

Ad revival key for improvement...

Jagran Prakashan reported a weak quarter with weakness across segments. Print ad revenues declined 2.2% YoY (vs. our expectation of 2% YoY growth) to ₹ 353 crore while circulation revenues were also weak ₹ 108.6 crore (1% YoY decline). Radio revenues came in weak with 7.8% YoY decline (1% YoY growth expectations). The weakness in topline and negative operating leverage percolated to EBITDA, which came in at ₹ 141.1 crore, down 13.7% YoY and a margin of 24.1%, ~300 bps YoY decline. The bottomline at ₹ 66.4 crore, witnessed 24.6% YoY decline.

Print suffers due to weak government, auto segment...

The struggles of the print ad environment were accentuated by the weak government segment, which witnessed a decline owing to election code of conduct and further due to miniscule traction post elections. Moreover, the political segment could not compensate for the loss of revenue from government category, resulting in an overall impact of 5% on print ad. Furthermore, auto, another key category that forms 15-16% of print ad, witnessed a steep decline of 30% during the quarter. On the other hand, localised ad category including education witnessed growth. We believe print ad scenario is still uncertain and recovery hinges on improvement in economic sentiment. Hence, we now expect print ad revenues to grow at 5.7% CAGR in FY19-21E (vs. 8% CAGR earlier) to ₹ 1544 crore. On the subscription front, we build in 1.1% CAGR over FY18-21 at ₹ 447 crore.

Newsprint cost benefits to be partly offset by custom duty

The company has guided for annual newsprint cost savings of ~₹ 40-50 crore, given the steep correction of newsprint prices. We note that current newsprint cost savings expectations is lower than our earlier estimates given the Budget proposal of 10% import duty on newsprint. We build in EBITDA margins of 24.2% and 25.3% for FY20 and FY21, respectively vs. earlier estimates of 25% and 27% for FY20 and FY21, respectively. On the radio front, given the steep revenue decline of ~8% during the quarter and muted outlook ahead, we revise our revenue numbers downwards and now build in 5.5% revenue CAGR over FY19-21E vs. 13.1% earlier.

Valuation & Outlook

The ad outlook in the near term is muted. Also, given the print dependence on auto (category facing challenges in medium term), we maintain our cautious stance. Moreover, weak radio growth outlook is also a spoiler. We now lower our earnings estimates for FY20 & FY21 by ~5% and 12%, respectively. Despite alluring valuations of ~7.4x FY21, we have a **HOLD** rating as we await a recovery in ad growth. We cut our target price to ₹ 85. Our target price implies 8x FY21E earnings, lower than earlier target multiple of 9x to account for lower growth trajectory.



| Particulars | |
|-----------------------|----------------|
| Particular | Amount |
| Market Capitalization | ₹ 2312 Crore |
| Total Debt (FY18) | ₹ 343.9 Crore |
| Cash (FY18) | ₹ 122.1 Crore |
| EV | ₹ 2313.6 Crore |
| 52 week H/L | 128/ 76 |
| Equity capital | ₹ 59.3 Crore |
| Face value | 2.0 |

Key Highlights

- Beat on EBITDA driven by lower than anticipated newsprint as well as employee costs
- Lower our print ad growth CAGR to ~8% in FY19-21E vs. 10.5% earlier, given no clear signs of sustainable improvement in print ad sentiment
- Given newsprint price correction, increase our margins estimates for FY20 and FY21 to 24.2% and 24.1% vs. 23.2% and 23.7%, respectively
- We downgrade to HOLD, valuing the company at 10x FY21E EPS to arrive at a target price of ₹ 210

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Key Financial Summary

| (Year-end March) | FY17 | FY18 | FY19 | FY20E | FY21E | CAGR FY19-FY21E |
|---------------------------|---------|---------|---------|---------|---------|-----------------|
| Net Sales (₹ crore) | 2,283.0 | 2,304.0 | 2,362.7 | 2,431.9 | 2,574.7 | 4.4 |
| EBITDA (₹ crore) | 639.5 | 583.1 | 533.7 | 589.7 | 652.2 | 10.5 |
| Adj. Net Profit (₹ crore) | 347.7 | 299.8 | 260.6 | 274.9 | 313.4 | 9.7 |
| EPS (₹) | 10.6 | 9.6 | 8.8 | 9.3 | 10.6 | |
| P/E (x) | 7.3 | 8.1 | 8.9 | 8.4 | 7.4 | |
| Price / Book (x) | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | |
| EV/EBITDA (x) | 3.5 | 3.9 | 4.3 | 3.8 | 3.3 | |
| RoE (%) | 16.1 | 14.7 | 13.9 | 13.9 | 14.8 | |
| RoCE (%) | 18.9 | 18.6 | 16.7 | 16.8 | 18.3 | |

