target AOCF/EV yield of 13.4% for HT Media, and hence, the implied EV/AOCF multiple of 7.4x. We use average cash flows generated over five years (and hence remain conservative) during FY16-20E and apply a 13.4% Adj OCF yield to arrive at our target EV and our TP of Rs98.

### Exhibit 1: Cash Flow based Valuation

HMVL Av Adj OCF (Rs Mn) FY16-20E	1,125	5 Year average Adj. OCF Yield (AOCF/EV) - % (FY14-18)	13.4
25% share of minority shareholders	281	Implied EV/AOCF Multiple (x)	7.4
30% Holding company discount	253		
<b>HTML share of HMVL in Adj OCF</b>	<b>590</b>	Average Adj. OCF (Rs mn) - FY16-20E	1,414
HTML Av Adj OCF (Rs Mn) FY16-20E	1,949	Target EV (Rs mn)	10,517
<b>After Adjustment for HMVL</b>	<b>1,414</b>	Less: Net debt (FY20E)	(12,172)
HMVL Net Cash (Rs Mn) FY20E	14,122	Target market cap (Rs mn)	22,689
25% share of minority shareholders	3,531	No. of shares (mn)	230.5
30% Holding company discount	3,178		
<b>HTML share of HMVL in Net Cash</b>	<b>7,414</b>	<b>Target Price/share (Rs)</b>	<b>98</b>
HTML Net Cash (Rs Mn) FY16-20E	18,880		
<b>After Adjustment for HMVL</b>	<b>12,172</b>		

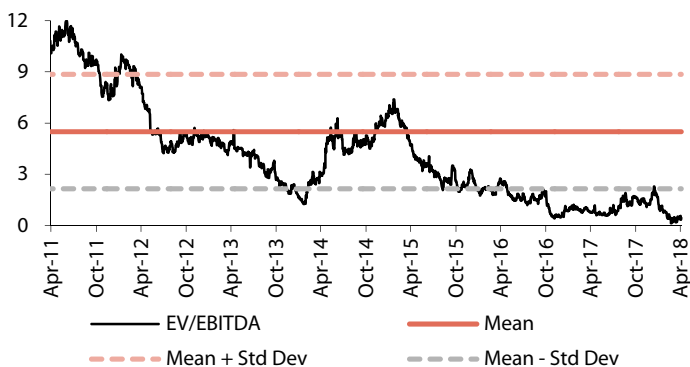
Source: Centrum Research Estimates

### Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY19E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	4.2	5.1
Newsprint Cost	1	(1.7)	(1.9)

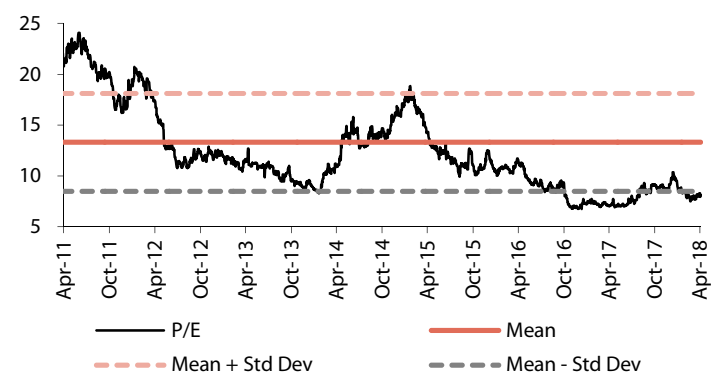
Source: Company, Centrum Research Estimates

