

January 25, 2019

DB Corp (DBCORP)

₹ 179

State elections, low base boost ad growth...

- Overall revenues came in at ₹ 659.7 crore (up 10.2% YoY), much ahead of our estimates of ₹ 639.8 crore, on account of superior print and radio ad revenues. Print ad revenues came in at ₹ 420.8 crore, up 11.5% YoY ahead of our expectation of ~9.5%, with delta possibly contributed by festivities and elections led boost. The key surprise was on radio ad revenues front, which were at ₹ 46.5 crore, up 38.4% YoY (vs. our expectation of 15% YoY growth). We await clarification on such growth. Print circulation revenues, however, were slightly lower at ₹ 130.1 crore (vs. our expectation of ~₹ 133 crore)
- EBITDA came in at ₹ 139.7 crore (flattish YoY), much ahead of our expectation of ₹ 124.5 crore. Consequently, EBITDA margins came in at 21.2% (down 214 bps YoY), ahead of our expectation of 19.5%. We note that EBITDA beat is largely driven by better-than-expected ad growth and sharp growth in radio's EBITDA
- PAT came in at ₹ 75.6 crore (down ~3% YoY), above our expectations of ₹ 67.3 crore, given the beat on the operating front

Elections, DAVP rate hike to boost print ad growth ahead

The company indicated that state election led tailwinds led to 200 bps and 700 bps growth boosts for print and radio ads, respectively, during the quarter. Nevertheless, the benefit of low base in Q3FY18 (~7% YoY decline in print and radio ad) owing to shift of festivities was also a major kicker for growth during the quarter. Going ahead, we expect DAVP ad rate hike (of ~25% with effect from January, 2019) and national elections to boost the ad growth trajectory. We build in 9.6% CAGR for print ad revenue growth in FY18-21E to ₹ 1917 crore. We bake in 12.7% CAGR revenue growth in radio in FY18-20E to ₹ 167 crore. Circulation revenues are expected to witness ~5% CAGR in FY18-20, with marginal growth in pricing in FY20 and FY21.

Newsprint prices correct ~20% from peak; benefits to be seen in FY20

During the quarter, blended newsprint costs were up ~28% YoY. The management indicated that global newsprint spot prices have come down by 20% from the peak of ~US\$750/tonne to ~US\$570-600/tonne. They expect pricing benefits to reflect from Q1FY20 onwards as they currently continue to use high cost inventory. Post the suppression of margins by ~420 bps YoY in FY19 to 20.4%, margins are expected to revive to 23.2% and 23.7% in FY20E and FY21E, respectively.

Near term beneficiary of election/DAVP boost & newsprint respite...

We note that print players (including DB Corp) have had a forgettable FY19 on account of slower print ad revenue growth on account of subdued advertising from local players, which was impacted badly on account of regulations like RERA and GST. However, respite in the form of correction of newsprint prices coupled with incremental benefits from DAVP rate hike and election led tailwind are likely to boost topline and earnings, going ahead. We are also encouraged by DB Corp's superior ad growth and cost control than peers. We maintain our **BUY** rating and value the company at 10x FY21E EPS to arrive at a target price of ₹ 215.

Rating matrix		
Rating	:	Buy
Target	:	₹ 215
Target Period	:	12 months
Potential Upside	:	20%

What's changed?		
Target		Unchanged
EPS FY19E		Changed from ₹ 15 to ₹ 15.6
EPS FY20E		Changed from ₹ 19.5 to ₹ 20
EPS FY21E		Introduced at ₹ 21.5
Rating		Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	659.7	598.6	10.2	582.1	13.3
EBITDA	139.7	139.6	0.1	92.3	51.4
EBITDA (%)	21.2	23.3	-214 bps	15.9	532 bps
PAT	75.6	78.1	(3.2)	46.2	63.7

Key financials				
DB Corp	FY18E	FY19E	FY20E	FY21E
Net Sales	2,319.9	2,472.7	2,718.6	2,921.9
EBITDA	555.2	503.7	631.8	693.3
Net Profit	315.4	273.5	350.1	376.6
EPS (₹)	17.1	15.6	20.0	21.5