Exhibit 1: Variance Analysis

| | Q1FY20 | Q1FY20E | Q1FY19 | Q4FY19 | YoY (%) | QoQ (%) | Comments |
|-------------------------|--------|---------|--------|--------|----------|---------|---|
| Revenue | 584.3 | 601.5 | 602.6 | 592.8 | -3.0 | -1.4 | Revenues were lower as both print and radio ad declined YoY |
| Other Income | 4.0 | 6.5 | 4.9 | 12.9 | -18.4 | -69.1 | |
| Raw Material Expenses | 175.6 | 174.4 | 175.4 | 179.5 | 0.2 | -2.2 | |
| Employee Expenses | 107.7 | 104.1 | 104.1 | 104.0 | 3.5 | 3.6 | |
| Marketing Expenses | 159.8 | 162.4 | 159.6 | 171.3 | 0.1 | -6.7 | |
| Total Expenses | 443.2 | 440.9 | 439.0 | 454.8 | 0.9 | -2.6 | |
| EBITDA | 141.1 | 160.7 | 163.6 | 138.0 | -13.7 | 2.3 | The weakness in revenues percolated to operating levels |
| EBITDA Margin (%) | 24.1 | 26.7 | 27.1 | 23.3 | -299 bps | 88 bps | |
| Depreciation | 35.5 | 33.1 | 30.7 | 33.1 | 15.7 | 7.4 | |
| Interest | 9.2 | 9.0 | 3.1 | 8.3 | 196.6 | 10.7 | |
| Total Tax | 34.9 | 43.4 | 46.3 | 39.2 | -24.6 | -10.9 | |
| PAT | 64.4 | 77.7 | 85.4 | 66.5 | -24.6 | -3.2 | |
| Key Metrics | | | | | | | |
| Print Ad Growth (%) | -2.2 | 2.0 | -0.6 | 10.2 | | | |
| Subscription Growth (%) | -1.0 | 0.1 | 1.0 | 2.1 | | | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY20E | | | FY21E | | | Comments |
|-------------------|---------|---------|----------|---------|---------|----------|---|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 2,515.0 | 2,431.9 | -3.3 | 2,709.3 | 2,574.7 | -5.0 | Lowered our estimate to incorporate the weak ad environment |
| EBITDA | 628.1 | 589.7 | -6.1 | 732.7 | 652.2 | -11.0 | Increased newsprint costs on account of management guidance |
| EBITDA Margin (%) | 25.0 | 24.2 | -73 bps | 27.0 | 25.3 | -171 bps | |
| PAT | 290.5 | 274.9 | -5.4 | 356.5 | 313.4 | -12.1 | |
| EPS (₹) | 9.8 | 9.3 | | 12.0 | 10.6 | | |

Source: Company, ICICI Direct Research

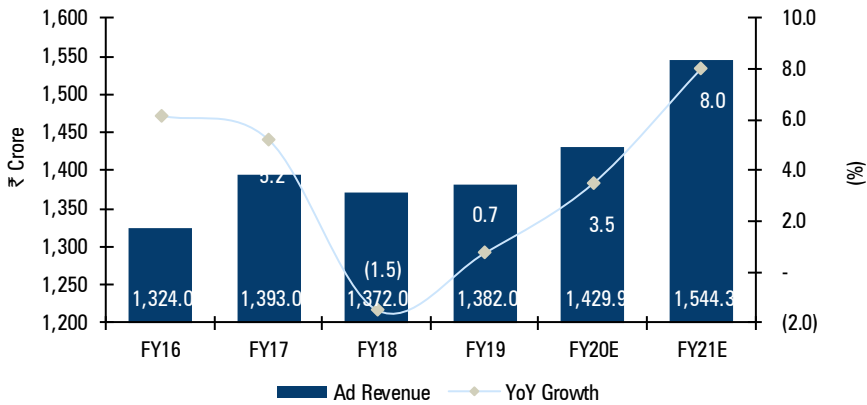
Exhibit 3: Assumptions

| | Current | | | | Earlier | | Comments |
|-------------------------|---------|-------|-------|-------|---------|-------|----------|
| | FY18 | FY19E | FY20E | FY21E | FY20E | FY21E | |
| Print Ad Growth (%) | -1.5 | 0.7 | 3.5 | 8.0 | 8.0 | 8.0 | |
| Subscription Growth (%) | 0.0 | 1.2 | 1.6 | 0.5 | 4.0 | 4.5 | |