### 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 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
HT Media	20,214	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
DB Corp	54,825	11.5	16.8	18.2	25.4	26.8	27.9	19.8	13.5	11.6	10.7	7.1	6.0	20.1	21.9	22.9	2.2	3.4	3.7
Jagran Prakashan	52,286	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 (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Total Revenues</b>	<b>6,147</b>	<b>6,022</b>	<b>6,499</b>	<b>5,853</b>	<b>5,990</b>	<b>5,606</b>	<b>6,254</b>	<b>5,612</b>
Expenditure								
RM Cost	1,804	1,782	1,789	1,589	1,643	1,615	1,757	1,607
Employee Cost	1,489	1,528	1,448	1,371	1,313	1,218	1,299	1,302
Admin & Other exp	2,211	2,208	2,157	2,163	2,235	1,728	1,852	1,898
<b>EBIDTA</b>	<b>643</b>	<b>505</b>	<b>1,105</b>	<b>731</b>	<b>799</b>	<b>1,045</b>	<b>1,347</b>	<b>805</b>
Depreciation/Amortisation	295	304	312	337	320	317	307	284
EBIT	348	201	793	394	479	729	1,040	521
Interest Cost	247	245	241	218	194	199	194	230
Other income	478	780	549	488	531	435	645	843
PBT from operations	579	736	1,100	664	817	965	1,491	1,134
Exceptional Items	0	0	0	0	0	31	0	0
<b>PBT</b>	<b>579</b>	<b>736</b>	<b>1,100</b>	<b>664</b>	<b>817</b>	<b>997</b>	<b>1,491</b>	<b>1,134</b>
Tax	186	224	36	225	239	219	121	280
PAT	392	512	1,064	440	578	778	1,370	854
Minority Interest	168	202	150	184	162	116	126	103
<b>Adj PAT after MI</b>	<b>224</b>	<b>309</b>	<b>914</b>	<b>256</b>	<b>415</b>	<b>662</b>	<b>1,244</b>	<b>750</b>
<b>Margins %</b>								
Gross	70.6	70.4	72.5	72.9	72.6	71.2	71.9	71.4
EBIDTA	10.5	8.4	17.0	12.5	13.3	18.6	21.5	14.3
EBIT	5.7	3.3	12.2	6.7	8.0	13.0	16.6	9.3
PBT	9.4	12.2	16.9	11.4	13.6	17.8	23.8	20.2
PAT	6.4	8.5	16.4	7.5	9.6	13.9	21.9	15.2
<b>Growth %</b>								
Revenue	4.5	0.2	(4.6)	(7.3)	(2.5)	(6.9)	(3.8)	(4.1)
EBIDTA	8.7	(23.4)	(8.7)	(4.7)	24.3	107.1	21.9	10.2
Adj PAT	(9.4)	(16.0)	32.8	(40.8)	85.4	114.1	36.1	193.7
<b>KPI's</b>								
Print Ad growth %	1.5	(3.7)	(8.6)	(12.5)	(4.6)	(8.1)	(3.1)	2.4
Circulation Growth %	5.9	2.4	2.2	(3.8)	(7.8)	(8.7)	(14.1)	(9.3)
Radio ad growth %	35.4	23.1	39.3	44.2	29.5	18.4	4.7	1.5
Profit/(Loss) in Digital (Rs mn)	(132)	(129)	(63)	(65)	(121)	(116)	(100)	(179)

Source: Company, Centrum Research

### Exhibit 7: Assumptions

Assumptions	FY15	FY16	FY17	FY18	FY19E	FY20E
Print Ad growth %	4.4	9.0	(5.6)	(3.5)	6.0	5.9
Radio Ad growth %	11.8	18.2	35.3	16.0	12.0	10.0
Circulation growth %	10.8	4.0	2.6	(10.0)	7.2	4.8

Source: Company, Centrum Research

## Financials

### Exhibit 8: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Revenues	25,015	24,521	23,462	25,045	26,626
Material Cost	7,230	6,965	6,526	7,949	8,359
% of revenues	28.9	28.4	27.8	31.7	31.4
Employee Cost	5,487	5,835	5,132	5,440	5,766
% of revenues	21.9	23.8	21.9	21.7	21.7
Admin & other expenses	9,071	8,738	7,808	7,926	8,401
% of revenues	36.3	35.6	33.3	31.6	31.6
<b>EBIDTA</b>	<b>3,227</b>	<b>2,983</b>	<b>3,997</b>	<b>3,731</b>	<b>4,100</b>
EBIDTA Margins (%)	12.9	12.2	17.0	14.9	15.4
Depreciation & Amortisation	1,022	1,248	1,228	1,342	1,421
EBIT	2,205	1,735	2,768	2,388	2,678
Interest expenses	626	951	816	790	800
PBT from operations	1,579	784	1,953	1,598	1,878
Other income	1,562	2,295	2,455	2,110	2,250
Exceptional items	-	-	31	-	-
PBT	3,140	3,079	4,438	3,708	4,128
Taxes	803	671	859	890	991
Effective tax rate (%)	25.6	21.8	19.4	24.0	24.0
PAT	2,337	2,407	3,579	2,818	3,137
Minority/Associates	(459)	(488)	(449)	(480)	(510)
<b>Adjusted PAT</b>	<b>1,735</b>	<b>1,703</b>	<b>3,041</b>	<b>2,338</b>	<b>2,627</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
<b>Growth ratios (%)</b>					
Revenues	9.6	(2.0)	(4.3)	6.7	6.3
EBIDTA	24.0	(7.6)	34.0	(6.7)	9.9
Adj Net Profit	(10.5)	(1.9)	78.6	(23.1)	12.4
<b>Margin ratios (%)</b>					
EBITDA	12.9	12.2	17.0	14.9	15.4
PBT from operations	6.3	3.2	8.3	6.4	7.1
Adjusted PAT	9.3	9.8	15.3	11.3	11.8
<b>Return Ratios (%)</b>					
ROE	8.7	7.9	12.8	8.8	9.1
ROCE	8.2	8.5	10.3	8.3	8.4
RoIC	11.9	10.2	16.2	12.8	12.8
<b>Turnover Ratios</b>					
Gross block turnover(x)	2.1	1.6	1.3	1.3	1.3
Inventory	23.6	23.0	19.5	24.0	24.0
Receivables	54.3	48.5	55.2	53.0	53.0
Creditors	62.5	59.9	58.4	58.0	58.0
Cash conversion cycle	15.4	11.6	16.3	19.0	19.0
<b>Solvency Ratios (%)</b>					
D/E (x)	0.5	0.5	0.5	0.3	0.3
Net debt/equity	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Interest coverage ratio (x)	3.5	1.8	3.4	3.0	3.3
Current ratio	1.2	1.0	1.1	1.2	1.5
Gross debt/EBITDA	3.4	3.8	3.0	2.5	2.3
<b>Per Share (Rs)</b>					
FDEPS (Adjusted)	7.5	7.4	13.2	10.1	11.4
CEPS	12.0	12.8	18.5	16.0	17.6
Book Value	90.3	96.8	109.8	119.5	130.4
Dividend	0.4	0.4	0.4	0.4	0.4
Dividend payout(%)	6.5	6.6	3.8	4.9	4.4
<b>Valuations (x)</b>					
PER	11.8	11.1	7.1	8.7	7.7
P/BV	1.0	0.8	0.8	0.7	0.7
EV/EBIDTA	3.4	2.2	1.5	0.7	0.3
Dividend yield(%)	0.5	0.5	0.4	0.5	0.5
5 Yr Avg AOCF/EV yield %	18.8	34.6	37.0	85.1	138.6

