

Challenging print ad environment...

DB Corp's revenue for the quarter came in lower than our expectations on account of muted print ad revenues from some of its key sectors like automobile, education, lifestyle, etc. We note that the company did not disclose digital revenues separately and clubbed it with print revenues. (Print + digital) revenues came in at ₹ 404.8 crore, down 4.4% YoY (steeper than expected decline of 3% YoY). Circulation revenues came in at ₹ 131.4 crore, down 2.3% YoY, largely led by clamping down on some copies in key markets of Gujarat and Bihar. Radio revenues grew a strong 19% YoY. Reported EBITDA came in at ₹ 175.5 crore (up 4.5% YoY). We note that EBITDA for the quarter saw a benefit of ₹ 8.5 pertaining to adoption of AS116. Adjusted EBITDA would have been higher at ₹ 167 crore, aided by lower other expenses.

Education, auto, lifestyle pulls down print ad revenues

The company indicated that loss of government advertising did impact the overall political ad category (DAVP plus elections) as a whole. It reported muted 3% growth aided by election ads. Real estate, on the other hand, reported growth of ~15%. The categories that did not perform well were education (3% decline), automobile and lifestyle, largely led by the overall economic slowdown. We note that DB Corp refrained from guiding on print ad growth given the overall uncertainty. Going forward, we bake in print and allied (includes digital) ad growth CAGR of 6.4% in FY19-21E to ₹ 1821 crore. We also slightly lower our circulation revenue growth CAGR to 2.6% (vs. 3.5%, earlier) in FY19-21E.

Newsprint correction to boost FY20 margin

The company indicated that newsprint prices have declined sharply by 9% sequentially to ₹ 40.5/kg while the company expects newsprint prices to further correct from this level by a rupee or two. We bake in a 450 bps margin expansion in FY20 to 25% on the back of benefits of a decline in newsprint prices. We note that import duty of 10% on newsprint prices (levied in Union Budget) remains a key risk to our margin estimates. The industry is making a representation to the government to reverse the same.

Valuation & Outlook

Revenue growth was sluggish due to economic slowdown as well as one off headwinds faced by some key categories. Growth is expected to pick up in H2FY20 on account of festivities. This, coupled with moderation of newsprint prices, is expected to drive margin expansion. We maintain **HOLD** rating, valuing the company at 10x FY21E P/E for a target price of ₹ 190. Decision on import duty on newsprint will be a key monitorable, which could partially dilute lower price benefits.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	3,061.3
Total Debt (FY19) (₹ Crore)	50.8
Cash (FY19) (₹ Crore)	132.9
EV (₹ Crore)	2,979.2
52 week H/L	287/ 152
Equity Capital (₹ crore)	174.9
Face value	10.0

Key Highlights

- Print + digital ad growth revenues declined 4.4% on muted revenues from some key categories
- We bake in 6.4% CAGR in print + digital revenues over FY19-21E while slightly lowering our circulation revenues to 2.6% CAGR
- We bake margins of 25% and 24% in FY20E and FY21E, respectively, aided by newsprint price moderation
- We maintain HOLD, valuing the company at 10x FY21E EPS to arrive at a target price of ₹ 190 (vs. ₹ 210 earlier)

