

DART view: Likely revival in ad growth key re-rating trigger

DBCL's 1QFY20 performance was weak due to a 4% YoY decline in advertising revenue. However, RM tailwinds (-6% YoY) and costs efficiencies (-12% YoY) supported EBITDA (+4.4% YoY). IndAS 116 implementation had positive impact on EBITDA of ₹ 90mn and negative on PAT of ₹ 10mn.

DBCL's flagship daily, the Dainik Bhaskar, is the 2nd most widely read Hindi daily, as per the IRS. But, DBCL leads in advertising revenue led by better and diversified state-mix of readership.

We estimate revenue/EBITDA/earnings to grow at a CAGR of 2.2/18.6/15.6% over FY19-21E led by economic recovery and thus in advertising revenue. This is aided by softened newsprint prices. Our rating is BUY, with a TP of ₹ 251 (+42%) @ 12x FY21E EPS (a discount of 35% to 3/5/10 years avg PE).

FY17-19 washout years

Indian print media was affected by demonetisation, GST, an economic slowdown, government clampdown on classified ads and steep rise in newsprint (NP) prices.

Q1FY20 - cost efficiencies soften blow on earnings

Inspite of increase in DAVP advertising rates, election led boosts in government advertising, decline in newsprint costs and cost efficiencies; DBCL's earnings declined 4% YoY. This is owing to 4% fall in advertising revenues. However, NP prices has softened with 9% decline QoQ (+0.8% YoY). Management estimate a decline of ~3-5% hereon. Further, employee costs fell 3% YoY/QoQ. Other expenses were down 5/15% YoY/QoQ (adjusted for IndAS 116). According to the management, the current costs are sustainable with room for further rationalization.

Revival in advertising revenue growth – key trigger

Near term advertising revenue outlook is cloudy due to macro slowdown. Nevertheless, merciful NP prices (on higher base of 2Q-4QFY19) will support healthy earnings growth. Yet, revival in advertising revenue growth is key trigger for multiple re-rating in the long-term. We think this is feasible with stable government and broader economic recovery.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	6,070	6,324	(4.0)	5,885	3.1
Total Expense	4,315	4,644	(7.1)	4,844	(10.9)
EBITDA	1,755	1,680	4.4	1,042	68.5
Depreciation	304	243	24.7	243	24.9
EBIT	1,451	1,437	1.0	798	81.8
Other Income	41	68	(39.7)	25	63.5
Interest	53	18	202.4	18	191.2
EBT	1,439	1,488	1.0	805	78.7
Tax	502	512	(1.9)	261	92.6
RPAT	937	976	(3.9)	545	72.1
APAT	937	976	(3.9)	545	72.1
			(bps)		(bps)
Gross Margin (%)	66.2	65.5	68	62.4	378
EBITDA Margin (%)	28.9	26.6	234	17.7	1121
NPM (%)	15.4	15.4	1	9.3	619
Tax Rate (%)	34.9	34.4	47	32.4	251
EBIT Margin (%)	23.9	22.7	119	13.6	1034

CMP	₹ 176
Target / Upside	₹ 251 / 42%
BSE Sensex	38,938
NSE Nifty	11,597

Scrip Details

Equity / FV	₹ 1,749mn / ₹ 10
Market Cap	₹ 31bn
	US\$ 447mn
52-week High/Low	₹ 202/₹ 165
Avg. Volume (no)	67,675
NSE Symbol	DBCORP
Bloomberg Code	DBCL IN

Shareholding Pattern Jun'19(%)

Promoters	71.6
MF/Banks/FIs	2.0
FIIIs	18.9
Public / Others	7.6

Valuation (x)

	FY19A	FY20E	FY21E
P/E	11.3	9.1	8.4
EV/EBITDA	6.0	4.6	4.0
ROE (%)	14.6	18.0	18.8
RoACE (%)	13.0	15.8	16.2

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	24,627	24,491	25,706
EBITDA	5,042	6,461	7,087
PAT	2,738	3,371	3,660
EPS (₹)	15.7	19.3	20.9