Valuation summary				
DB Corp	FY18	FY19E	FY20E	FY21E
P/E	10.4	11.5	8.9	8.3
Target P/E	12.6	13.8	10.8	10.0
EV / EBITDA	5.5	6.6	5.0	4.3
P/BV	1.7	1.8	1.7	1.5
RoNW	16.3	16.0	18.5	17.9
RoCE	23.1	22.4	25.9	25.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	3,295.0
Total Debt (FY18) (₹ Crore)	44.9
Cash (FY18) (₹ Crore)	298.0
EV (₹ Crore)	3,041.9
52 week H/L	351/ 151
Equity Capital (₹ crore)	184.0
Face value	10.0

Price performance				
	1M	3M	6M	12M
HT Media	12.7	-5.3	-37.6	-59.7
DB Corp	2.6	-5.2	-30.2	-52.3
Jagran Prakashan	-4.4	1.5	-13.9	-38.2

Research Analysts	
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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	659.7	639.8	598.6	582.1	10.2	13.3	The topline beat was led by superior radio ad growth (39% YoY) and print ad (~11.5% YoY) on account of state election tailwinds and favourable base
Other Income	1.9	4.0	3.9	5.4	-50.1	-63.9	
Raw Material Expenses	251.7	249.8	189.2	233.3	33.0	7.9	
Employee Expenses	111.4	108.8	109.1	108.7	2.1	2.5	
(Increase) / Decrease in Stock of Finished Goc	-0.4	0.0	-1.3	-0.3	-68.3	53.7	
Administrative Expenses	0.0	0.0	0.0	0.0	NA	NA	
Other operating Expenses	157.3	156.7	162.0	148.0	-2.9	6.3	
EBITDA	139.7	124.5	139.6	92.3	0.1	51.4	EBITDA beat was on account of superior topline led operating
EBITDA Margin (%)	21.2	19.5	23.3	15.9	-214 bps	532 bps	
Depreciation	24.9	25.3	23.2	25.1	7.2	-0.8	
Interest	1.9	1.7	1.1	3.0	73.6	-36.1	
Total Tax	39.2	34.2	41.0	23.4	-4.3	67.7	
PAT	75.6	67.3	78.1	46.2	-3.2	63.7	Higher PAT on account of superior operating performance
Key Metrics							
Print Ad revenue growth	11.5%	9.5%	-5.9%	4.1%			
Circulation Revenue Growth	-1.4%	1.1%	6.1%	3.5%			
Newsprint Costs	251.7	249.8	189.2	233.3	33.0	7.9	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			FY21E Introduced	
	Old	New	% Change	Old	New	% Change		
Revenue	2,473.9	2,472.7	0.0	2,765.1	2,718.6	-1.7	2,921.9	We lower our subscription growth estimates given the weaker than anticipated run rate
EBITDA	504.4	503.7	-0.1	657.8	631.8	-4.0	693.3	
EBITDA Margin (%)	20.4	20.4	-2 bps	23.8	23.2	-55 bps	23.7	
PAT	276.9	273.5	-1.2	358.4	350.1	-2.3	376.6	
EPS (₹)	15.0	15.6		19.5	20.0		21.5	