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales (₹ crore)	2,258.0	2,319.9	2,462.7	2,531.8	2,699.2	4.7
EBITDA (₹ crore)	642.2	555.2	504.2	632.2	647.7	13.3
Net Profit (₹ crore)	374.7	315.4	273.8	329.1	332.9	10.3
EPS (₹)	20.4	17.1	15.7	18.8	19.0	
P/E (x)	8.2	9.7	10.6	8.8	8.7	
Price / Book (x)	1.9	1.6	1.6	1.6	1.4	
EV/EBITDA (x)	4.6	5.0	5.9	4.7	4.3	
RoCE (%)	32.2	23.0	21.0	25.7	23.7	
RoE (%)	23.5	16.3	15.0	17.7	16.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	Q4FY19	YoY (%)	QoQ (%)	Comments
Revenue	607.0	618.2	632.4	588.5	-4.0	3.1	Revenue growth was lower on account of muted advertisement from some key
Other Income	4.1	3.0	6.8	2.5	-39.7	63.5	
Raw Material Expenses	205.1	203.7	217.2	220.4	-5.6	-6.9	
Employee Expenses	103.8	105.1	107.2	107.8	-3.1	-3.7	
(Increase) / Decrease in Stock of Finished	0.1	0.0	0.9	0.8	-93.6	-92.6	
Administrative Expenses	0.0	0.0	0.0	0.0	NA	NA	
Other operating Expenses	122.6	155.2	139.1	155.3	-11.9	-21.1	
EBITDA	175.5	154.3	168.0	104.2	4.4	68.5	EBITDA was higher on AS 110 implementation. Adjusted EBITDA was flattish v-y
EBITDA Margin (%)	28.9	25.0	26.6	17.7	234 bps	1121 bps	
Depreciation	30.4	25.0	24.3	24.3	24.7	24.9	
Interest	5.3	2.0	1.8	1.8	202.4	191.2	
Total Tax	50.2	44.5	51.2	26.1	-1.9	92.6	
PAT	93.7	85.7	97.6	54.5	-3.9	72.1	
Key Metrics							
Print+ Digital revenue growth	-4.4%	-3.9%	5.0%	7.0%			
Circulation Revenue Growth	-2.3%	-2.5%	10.2%	1.7%			
Newsprint Costs	205.1	203.7	217.2	220.4	-5.6	-6.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,619.0	2,531.8	-3.3	2,787.8	2,699.2	-3.2	Realigning revenue estimates after Q1FY20 performance
EBITDA	633.1	632.2	-0.1	672.8	647.7	-3.7	
EBITDA Margin (%)	24.2	25.0	80 bps	24.1	24.0	-14 bps	Building in higher margins to incorporate lower newsprint prices
PAT	351.1	329.1	-6.3	367.7	332.9	-9.5	
EPS (₹)	20.1	18.8		21.0	19.0		

Source: Company, ICICI Direct Research

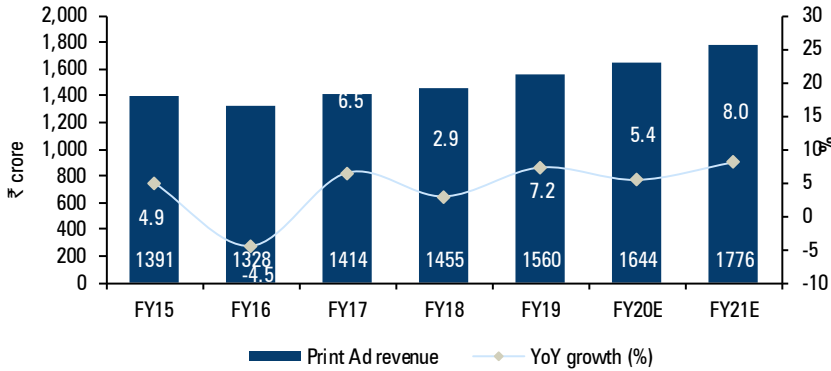
Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Print+ Digital revenue growth	2.5%	6.7%	5.0%	7.8%	6.7%	7.8%	7.9%
Circulation Revenue Growth	5.2%	3.4%	1.3%	4.0%	3.4%	4.4%	2.7%
Newsprint Costs (₹ Crore)	734.1	922.6	847.6	872.6	922.6	852.4	872.6