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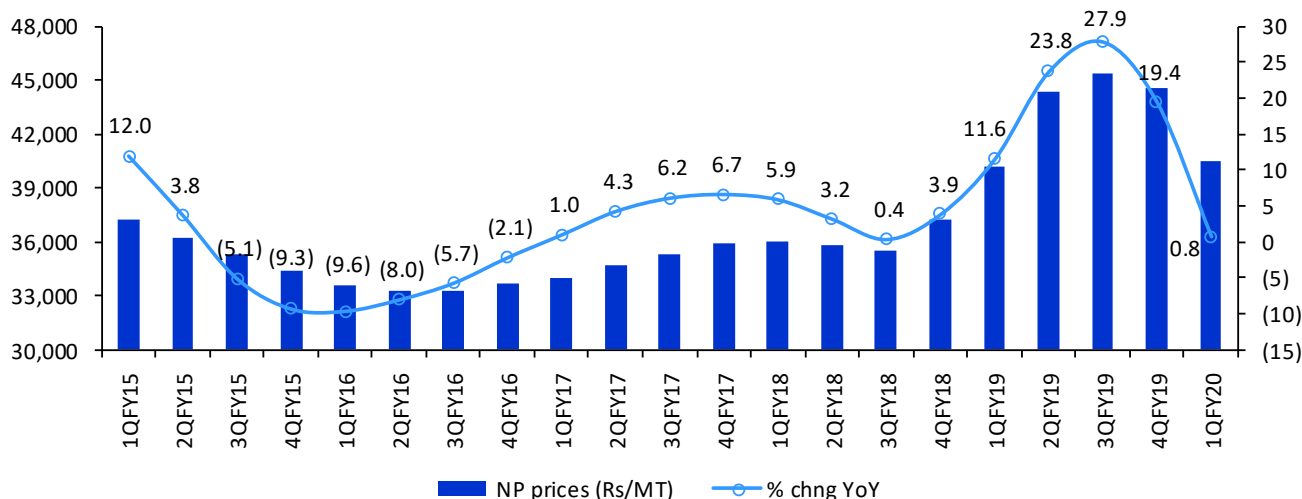
Key earnings call takeaways

- **New campaign to improve brand visibility, sustain and grow readership:** DBCL has launched new print media campaign 'Life Badal Jayegi, Boss' featuring Salman Khan. DB Corp's flagship brand Dainik Bhaskar's recent circulation expansion initiative 'Jeeto ₹ 21 crore' aims to revive the dying newspaper reading habit. Through campaign, it aims to engage readers and garner interest among non-readers. It is for adding new readers and increasing the penetration of print in all markets including Hindi, Gujarati and Marathi. The campaign is also aimed at the retention of the large number of DB Group's current base of readers in all markets.
- Management doesn't see it to be significantly adding to its costs as most of the deals are on barter basis.
- **Advertising revenue trends across segments:** Government led by elections (+3%) and real estate (+15%) led by specific activation campaigns for clients were the only segment that witnessed growth.
- Education is an important category that declined 3%. Besides this Auto, FMCG, Lifestyle were other large category that saw a decline. Education was specifically impacted in Gujarat owing to an incidence at a coaching institute in Surat. This lead to high amount of vigilance by the authorities on security norms across institutes leading to a slowdown.
- Besides category, decline was across both national and local advertisers.
- **DBCL gains market share:** DBCL management highlighted that despite decline in advertising revenue, its market share has to ~60% from 52-53% in Rajasthan. Similarly, in Gujarat the market share has increased to 38% from 32-33%. This is due to its superior execution and circulation expansion strategy. We believe a sustained decline in print category revenue and DBCL's market share gain may propel consolidation in foreseeable future.
- Digital. Due to competitive reason DBCL has restrained from disclosing separately Digital number for atleast next four quarters. Management in our view is trying to revamp the business over here.
- **Tailwinds part of the base:** DAVP price increase, decline in NP prices etc are now part of the base. Management expects NP prices to decline further by maximum 3-5% from ₹ 40.5/kg to ₹ 38.5-39/kg. This came as a surprise to us. We were expecting the NP costs to decline further to ~₹ 37.5-38/kg.
- Levy of 10% custom duty on newsprint would further impact the NP costs. Management highlighted that Indian Newspaper Society is in discussion with the government for reversal of this. Import of NP is on account of supply shortage and inferior quality in domestic market. DBCL also expects to offset the same through renegotiation with suppliers.
- **Decline in subscription revenue:** Management attributed the decline in subscription revenue YoY/QoQ to reduction in copies in Bihar and Gujarat after sharp increase in circulation leading to stabilization of copies.
- It further highlighted there has been no cover price increase since last two years. It sees no reason to increase cover prices due to softening of NP
- No of copies in circulation stood at 55.81lacs, pagination at 23/copy and net realization at ₹ 2.63/copy.