Source: Company, ICICI Direct Research

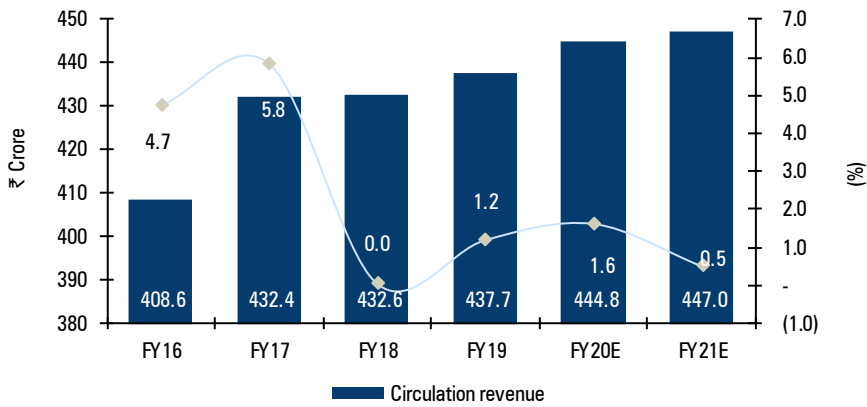
Story in Charts

Exhibit 4: Print ad revenue trend



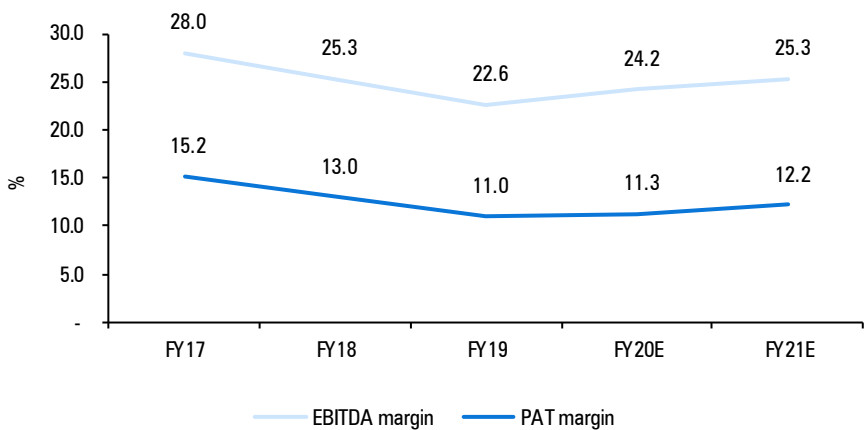
Source: Company, ICICI Direct Research

Exhibit 5: Circulation ad revenue trend



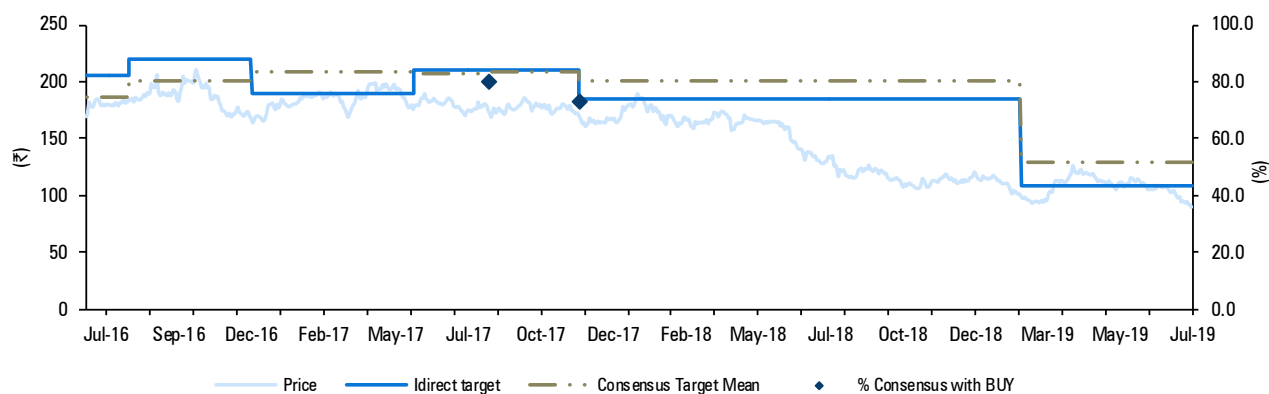
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|---|--------------------|-------|--------------|------------|
| 1 | Jagran Media Network Investment Pvt. Ltd. | 30-Jun-19 | 60.98 | 180.8 | 0.0 |
| 2 | HDFC Asset Management Co., Ltd. | 30-Jun-19 | 10.93 | 32.4 | 0.7 |
| 3 | Franklin Templeton Asset Management (India) Pvt. Ltd. | 30-Jun-19 | 5.26 | 15.6 | 0.5 |
| 4 | ICICI Prudential Life Insurance Company Ltd. | 30-Jun-19 | 5.12 | 15.2 | 0.7 |
| 5 | Pari Washington Company Pvt Ltd | 30-Jun-19 | 1.95 | 5.8 | 0.0 |
| 6 | ICICI Lombard General Insurance Company Ltd. | 30-Jun-19 | 1.75 | 5.2 | 0.0 |
| 7 | ICICI Prudential Asset Management Co. Ltd. | 30-Jun-19 | 1.63 | 4.8 | -1.4 |
| 8 | Dimensional Fund Advisors, L.P. | 30-Jun-19 | 0.79 | 2.4 | 0.0 |
| 9 | Reliance Nippon Life Asset Management Limited | 30-Jun-19 | 0.32 | 0.9 | -1.3 |
| 10 | HSBC Global Asset Management (India) Private Limited | 30-Jun-19 | 0.27 | 0.8 | 0.0 |