Source: Company, ICICI Direct Research

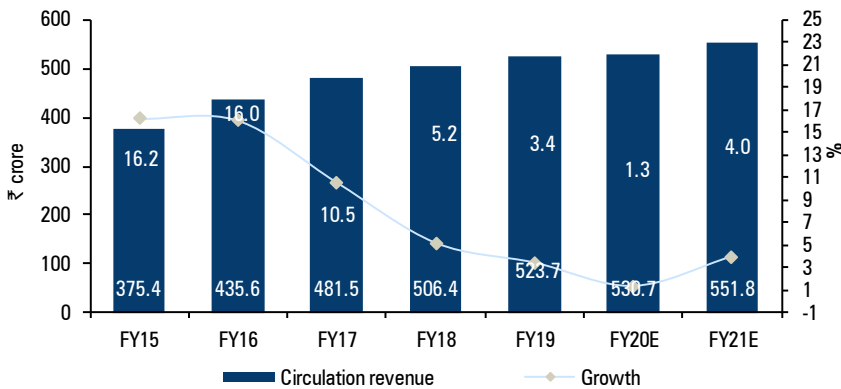
Story in Charts

Exhibit 4: Print ad revenue trend



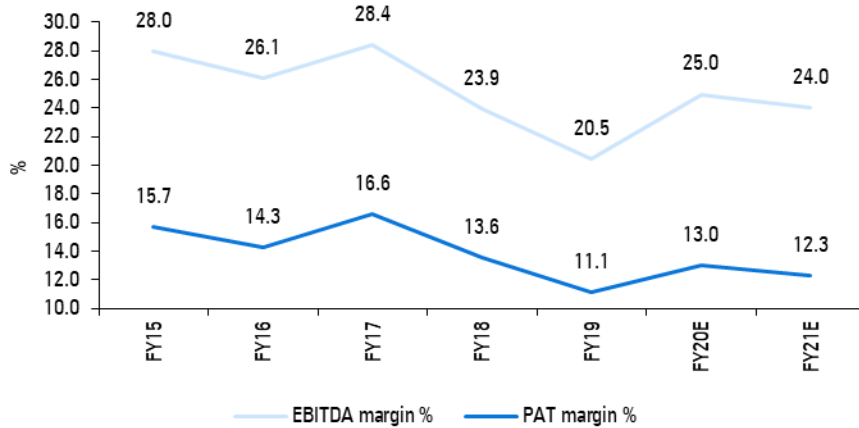
Source: Company, ICICI Direct Research

Exhibit 5: Circulation ad revenue trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend

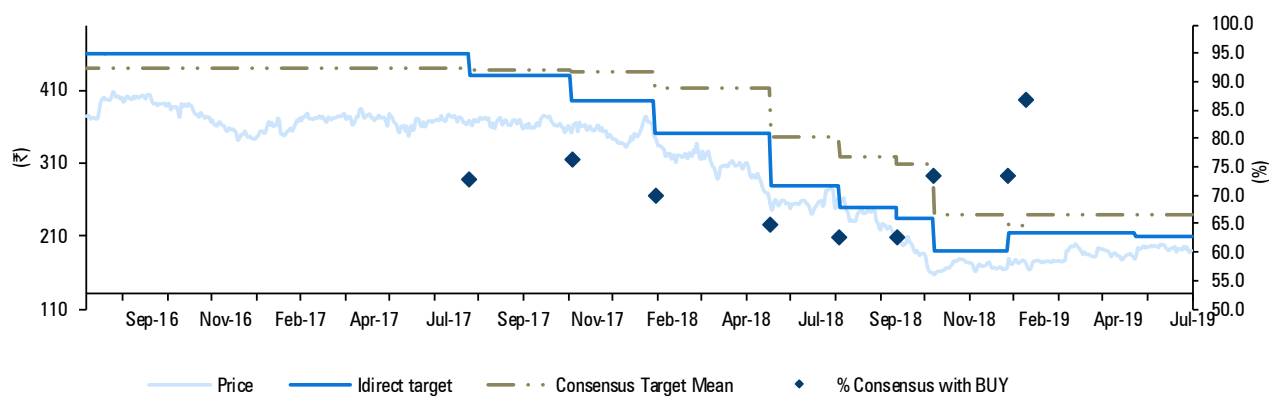


Source: Company, ICICI Direct Research

Conference Call and other Highlights

- **Import duty on newsprint unwarranted, hopeful of reversal:** The management indicated that the Budget proposal of 10% import duty on newsprint is unwarranted since print companies have to compulsorily opt for import option on account of lack of both quality and quantity in the domestic market. The company also indicated that huge investment in terms of better machinery by paper companies is required to match up to the quality of international newsprint, which domestic suppliers are unwilling to do at this point of time. The management further indicated the government could take a relook at their consideration and are hopeful of a reversal of the same. The company also said they may consider increasing cover prices in case import duty on newsprint stays at 10%
- **Newsprint prices moderating; scope of further reduction going forward:** The management indicated that newsprint prices for the quarter were at ₹ 40.5/kg, which returned to similar levels in Q1FY19, after attaining a peak of ₹ 44.5/kg in Q4FY19. The company indicated that newsprint prices will have scope for further reduction from Q1FY20 numbers. The management also indicated that excess supply in international markets remains, which dilutes the possibility of increasing prices. The company indicated at a blended spot price of ₹ 39/kg
- **Focus on cost control boosts EBITDA:** The company indicated that EBITDA for the quarter was boosted by ₹ 24 crore savings on a sequential basis, out of which ₹ 5 crore savings can be attributed to travelling, ₹ 8 crore pertains to survey expenses that was not there in Q1, coupled with further savings on advertisement and promotion. The management indicated that they still have further scope on cost control
- **Radio not impacted by lack of government advertising:** The company indicated that radio revenue growth was not impacted by lack of government advertising for the quarter (as it was in print) since government advertising is not a major category for them
- **Other highlights:** i) Print business EBITDA increased by around ₹ 8.5 crore on adoption of AS116, ii) radio business EBITDA increased by around ₹ 1.3 crore on adoption of AS116, iii) market share in Gujarat improved from 52% to 60% while that of Rajasthan improved from 32% to 38%, iv) circulation for Q1FY20 was at 55.81 lakh copies with realisation of ₹ 2.63