Source: Company, Centrum Research Estimates

### Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Share Capital	461	461	461	461	461
Reserves & Surplus	20,356	21,858	24,855	27,078	29,591
Shareholders Funds	20,818	22,319	25,316	27,539	30,052
Total Debt	10,895	11,259	11,875	9,500	9,500
Deferred Tax Liab	213	369	369	369	369
Minority Interest	2,343	3,000	3,422	3,902	4,412
<b>Total Liabilities</b>	<b>34,269</b>	<b>36,948</b>	<b>40,983</b>	<b>41,311</b>	<b>44,333</b>
Gross Block	14,110	16,867	18,142	19,142	20,342
Accumulated Depreciation	1,138	2,528	3,756	5,098	6,520
Net Block	12,972	14,340	14,386	14,044	13,823
Capital WIP	358	372	404	404	404
Net Fixed Assets	13,331	14,712	14,791	14,448	14,227
Investments	19,119	22,634	25,347	25,347	25,347
Inventory	1,616	1,546	1,255	1,647	1,751
Sundry debtors	3,722	3,256	3,548	3,637	3,866
Loans & advances	3,669	2,297	1,717	1,837	1,966
Cash & bank balances	1,666	1,395	2,373	2,832	6,033
Other assets	89	78	902	902	902
Total current assets	10,763	8,573	9,794	10,854	14,518
Trade payables	4,282	4,026	3,753	3,980	4,231
Other current liabilities	4,244	4,626	4,802	4,946	5,095
Provisions	418	319	393	413	433
Net current assets	1,819	(398)	845	1,515	4,759
<b>Total</b>	<b>34,269</b>	<b>36,948</b>	<b>40,983</b>	<b>41,311</b>	<b>44,333</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
<b>Operating profit bef working capital changes</b>	<b>3,954</b>	<b>3,317</b>	<b>3,984</b>	<b>3,731</b>	<b>4,100</b>
Changes in working capital	(932)	489	(266)	(211)	(42)
<b>Cash flow from operations</b>	<b>2,104</b>	<b>3,067</b>	<b>2,858</b>	<b>2,629</b>	<b>3,067</b>
Adj. OCF (OCF-Interest)	1,478	2,116	2,042	1,839	2,267
Change in Fixed assets	(6,570)	(842)	(1,307)	(1,000)	(1,200)
Adj. FCF (AOCF-Capex)	(5,092)	1,274	735	839	1,067
<b>Cash generated from investment activities</b>	<b>(8,790)</b>	<b>(2,691)</b>	<b>(1,565)</b>	<b>1,110</b>	<b>1,050</b>
<b>Cash generated from financing activities</b>	<b>6,356</b>	<b>(598)</b>	<b>(315)</b>	<b>(3,281)</b>	<b>(915)</b>
Net increase/decrease in cash & cash equivalents	(329)	(222)	978	459	3,202

Source: Company, Centrum Research Estimates

## Appendix A

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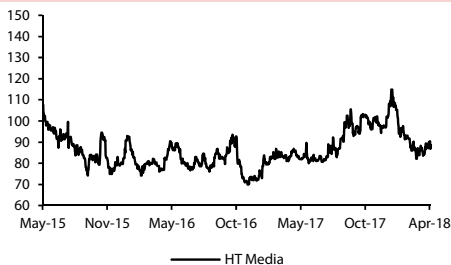
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## HT Media price chart



Source: Bloomberg, Centrum Research

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