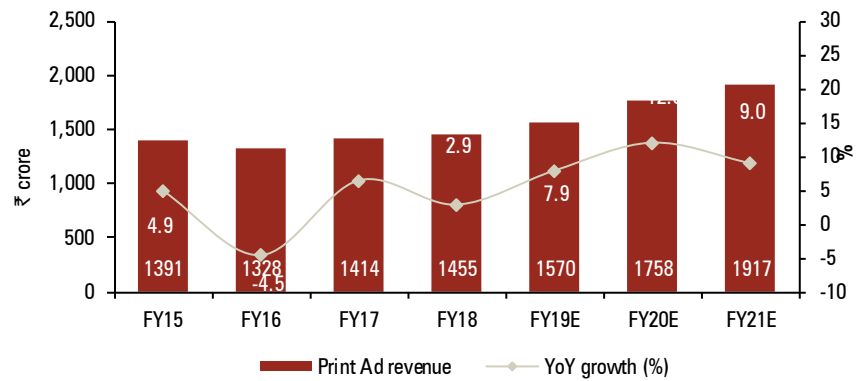
Source: Company, ICICI Direct Research

Assumptions

	Current			Earlier		
	FY17	FY18	FY19E	FY20E	FY21E	FY21E
Print Ad revenue growth	7.8%	2.9%	7.9%	12.0%	9.0%	8.1%
Circulation Revenue Growth	10.5%	5.2%	4.1%	5.9%	4.1%	6.7%
Newsprint Costs (₹ Crore)	661.3	727.2	948.1	923.1	915.1	946.3