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

| Buys | | | Sells | | |
|---|--------|--------|---|--------|--------|
| Investor name | Value | Shares | Investor name | Value | Shares |
| ICICI Prudential Life Insurance Company Ltd. | +1.17M | +0.74M | ICICI Prudential Asset Management Co. Ltd. | -2.27M | -1.44M |
| HDFC Asset Management Co., Ltd. | +1.04M | +0.66M | Reliance Nippon Life Asset Management Limited | -2.12M | -1.35M |
| Franklin Templeton Asset Management (India) Pvt. Ltd. | +0.73M | +0.46M | Wellington Management Company, LLP | -2.01M | -1.20M |
| BlackRock Institutional Trust Company, N.A. | +0.02M | +0.01M | Aditya Birla Sun Life AMC Limited | -0.65M | -0.41M |
| Bessemer Trust Company, N.A. (US) | +0.01M | +0.01M | Florida State Board of Administration | -0.15M | -0.08M |

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

| (in %) | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 60.85 | 61.31 | 61.31 | 61.31 | 61.31 |
| FII | 6.24 | 5.40 | 4.73 | 5.06 | 4.96 |
| DII | 16.87 | 16.98 | 17.08 | 17.33 | 16.92 |
| Others | 16.04 | 16.31 | 16.88 | 16.30 | 16.81 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 11: Profit and loss statement | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Total operating income | 2,304.0 | 2,362.7 | 2,431.9 | 2,574.7 |
| Growth (%) | 0.9 | 2.5 | 2.9 | 5.9 |
| Raw Material Expenses | 664.1 | 730.1 | 696.2 | 704.0 |
| Employee Expenses | 400.3 | 419.2 | 443.8 | 455.0 |
| Administrative Expenses | 656.4 | 679.6 | 702.2 | 763.5 |
| Other Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Operating Expenditure | 1,720.8 | 1,828.9 | 1,842.2 | 1,922.5 |
| EBITDA | 583.1 | 533.7 | 589.7 | 652.2 |
| Growth (%) | | -8.5 | 10.5 | 10.6 |
| Depreciation | 136.1 | 127.9 | 142.3 | 142.9 |
| Interest | 27.1 | 25.9 | 36.8 | 36.8 |
| Other Income | 46.7 | 40.8 | 19.0 | 24.0 |
| Exception Items | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT | 466.7 | 420.7 | 429.6 | 496.5 |
| MI/PAT from associates | 11.1 | 13.2 | 5.6 | 14.8 |
| Prior Period Items | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 155.7 | 147.0 | 149.2 | 168.3 |
| PAT | 299.8 | 260.6 | 274.9 | 313.4 |
| Adjusted PAT | 299.8 | 260.6 | 274.9 | 313.4 |
| Growth (%) | -13.8 | -13.1 | 5.5 | 14.0 |
| Reported EPS (₹) | 9.6 | 8.8 | 9.3 | 10.6 |