Exhibit 1: Sensitivity Analysis

Particulars	FY19	FY20	FY21
EPS	15.7	19.3	20.9
Target Multiple (x)			
8	125	154	167
10	157	193	209
12	188	231	251
14	219	270	293
16	251	308	335
Upside/downside from CMP (%)			
Target Multiple (x)			
8	(28.4)	(11.9)	(4.3)
10	(10.5)	10.1	19.6
12	7.4	32.1	43.5
14	25.3	54.2	67.4
16	43.1	76.2	91.3

Source: Company, DART

Exhibit 2: Newsprint prices trend


Source: Company, DART

Exhibit 3: Key Model Assumptions

Particulars (₹ mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Revenue	12,652	14,632	15,924	18,598	20,096	20,494	22,581	23,225	24,627	24,491	25,706
RM costs	3,838	5,080	5,446	6,323	6,479	6,186	6,609	7,307	9,236	8,267	8,347
Emp costs	1,846	2,429	2,795	3,025	3,458	3,917	4,258	4,364	4,351	4,247	4,507
SG&A exps	2,937	3,639	3,906	4,246	4,537	5,050	5,291	5,915	5,998	5,517	5,765
Total Opex	8,621	11,148	12,147	13,595	14,475	15,153	16,158	17,586	19,585	18,030	18,619
EBITDA	4,030	3,484	3,777	5,003	5,622	5,341	6,423	5,639	5,042	6,461	7,087
D&A	432	506	581	642	881	853	863	923	986	1,242	1,318
EBIT	3,599	2,979	3,196	4,361	4,741	4,488	5,560	4,716	4,056	5,219	5,766
Fin costs	153	96	96	75	76	138	74	67	85	214	345
Other income	142	122	213	239	257	241	171	237	167	149	164
PBT	3,588	3,005	3,313	4,524	4,922	4,591	5,656	4,886	4,137	5,155	5,588
Tax	1,000	982	1,132	1,457	1,759	1,678	1,907	1,645	1,399	1,784	1,928
PAT	2,588	2,023	2,182	3,067	3,163	2,913	3,749	3,241	2,738	3,371	3,660
% chg YoY											
Total Revenue	19.0	15.7	8.8	16.8	8.1	2.0	10.2	2.9	6.0	(0.6)	5.0
RM costs	17.1	32.3	7.2	16.1	2.5	(4.5)	6.8	10.6	26.4	(10.5)	1.0
Emp costs	40.0	31.6	15.1	8.2	14.3	13.3	8.7	2.5	(0.3)	(2.4)	6.1
SG&A exps	12.8	23.9	7.3	8.7	6.9	11.3	4.8	11.8	1.4	(8.0)	4.5
Total Opex	19.7	29.3	9.0	11.9	6.5	4.7	6.6	8.8	11.4	(7.9)	3.3
EBITDA	17.5	(13.6)	8.4	32.5	12.4	(5.0)	20.3	(12.2)	(10.6)	28.1	9.7