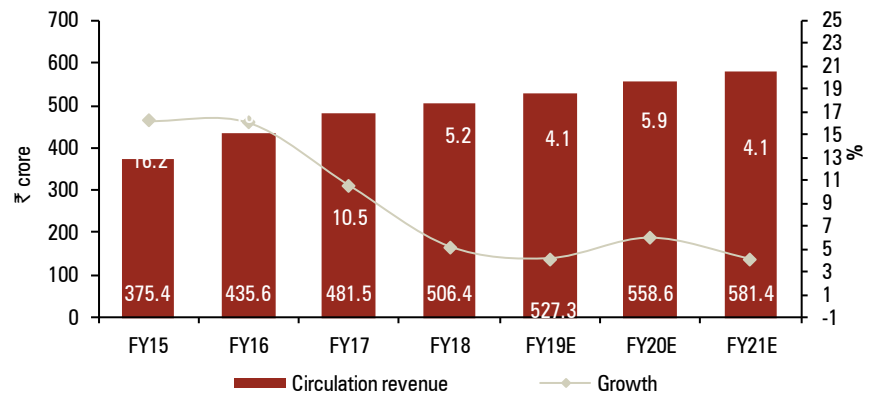
Source: Company, ICICI Direct Research

Exhibit 1: Print ad revenue trend



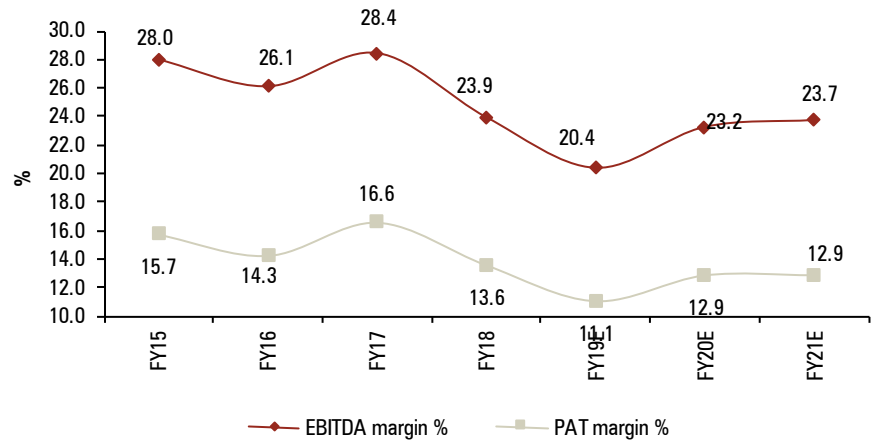
Source: Company, ICICI Direct Research

Exhibit 2: Circulation revenue trend



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and PAT margins trend



Source: Company, ICICI Direct Research

Conference call Highlights

- **Elections in key states boosts print and radio revenue for quarter; higher inventory utilisation fuel radio growth:** The management indicated that out of 11.5% YoY print ad revenue growth for the quarter, 200 bps (2%) could be attributed to direct benefits from state elections in the key markets of the company while the rest has come from festive season tailwinds and recovery in some key categories of real estate and education. In the radio segment, out of ~38% YoY revenue growth, the management attributed 7% (700 bps) growth to election related benefits. They indicated that radio revenue growth for the quarter was also supported by higher inventory utilisation, especially on the weekend and late night slots (9-12 pm slots) where the company started ramping up inventory to increase customer stickiness
- **Peak newsprint prices behind now; lower prices impact visible from Q1FY20:** As per management, Q3FY19 witnessed 28% YoY increase in newsprint prices to ₹ 45,300/tonne as the company absorbed all high price inventory during the quarter. The management indicated that peak of newsprint prices is behind now. They already witnessed softness in prices (from peak \$750 to \$570-\$600 range) on account of re-opening of some close facilities in Russia, the US and also due to a decline in imports from China. The management indicated that benefits of lower newsprint prices would be visible from Q1FY20 numbers
- **DAVP rate hike to boost print ad revenues; planning to increase cover prices from FY20:** The company welcomed Ministry of Information and Broadcasting's move to revise the DAVP rate for print media by 25% and mentioned that the benefits of the move are expected to be visible from Q4FY19 onwards. As per the management, the government contributes ~15% of the overall print ad pie. The management indicated that circulation revenue for the quarter was muted on account of moderation of circulation copies from 57.95 lakh in March 2018 to 56.6 lakh copies for the quarter. The management indicated that they are not keen to increase cover prices in the near term but are planning to increase in FY20, after the next IRS survey which is scheduled to come out in April 2019
- **Digital revenues improve after launching own app; reduction in pledged shares:** The management said they have cut down significantly on social revenues as a part of their digital strategy to take readers directly to their own app, which is yielding good results. The company has reduced pledged shares through restructuring loan against pledge of shares. As a result, pledged shares of promoters reduced from 58.32% to 32.28%
- **Bihar & Rajasthan market:** The management said that DB Corp is now the No. 2 player in Bihar with 9.11 lakh copies aided by yield benefits and market share gain in the state. As per management, print ad rates for the company in Bihar market are less than half of the leader. In Rajasthan, they are in leadership position with 16+ lakh copies
- **Other highlights:** i) Net cash on the books is ₹ 95 crore

Valuation

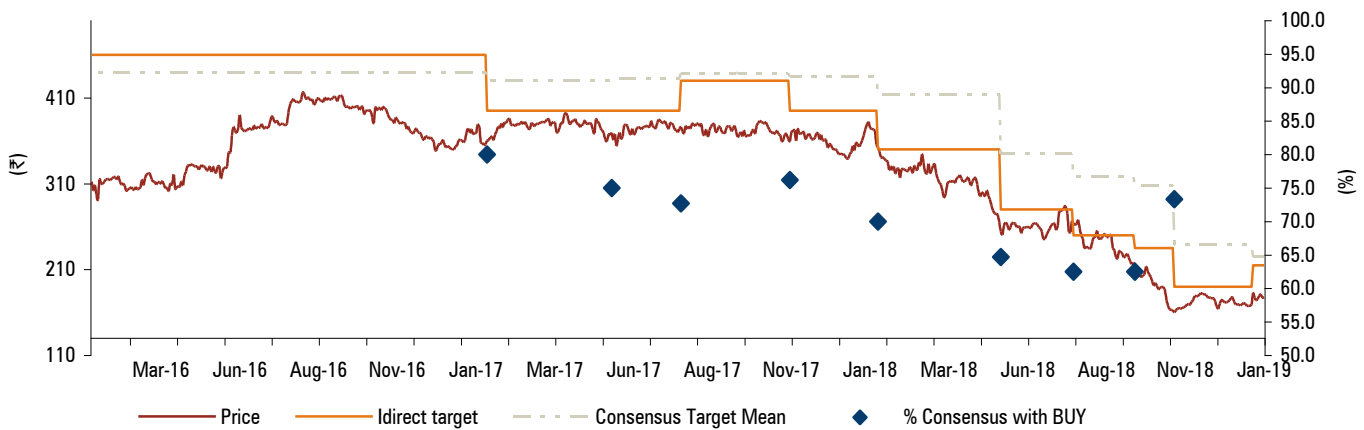
We note that print players (including DB Corp) have had a forgettable FY19 on account of slower print ad revenue growth due to subdued advertising from local players, which were impacted badly on account of regulations like RERA and GST. However, respite in the form of correction of newsprint prices coupled with incremental benefits from DAVP rate hike and election led tailwind are likely to boost topline and earnings, going ahead. We are also encouraged by DB Corp's superior ad growth and cost control than peers. We maintain our **BUY** rating and value company at 10x FY21E EPS to arrive at a target price of ₹ 215/ share.