Source: Company, ICICI Direct Research

| Exhibit 12: Cash flow statement | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Profit after Tax | 299.8 | 260.6 | 274.9 | 313.4 |
| Add: Depreciation | 136.1 | 127.9 | 142.3 | 142.9 |
| Add: Interest Paid | 27.1 | 25.9 | 36.8 | 36.8 |
| (Inc)/dec in Current Assets | -41.2 | -103.7 | -26.0 | -53.2 |
| Inc/(dec) in CL & Provisions | 14.8 | 89.4 | 12.6 | 26.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| CF from operating activities | 436.7 | 400.0 | 440.5 | 465.8 |
| (Inc)/dec in Investments | -108.5 | 19.7 | -100.0 | -100.0 |
| (Inc)/dec in Fixed Assets | 34.0 | -141.8 | -60.0 | -60.0 |
| Others | 9.2 | -19.4 | 2.5 | 3.8 |
| CF from investing activities | -65.3 | -141.5 | -157.5 | -156.2 |
| Issue/(Buy back) of Equity | -3.1 | -3.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | -160.6 | 196.3 | 0.0 | 0.0 |
| Dividend paid & dividend tax | -182.2 | -173.4 | -173.4 | -173.4 |
| Interest Paid | 27.1 | 25.9 | 36.8 | 36.8 |
| Others | -303.1 | -299.9 | -73.6 | -73.6 |
| CF from financing activities | -621.8 | -254.2 | -210.2 | -210.2 |
| Net Cash flow | -250.5 | 4.3 | 72.8 | 99.4 |
| Opening Cash | 368.2 | 117.7 | 122.1 | 194.8 |
| Closing Cash | 117.7 | 122.1 | 194.8 | 294.2 |

Source: Company, ICICI Direct Research

| Exhibit 13: Balance sheet | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Liabilities | | | | |
| Equity Capital | 62.3 | 59.3 | 59.3 | 59.3 |
| Reserve and Surplus | 1,977.4 | 1,816.4 | 1,917.9 | 2,057.9 |
| Total Shareholders funds | 2,039.7 | 1,875.7 | 1,977.2 | 2,117.2 |
| Total Debt | 147.6 | 343.9 | 343.9 | 343.9 |
| Others | 464.6 | 452.9 | 455.3 | 459.1 |
| Total Liabilities | 2,651.9 | 2,672.5 | 2,776.4 | 2,920.2 |
| Assets | | | | |
| Gross Block | 2,085.0 | 2,235.6 | 2,298.9 | 2,358.9 |
| Less: Acc Depreciation | 1,031.3 | 1,159.2 | 1,301.5 | 1,444.4 |
| Net Block | 1,053.7 | 1,076.3 | 997.4 | 914.5 |
| Capital WIP | 12.1 | 3.3 | 0.0 | 0.0 |
| Total Fixed Assets | 1,065.8 | 1,079.6 | 997.4 | 914.5 |
| Investments | 637.4 | 617.7 | 717.7 | 817.7 |
| Goodwill | 337.7 | 337.7 | 337.7 | 337.7 |
| Inventory | 66.4 | 167.8 | 172.8 | 182.9 |
| Debtors | 606.8 | 632.8 | 651.6 | 689.9 |
| Loans and Advances | 46.5 | 21.8 | 22.4 | 23.7 |
| Other Current Assets | 56.9 | 57.8 | 59.5 | 63.0 |
| Cash | 117.7 | 122.1 | 194.8 | 294.2 |
| Total Current Assets | 894.2 | 1,002.3 | 1,101.1 | 1,253.7 |
| Creditors | 133.5 | 163.2 | 168.0 | 177.9 |
| Provisions | 117.2 | 185.1 | 190.5 | 201.7 |
| Other Current Liabilities | 89.2 | 81.0 | 83.4 | 88.3 |
| Total Current Liabilities | 339.9 | 429.3 | 441.9 | 467.8 |
| Net Current Assets | 554.3 | 573.0 | 659.2 | 785.9 |
| Other non Current Assets | 56.7 | 64.4 | 64.4 | 64.4 |
| Application of Funds | 2,651.9 | 2,672.5 | 2,776.4 | 2,920.2 |