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filling Date	% O/S	Position(mn)	Change (m)
1	DB Consolidated Pvt. Ltd.	31-Mar-19	50.4	88.17M	0.0
2	Nalanda Capital Pte Ltd	31-Mar-19	9.9	17.39M	0.0
3	Agarwal (Pawan)	31-Mar-19	4.5	7.90M	0.0
4	Agarwal (Girish R)	31-Mar-19	4.5	7.90M	0.0
5	Agarwal (Sudhir)	31-Mar-19	4.5	7.90M	0.0
6	Stitex Global, Ltd.	31-Mar-19	4.3	7.56M	0.0
7	ICICI Prudential Life Insurance Company Ltd.	31-Mar-19	3.3	5.78M	+0.13M
8	Bhaskar Publications & Allied Industries Pvt. L	31-Mar-19	1.7	3.02M	0.0
9	Somerset Capital Management, L.L.P.	31-Mar-19	1.6	2.84M	+0.67M
10	Fidelity International	31-Dec-17	1.3	2.25M	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Fidelity International Asset Management Company (Korea)	+4.97M	+1.84M	Union Asset Management Company Private Limited	-0.25M	-0.09M
Somerset Capital Management, L.L.P.	+1.81M	+0.67M	Northern Trust Investments, Inc.	-0.00M	-0.00M
HDFC Asset Management Co., Ltd.	+1.42M	+0.50M			
ICICI Prudential Life Insurance Company Ltd.	+0.36M	+0.13M			
Segall Bryant & Hamill, LLC	+0.02M	+0.01M			

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	69.82	69.81	71.36	71.62	71.61
FII	17.55	18.41	17.91	18.63	18.88
DII	6.48	6.36	7.19	6.86	5.26
Others	6.15	5.42	3.54	2.89	4.25

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	2,319.9	2,462.7	2,531.8	2,699.2
Growth (%)	2.7	6.2	2.8	6.6
Raw Material Expenses	734.2	922.7	847.6	872.6
Employee Expenses	436.4	435.1	451.3	490.7
Other Operating Expenses	597.6	599.8	600.7	688.3
Other expenses	(3.4)	0.9	0.1	-
Total Operating Expenditure	1,764.7	1,958.5	1,899.6	2,051.5
EBITDA	555.2	504.2	632.2	647.7
Growth (%)	-13.5	-9.2	25.4	2.5
Depreciation	92.4	98.6	121.5	126.9
Interest	6.7	8.5	21.2	22.4
Other Income	23.8	16.6	16.1	13.0
Exceptional Items	-	-	-	-
PBT	479.9	413.7	505.5	511.4
MI/PAT from associates	-	-	-	-
Total Tax	164.5	139.9	176.4	178.5
PAT	315.4	273.8	329.1	332.9
Growth (%)	-15.8	-13.2	20.2	1.2
EPS (₹)	17.1	15.7	18.8	19.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	315.4	273.8	329.1	332.9
Add: Depreciation	92.4	98.6	121.5	126.9
Add: Interest Paid	6.7	8.5	21.2	22.4
(Inc)/dec in Current Assets	-162.9	-162.9	-28.4	-68.7
Inc/(dec) in CL and Provisions	38.6	41.6	7.3	22.2
Others	0.0	0.0	0.0	0.0
CF from operating activities	290.1	259.6	450.8	435.7
(Inc)/dec in Investments	-8.7	-1.0	-40.0	-240.0
(Inc)/dec in Fixed Assets	-183.7	-63.2	-60.0	-60.0
Others	48.4	-5.9	0.0	0.0
CF from investing activities	-144.0	-70.1	-100.0	-300.0
Issue/(Buy back) of Equity	0.1	-9.1	0.0	0.0
Inc/(dec) in loan funds	-11.3	5.9	0.0	0.0
Dividend paid & dividend tax	0.0	-63.2	-294.7	-126.3
Interest Paid	6.7	8.5	21.2	22.4
Others	5.8	-320.7	-42.4	-44.8
CF from financing activities	1.4	-378.5	-315.9	-148.7
Net Cash flow	147.6	-189.1	34.9	-13.0
Opening Cash	174.4	321.9	132.9	167.8
Closing Cash	321.9	132.9	167.8	154.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	184.0	174.9	174.9	174.9
Reserve and Surplus	1745.1	1652.0	1686.4	1893.1
Total Shareholders funds	1929.1	1826.9	1861.3	2068.0
Total Debt	44.9	50.8	50.8	50.8
Others	142.4	136.1	136.1	136.1
Total Liabilities	2116.3	2013.8	2048.2	2254.9
Assets				
Gross Block	1689.3	1772.6	1832.6	1892.6
Less: Acc Depreciation	689.6	788.2	909.7	1036.6
Net Block	999.7	984.4	922.9	856.0
Capital WIP	21.3	1.2	1.2	1.2
Total Fixed Assets	1021.0	985.6	924.0	857.2
Net Intangible Assets	-	-	-	-
Investments	35.6	36.6	76.6	316.6
Goodwill on consolidation	1.9	1.9	1.9	1.9
Inventory	159.9	249.6	256.6	273.5
Debtors	553.4	636.9	654.8	698.1
Loans and Advances	30.9	30.7	31.6	33.7
Other Current Assets	103.2	93.2	95.8	102.1
Cash	321.9	132.9	167.8	154.8
Total Current Assets	1169.4	1143.3	1206.5	1262.2
Creditors	259.1	295.7	304.0	324.1
Provisions	19.3	19.0	19.5	20.8
Other Current Liabilities	60.5	65.7	64.2	65.0
Total Current Liabilities	338.8	380.4	387.7	409.9
Net Current Assets	830.6	762.9	818.8	852.3
Other non current assets	227.2	226.9	226.9	226.9
Application of Funds	2116.3	2013.8	2048.2	2254.9