D&A	14.1	17.1	14.8	10.6	37.1	(3.2)	1.2	7.0	6.8	25.9	6.1
EBIT	17.9	(17.2)	7.3	36.4	8.7	(5.3)	23.9	(15.2)	(14.0)	28.7	10.5
Fin costs	(57.1)	(37.5)	0.6	(21.7)	0.3	82.7	(46.1)	(10.1)	26.9	151.7	61.1
Other income	27.1	(13.7)	74.5	11.8	7.7	(6.2)	(29.2)	39.1	(29.8)	(10.4)	10.0
PBT	27.8	(16.2)	10.3	36.5	8.8	(6.7)	23.2	(13.6)	(15.3)	24.6	8.4
Tax	(5.4)	(1.8)	15.3	28.8	20.7	(4.6)	13.6	(13.7)	(14.9)	27.5	8.1
PAT	48.0	(21.8)	7.8	40.6	3.1	(7.9)	28.7	(13.6)	(15.5)	23.1	8.6
Common Size %											
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
RM costs	30.3	34.7	34.2	34.0	32.2	30.2	29.3	31.5	37.5	33.8	32.5
Emp costs	14.6	16.6	17.6	16.3	17.2	19.1	18.9	18.8	17.7	17.3	17.5
SG&A exps	23.2	24.9	24.5	22.8	22.6	24.6	23.4	25.5	24.4	22.5	22.4
Total Opex	68.1	76.2	76.3	73.1	72.0	73.9	71.6	75.7	79.5	73.6	72.4
EBITDA	31.9	23.8	23.7	26.9	28.0	26.1	28.4	24.3	20.5	26.4	27.6
D&A	3.4	3.5	3.6	3.5	4.4	4.2	3.8	4.0	4.0	5.1	5.1
EBIT	28.4	20.4	20.1	23.4	23.6	21.9	24.6	20.3	16.5	21.3	22.4
Fin costs	1.2	0.7	0.6	0.4	0.4	0.7	0.3	0.3	0.3	0.9	1.3
Other income	1.1	0.8	1.3	1.3	1.3	1.2	0.8	1.0	0.7	0.6	0.6
PBT	28.4	20.5	20.8	24.3	24.5	22.4	25.0	21.0	16.8	21.0	21.7
Tax	7.9	6.7	7.1	7.8	8.8	8.2	8.4	7.1	5.7	7.3	7.5
PAT	20.5	13.8	13.7	16.5	15.7	14.2	16.6	14.0	11.1	13.8	14.2
Tax as % of PBT	27.9	32.7	34.2	32.2	35.7	36.6	33.7	33.7	33.8	34.6	34.5
NP costs assumption											
NP prices (₹/MT)	27,140	31,324	32,946	35,850	35,777	33,471	34,988	36,159	43,596	39,767	39,175
NP Qty	141,431	162,174	165,298	176,378	181,094	184,829	188,883	202,087	211,863	207,877	213,074
NP (₹ mn)	3,838	5,080	5,446	6,323	6,479	6,186	6,609	7,307	9,236	8,267	8,347
% chg YoY											
NP prices (₹/MT)	7.8	15.4	5.2	8.8	(0.2)	(6.4)	4.5	3.3	20.6	(8.8)	(1.5)
NP Qty	8.6	14.7	1.9	6.7	2.7	2.1	2.2	7.0	4.8	(1.9)	2.5
NP (₹ mn)	17.1	32.3	7.2	16.1	2.5	(4.5)	6.8	10.6	26.4	(10.5)	1.0