Source: Company, ICICI Direct Research

| Exhibit 14: Key ratios | | | | |
|-----------------------------|---------|------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Per share data (₹) | | | | |
| EPS | 9.6 | 8.8 | 9.3 | 10.6 |
| Adjusted EPS | 9.6 | 8.8 | 9.3 | 10.6 |
| BV | 65.5 | 63.3 | 66.7 | 71.4 |
| DPS | 5.9 | 5.9 | 5.9 | 5.9 |
| Cash Per Share | 3.8 | 4.1 | 6.6 | 9.9 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 25.3 | 22.6 | 24.2 | 25.3 |
| PBT / Total Operating inc | 19.4 | 17.2 | 18.4 | 19.8 |
| PAT Margin | 13.0 | 11.0 | 11.3 | 12.2 |
| Inventory days | 10.5 | 25.9 | 25.9 | 25.9 |
| Debtor days | 96.1 | 97.8 | 97.8 | 97.8 |
| Creditor days | 21.1 | 25.2 | 25.2 | 25.2 |
| Return Ratios (%) | | | | |
| RoE | 14.7 | 13.9 | 13.9 | 14.8 |
| RoCE | 18.6 | 16.7 | 16.8 | 18.3 |
| RoIC | 21.5 | 21.1 | 22.8 | 25.4 |
| Valuation Ratios (x) | | | | |
| P/E | 8.1 | 8.9 | 8.4 | 7.4 |
| EV / EBITDA | 3.9 | 4.3 | 3.8 | 3.3 |
| EV / Net Sales | 1.0 | 1.0 | 0.9 | 0.8 |
| Market Cap / Sales | 1.0 | 1.0 | 1.0 | 0.9 |
| Price to Book Value | 1.2 | 1.2 | 1.2 | 1.1 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.3 | 0.6 | 0.6 | 0.5 |
| Debt / Equity | 0.1 | 0.2 | 0.2 | 0.2 |
| Current Ratio | 2.3 | 2.1 | 2.1 | 2.1 |
| Quick Ratio | 2.1 | 1.7 | 1.7 | 1.7 |

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) | 155 | 190 | Hold | 2,717 | 15.7 | 18.8 | 19.0 | 9.9 | 8.3 | 8.2 | 5.2 | 4.1 | 3.7 | 21.0 | 25.7 | 23.7 | 15.0 | 17.7 | 16.1 |
| ENIL (ENTNET) | 390 | 545 | Hold | 1,859 | 11.3 | 15.7 | 21.2 | 34.5 | 24.8 | 18.4 | 12.2 | 9.5 | 6.6 | 6.2 | 9.0 | 11.3 | 3.5 | 5.8 | 7.5 |
| Inox Leisure (INOX) | 295 | 385 | Buy | 3,022 | 13.0 | 14.1 | 18.1 | 22.6 | 20.9 | 16.3 | 10.1 | 9.3 | 7.4 | 13.2 | 19.6 | 18.0 | 10.6 | 14.2 | 13.1 |
| Jagran Praka (JAGPRA) | 78 | 85 | Hold | 2,429 | 8.8 | 9.3 | 10.6 | 8.9 | 8.4 | 7.4 | 4.6 | 4.0 | 3.5 | 18.9 | 18.6 | 16.7 | 16.1 | 14.7 | 13.9 |
| Music Broadcast (MUS) | 45 | 53 | Hold | 1,235 | 2.2 | 2.0 | 2.4 | 20.0 | 21.8 | 18.6 | 8.8 | 8.2 | 7.3 | 16.5 | 14.7 | 16.8 | 10.2 | 8.5 | 10.0 |
| PVR (PVRLIM) | 1,492 | 1,810 | Hold | 6,968 | 39.2 | 19.0 | 28.6 | 38.0 | 78.7 | 52.2 | 14.0 | 7.0 | 6.3 | 14.7 | 13.8 | 24.6 | 11.5 | 14.8 | 11.1 |
| Sun TV (SUNTV) | 457 | 580 | Hold | 18,019 | 36.4 | 37.4 | 38.7 | 12.6 | 12.2 | 11.8 | 5.9 | 5.7 | 4.9 | 35.5 | 38.5 | 34.2 | 24.2 | 25.9 | 23.0 |
| TV Today (TVTNET) | 279 | 340 | Buy | 1,664 | 22.0 | 27.0 | 28.4 | 12.7 | 10.3 | 9.8 | 6.9 | 5.0 | 4.1 | 30.4 | 26.2 | 26.9 | 19.3 | 16.9 | 17.5 |
| ZEE Ent. (ZEEENT) | 347 | 380 | Hold | 33,326 | 16.1 | 18.9 | 21.2 | 21.6 | 18.4 | 16.3 | 12.2 | 10.7 | 9.2 | 25.6 | 25.7 | 24.8 | 15.3 | 15.7 | 15.7 |

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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