Exhibit 4: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	2,319.9	2.7	17.1	-15.9	10.4	5.5	16.3	23.1
FY19E	2,472.7	6.6	15.6	-8.8	11.5	6.6	16.0	22.4
FY20E	2,718.6	9.9	20.0	28.0	8.9	5.0	18.5	25.9
FY21E	2,921.9	7.5	21.5	7.6	8.3	4.3	17.9	25.5

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
Jan-10	The equity shares of the company were listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE)
Mar-10	The company planned to launch its editions in Jammu, Jharkhand and Bihar
Aug-10	Launches the new edition of Dainik Bhaskar in Ranchi, Jharkhand. There was a reduction in cover prices across players due to the competitive intensity
Sep-10	Launches Dainik Bhaskar at Bhatinda in Punjab and Itarsi in Madhya Pradesh. Also, DB Corp launched full fledged printing centres in Sirohi and Barmer in Rajasthan for its brand Dainik Bhaskar to further strengthen its readership
Apr-11	Extends its presence to a fourth language Marathi with the launch of its sixtieth edition Dainik Divya Marathi newspaper in Aurangabad
Dec-11	Calls off plans to launch in Bihar due to intense competition
Sep-12	Announces the launch of Dainik Bhaskar School for Media Training in association with Dale Carnegie
Sep-13	Announces plans to launch an edition of Dainik Bhaskar in Patna by January 2014
Jan-14	Successfully enters the Bihar market with the launch in Patna
Sep-15	Buys 14 frequencies (of which nine were Maharashtra cities) in the current action at a total outlay of ₹ 32.4 crore

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filling Date	% O/S	Position(mn)	Change (m)
1	DB Consolidated Pvt. Ltd.	31-Dec-18	50.4	88.2	0.0
2	Nalanda Capital Pte Ltd	31-Dec-18	9.9	17.4	0.0
3	Agarwal (Pawan)	31-Dec-18	4.5	7.9	0.0
4	Agarwal (Girish R)	31-Dec-18	4.5	7.9	0.0
5	Agarwal (Sudhir)	31-Dec-18	4.5	7.9	0.0
6	Stitex Global, Ltd.	31-Dec-18	4.3	7.6	0.0
7	ICICI Prudential Life Insurance Company Ltd.	31-Dec-18	3.2	5.6	0.7
8	Bhaskar Publications & Allied Industries Pvt. Ltd.	31-Dec-18	1.7	3.0	0.0
9	Fidelity International	31-Dec-17	1.3	2.3	0.0
10	Somerset Capital Management, L.L.P.	31-Dec-18	1.2	2.2	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	69.84	69.82	69.81	71.36	71.62
FII	16.74	17.55	18.41	17.91	18.63
DII	6.03	6.48	6.36	7.19	6.86
Others	7.39	6.15	5.42	3.54	2.89

Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
ICICI Prudential Life Insurance Company Ltd.	1.69M	0.70M	Azim Premji Trust	-1.38M	-0.47M
			Tata Asset Management Limited	-1.37M	-0.37M
			Mellon Investments Corporation	-0.52M	-0.23M
			Canara Robeco Asset Management Company Ltd.	-0.24M	-0.07M
			FIL Investment Management (Hong Kong) Limited	-0.10M	-0.03M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement					₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E					
Total operating Income	2,319.9	2,472.7	2,718.6	2,921.9					
Growth (%)	2.7	6.6	9.9	7.5					
Raw Material Expenses	734.2	948.2	923.1	915.1					
Employee Expenses	436.4	438.6	480.5	531.0					
Other Operating Expenses	597.6	582.1	683.2	782.4					
Other expenses	(3.4)	0.2	-	-					
Total Operating Expenditure	1,764.7	1,969.0	2,086.8	2,228.5					
EBITDA	555.2	503.7	631.8	693.3					
Growth (%)	-13.5	-9.3	25.4	9.7					
Depreciation	92.4	97.7	111.5	121.3					
Interest	6.7	8.4	6.7	7.2					
Other Income	23.8	17.1	16.0	11.0					
Exceptional Items	-	-	-	-					
PBT	479.9	414.8	529.6	575.9					
MI/PAT from associates	-	-	-	-					
Total Tax	164.5	141.3	179.5	199.3					
PAT	315.4	273.5	350.1	376.6					
Growth (%)	-15.8	-13.3	28.0	7.6					
EPS (₹)	17.1	15.6	20.0	21.5					

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E					
Profit after Tax	315.4	273.5	350.1	376.6					
Add: Depreciation	92.4	97.7	111.5	121.3					
Add: Interest Paid	6.7	8.4	6.7	7.2					
(Inc)/dec in Current Assets	-115.6	-52.7	-84.8	-70.1					
Inc/(dec) in CL and Provisions	63.6	19.4	33.3	26.3					
Others	0.0	0.0	0.0	0.0					
CF from operating activities	362.4	346.2	416.8	461.3					
(Inc)/dec in Investments	-8.7	-40.0	-140.0	-140.0					
(Inc)/dec in Fixed Assets	-183.7	-75.0	-50.0	-50.0					
Others	-47.9	0.0	0.0	0.0					
CF from investing activities	-240.2	-115.0	-190.0	-190.0					
Issue/(Buy back) of Equity	0.1	-9.2	0.0	0.0					
Inc/(dec) in loan funds	-11.3	0.0	0.0	0.0					
Dividend paid & dividend tax	-22.1	-167.9	-167.9	-167.9					
Interest Paid	6.7	8.4	6.7	7.2					
Others	19.3	-320.3	-13.5	-14.4					
CF from financing activities	-7.2	-489.0	-174.6	-175.1					
Net Cash flow	114.9	-257.8	52.2	96.2					
Opening Cash	174.4	289.3	31.5	83.7					
Closing Cash	289.3	31.5	83.7	179.9					

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E					
Liabilities									
Equity Capital	184.0	174.9	174.9	174.9					
Reserve and Surplus	1745.1	1538.4	1720.6	1929.3					
Total Shareholders funds	1929.1	1713.3	1895.5	2104.2					
Total Debt	44.9	44.9	44.9	44.9					
Others	133.2	133.2	133.2	133.2					
Total Liabilities	2107.2	1891.3	2073.5	2282.3					
Assets									
Gross Block	1689.3	1764.3	1814.3	1864.3					
Less: Acc Depreciation	689.6	787.2	898.7	1019.9					
Net Block	999.7	977.0	915.6	844.3					
Capital WIP	21.3	21.3	21.3	21.3					
Total Fixed Assets	1021.0	998.3	936.9	865.6					
Net Intangible Assets	-	-	-	-					
Investments	35.6	75.6	215.6	355.6					
Goodwill on consolidation	1.9	1.9	1.9	1.9					
Inventory	159.9	170.5	187.4	201.4					
Debtors	541.8	577.5	634.9	682.3					
Loans and Advances	91.9	97.9	107.6	115.7					
Other Current Assets	6.6	7.0	7.7	8.3					
Cash	298.0	31.5	83.7	179.9					
Total Current Assets	1098.1	884.4	1021.4	1187.7					
Creditors	259.1	276.1	303.6	326.3					
Provisions	19.3	20.5	22.6	24.3					
Other Current Liabilities	85.4	86.5	90.3	92.2					
Total Current Liabilities	363.7	383.2	416.5	442.8					
Net Current Assets	734.4	501.2	604.9	744.9					
Other non current assets	314.3	314.3	314.3	314.3					
Application of Funds	2107.2	1891.3	2073.5	2282.3					