Source: Company, DART

Exhibit 4: Segment-wise Performance

Particulars (₹ Mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue											
Advertisement	9,578	10,664	11,300	13,254	14,205	13,741	14,707	15,069	16,089	15,770	16,716
Circulation	2,143	2,419	2,814	3,232	3,755	4,356	4,815	4,996	5,237	5,281	5,340
Print + Digital	11,721	13,083	14,114	16,486	17,960	18,097	19,522	20,065	21,326	21,051	22,056
Radio	478	554	670	802	961	1,076	1,273	1,356	1,549	1,757	1,933
Other Operating Income	452	995	1,140	1,310	1,175	1,321	1,786	1,804	1,752	1,684	1,718
Total Revenue	12,652	14,632	15,924	18,598	20,096	20,494	22,581	23,225	24,627	24,491	25,706
EBITDA											
Print + Digital		3,360	3,558	4,685	5,387	4,941	5,945	5,279	4,517	5,829	6,419
Radio		124	219	318	235	400	478	360	525	632	668
Consolidated		3,484	3,777	5,003	5,622	5,341	6,423	5,639	5,042	6,461	7,087
EBITDA Margin %											
Print + Digital		23.9	23.3	26.3	28.2	25.4	27.9	24.1	19.6	25.6	27.0
Radio		22.4	32.6	39.7	24.5	37.2	37.5	26.5	33.9	36.0	34.6
Consolidated		23.8	23.7	26.9	28.0	26.1	28.4	24.3	20.5	26.4	27.6
Revenue Growth (%)											
Advertisement	23.2	11.3	6.0	17.3	7.2	(3.3)	7.0	2.5	6.8	(2.0)	6.0
Circulation	1.2	12.9	16.3	14.9	16.2	16.0	10.5	3.8	4.8	0.8	1.1
Print + Digital	18.5	11.6	7.9	16.8	8.9	0.8	7.9	2.8	6.3	(1.3)	4.8
Radio	29.6	15.8	20.9	19.7	19.8	12.0	18.3	6.5	14.2	13.4	10.0
Other Operating Income	23.2	120.1	14.6	14.9	(10.3)	12.4	35.2	1.0	(2.9)	(3.9)	2.0
Total Revenue	19.0	15.7	8.8	16.8	8.1	2.0	10.2	2.9	6.0	(0.6)	5.0
Revenue Mix (%)											
Advertisement	75.7	72.9	71.0	71.3	70.7	67.0	65.1	64.9	65.3	64.4	65.0
Circulation	16.9	16.5	17.7	17.4	18.7	21.3	21.3	21.5	21.3	21.6	20.8
Print + Digital	92.6	89.4	88.6	88.6	89.4	88.3	86.5	86.4	86.6	86.0	85.8
Radio	3.8	3.8	4.2	4.3	4.8	5.3	5.6	5.8	6.3	7.2	7.5
Other Operating Income	3.6	6.8	7.2	7.0	5.8	6.4	7.9	7.8	7.1	6.9	6.7
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Growth (%)											
Print + Digital			5.9	31.7	15.0	(8.3)	20.3	(11.2)	(14.4)	29.0	10.1
Radio			75.8	45.5	(26.1)	70.2	19.5	(24.7)	45.8	20.5	5.6
Consolidated			8.4	32.5	12.4	(5.0)	20.3	(12.2)	(10.6)	28.1	9.7
EBITDA Mix (%)											
Print + Digital		96.4	94.2	93.6	95.8	92.5	92.6	93.6	89.6	90.2	90.6
Radio		3.6	5.8	6.4	4.2	7.5	7.4	6.4	10.4	9.8	9.4
Consolidated		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	23,225	24,627	24,491	25,706
Total Expense	17,586	19,585	18,030	18,619
COGS	7,307	9,236	8,267	8,347
Employees Cost	4,364	4,351	4,247	4,507
Other expenses	5,915	5,998	5,517	5,765
EBIDTA	5,639	5,042	6,461	7,087
Depreciation	923	986	1,242	1,318
EBIT	4,716	4,056	5,219	5,769
Interest	67	85	214	345
Other Income	237	167	149	164
Exc. / E.O. items	0	0	0	0
EBT	4,886	4,137	5,155	5,588
Tax	1,645	1,399	1,784	1,928
RPAT	3,242	2,738	3,371	3,660
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,242	2,738	3,371	3,660