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	17.1	15.7	18.8	19.0
Cash EPS	22.2	21.3	25.8	26.3
BV	104.8	104.5	106.4	118.2
DPS	1.0	10.0	6.0	6.0
Cash Per Share	55.0	52.7	61.6	68.1
Operating Ratios (%)				
EBITDA Margin	23.9	20.5	25.0	24.0
EBIT / Total Operating income	19.9	16.5	20.2	19.3
PAT Margin	13.6	11.1	13.0	12.3
Inventory days	25.2	37.0	37.0	37.0
Debtor days	87.1	94.4	94.4	94.4
Creditor days	40.8	43.8	43.8	43.8
Return Ratios (%)				
RoE	16.3	15.0	17.7	16.1
RoCE	23.0	21.0	25.7	23.7
RoIC	30.0	24.6	30.9	31.2
Valuation Ratios (x)				
P/E	9.7	10.6	8.8	8.7
EV / EBITDA	5.0	5.9	4.7	4.3
EV / Net Sales	1.2	1.2	1.2	1.0
Market Cap / Sales	1.3	1.2	1.2	1.1
Price to Book Value	1.6	1.6	1.6	1.4
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.5	2.7	2.7	2.7
Quick Ratio	2.0	2.0	2.0	2.0

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
DB Corp (DBCORP)	166	190	Hold	2,903	15.7	18.8	19.0	10.6	8.8	8.7	5.6	4.4	4.0	21.0	25.7	23.7	15.0	17.7	16.1
ENIL (ENTNET)	404	545	Hold	1,926	11.3	15.7	21.2	35.7	25.7	19.0	12.7	9.9	6.9	6.2	9.0	11.3	3.5	5.8	7.5
Inox Leisure (INOX)	314	385	Buy	3,221	13.0	14.1	18.1	24.1	22.2	17.4	10.8	9.9	7.8	13.2	19.6	18.0	10.6	14.2	13.1
Jagran Praka (JAGPRA)	99	108	Hold	3,071	8.8	9.6	12.0	11.2	10.3	8.2	5.8	4.8	4.0	18.9	18.6	16.7	16.1	14.7	13.9
Music Broadcast (MUS)	57	67	Buy	1,563	2.2	2.7	3.2	25.4	21.0	17.9	11.7	10.0	8.5	16.5	16.8	19.1	10.2	10.9	12.4
PVR (PVRLIM)	1,730	1,910	Hold	8,083	39.2	40.0	59.3	44.1	43.2	29.2	15.9	14.7	11.7	14.7	13.8	13.4	11.5	14.8	13.2
Sun TV (SUNTV)	464	580	Hold	18,285	36.4	37.4	38.7	12.8	12.4	12.0	6.0	5.8	5.0	35.5	38.5	34.2	24.2	25.9	23.0
TV Today (TVTNET)	280	340	Buy	1,673	22.0	27.0	28.4	12.7	10.4	9.9	6.9	5.1	4.2	30.4	26.2	26.9	19.3	16.9	17.5
ZEE Ent. (ZEEENT)	361	365	Hold	34,632	16.1	17.3	20.2	22.4	20.8	17.9	12.7	11.7	9.9	25.6	25.7	23.5	15.3	15.7	14.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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