Source: Company, ICICI Direct Research

Key ratios									
(Year-end March)	FY18	FY19E	FY20E	FY21E					
Per share data (₹)									
EPS	17.1	15.6	20.0	21.5					
Cash EPS	22.2	21.2	26.4	28.5					
BV	104.8	98.0	108.4	120.3					
DPS	1.2	9.6	9.6	9.6					
Cash Per Share	53.7	46.8	56.2	68.6					
Operating Ratios (%)									
EBITDA Margin	23.9	20.4	23.2	23.7					
EBIT / Total Operating income	19.9	16.4	19.1	19.6					
PAT Margin	13.6	11.1	12.9	12.9					
Inventory days	25.2	25.2	25.2	25.2					
Debtor days	85.2	85.2	85.2	85.2					
Creditor days	40.8	40.8	40.8	40.8					
Return Ratios (%)									
RoE	16.3	16.0	18.5	17.9					
RoCE	23.1	22.4	25.9	25.5					
RoIC	31.4	26.7	33.5	36.6					
Valuation Ratios (x)									
P/E	10.4	11.5	8.9	8.3					
EV / EBITDA	5.5	6.6	5.0	4.3					
EV / Net Sales	1.3	1.3	1.2	1.0					
Market Cap / Sales	1.4	1.3	1.2	1.1					
Price to Book Value	1.7	1.8	1.7	1.5					
Solvency Ratios									
Debt/EBITDA	0.1	0.1	0.1	0.1					
Debt / Equity	0.0	0.0	0.0	0.0					
Current Ratio	2.2	2.2	2.3	2.3					
Quick Ratio	1.8	1.8	1.8	1.8					

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Media)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
DB Corp (DBCORP)	179	215	Buy	3,294	17.1	15.6	20.0	10.4	11.4	8.9	5.5	6.6	5.0	23.1	22.4	25.9	16.3	16.0	18.5
DISH TV (DISHTV)	36	42	Hold	6,702	-0.4	0.8	2.1	NM	43.0	17.7	6.9	4.0	3.6	3.1	8.8	10.4	0.1	2.4	5.4
ENIL (ENTNET)	571	690	Hold	2,720	7.5	12.1	22.3	76.3	47.2	25.6	22.7	18.4	12.0	6.2	9.0	15.1	3.5	6.1	10.2
Inox Leisure (INOX)	252	260	Buy	2,421	11.9	8.9	11.5	21.1	28.2	21.9	12.8	11.5	9.6	13.2	13.2	14.7	10.6	11.4	12.8
Jagran Praka (JAGPRA)	112	130	Hold	3,488	10.6	9.6	8.3	10.5	11.6	13.5	5.3	6.0	6.4	18.9	18.6	16.7	16.1	14.7	12.3
Music Broadcast (MUSBRO)	296	450	Buy	1,690	9.1	10.4	14.4	32.7	28.6	20.6	15.5	13.4	10.5	14.3	14.3	19.5	8.6	9.0	12.6
PVR (PVRLIM)	1,652	1,753	Hold	7,720	26.4	33.4	40.5	62.6	49.5	40.8	21.2	16.8	14.2	14.7	13.1	14.6	11.5	12.8	13.5
Sun TV (SUNTV)	575	675	Hold	22,675	28.8	36.9	37.5	20.0	15.6	15.3	10.4	8.0	7.2	35.5	37.7	33.0	24.2	25.6	22.1
TV Today (TVTNET)	375	450	Buy	2,239	19.9	25.7	29.8	18.8	14.6	12.6	9.8	7.8	6.0	30.4	30.2	29.8	19.3	19.5	19.0
ZEE Ent. (ZEEENT)	461	500	Hold	44,260	15.4	16.5	20.0	29.9	27.9	23.0	19.9	15.9	13.3	25.6	25.2	25.5	15.3	15.4	15.9

Source: Company, ICICI Direct Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

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