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	1,840	1,749	1,749	1,749
Minority Interest	0	0	0	0
Reserves & Surplus	17,451	16,520	17,365	18,078
Net Worth	19,291	18,269	19,114	19,827
Total Debt	449	508	2,457	2,212
Net Deferred Tax Liability	1,424	1,361	1,526	1,587
Total Capital Employed	21,163	20,138	23,097	23,626

Applications of Funds

Net Block	8,576	8,091	9,595	9,023
CWIP	0	0	0	0
Investments	4,279	4,419	4,461	4,515
Current Assets, Loans & Advances	11,500	11,433	12,403	13,333
Inventories	1,599	2,496	2,125	2,007
Receivables	5,418	6,369	5,656	5,343
Cash and Bank Balances	3,223	1,329	3,505	4,907
Loans and Advances	0	0	0	0
Other Current Assets	1,260	1,239	1,117	1,075
Less: Current Liabilities & Provisions	3,192	3,804	3,362	3,245
Payables	2,591	2,957	2,705	2,555
Other Current Liabilities	601	847	657	690
Net Current Assets	8,308	7,629	9,041	10,088
Total Assets	21,163	20,138	23,097	23,626

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	68.5	62.5	66.2	67.5
EBIDTA Margin	24.3	20.5	26.4	27.6
EBIT Margin	20.3	16.5	21.3	22.4
Tax rate	33.7	33.8	34.6	34.5
Net Profit Margin	14.0	11.1	13.8	14.2
(B) As Percentage of Net Sales (%)				
COGS	31.5	37.5	33.8	32.5
Employee	18.8	17.7	17.3	17.5
Other	25.5	24.4	22.5	22.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.1	0.1
Interest Coverage	70.4	47.7	24.4	16.7
Inventory days	25	37	32	29
Debtors days	85	94	84	76
Average Cost of Debt	13.3	17.8	14.4	14.8
Payable days	41	44	40	36
Working Capital days	131	113	135	143
FA T/O	2.7	3.0	2.6	2.8
(D) Measures of Investment				
AEPS (₹)	17.6	15.7	19.3	20.9
CEPS (₹)	22.6	21.3	26.4	28.5
DPS (₹)	0.0	20.9	12.0	14.0
Dividend Payout (%)	0.0	133.4	62.3	66.9
BVPS (₹)	104.8	104.4	109.3	113.4
RoANW (%)	18.4	14.6	18.0	18.8
RoACE (%)	16.0	13.0	15.8	16.2
RoAIC (%)	18.4	14.6	17.8	19.7
(E) Valuation Ratios				
CMP (₹)	176	176	176	176
P/E	10.0	11.3	9.1	8.4
Mcap (₹ Mn)	30,837	30,837	30,837	30,837
MCap/ Sales	1.3	1.3	1.3	1.2
EV	28,063	30,016	29,789	28,141
EV/Sales	1.2	1.2	1.2	1.1
EV/EBITDA	5.0	6.0	4.6	4.0
P/BV	1.7	1.7	1.6	1.6
Dividend Yield (%)	0.0	11.8	6.8	7.9
(F) Growth Rate (%)				
Revenue	2.9	6.0	(0.6)	5.0
EBITDA	(12.2)	(10.6)	28.1	9.7
EBIT	(15.2)	(14.0)	28.7	10.5
PBT	(13.6)	(15.3)	24.6	8.4
APAT	(13.5)	(15.5)	23.1	8.6
EPS	(13.6)	(11.1)	23.1	8.6

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	3,344	2,595	5,591	5,679
CFI	(1,697)	(611)	(2,618)	(733)
CFF	(178)	(3,878)	(796)	(3,544)
FCFF	1,536	2,094	2,845	4,932
Opening Cash	1,754	3,223	1,329	3,505
Closing Cash	3,223	1,329	3,505	4,907

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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