

Newsprint price hike to restrict EBITDA growth...

DB Corp's revenues fell 6.2% YoY to ₹ 456.6 crore as prevailing Covid-19 situation continued to impact revenues. Print & digital ad revenue dipped 5.9% YoY to ₹ 281.2 crore while radio ad revenue also reported de-growth of 14.7% YoY to ₹ 27.8 crore. Circulation revenue fell 8.0% YoY to ₹ 110.4 crore mainly due to lower circulation of copies. EBITDA was up 53.3% YoY to ₹ 101.1 crore while margins at 22.1% were up 860 bps YoY. Operating performance improved on the back of cost control measures and soft newsprint prices. Consequently, reported PAT was at ₹ 61.9 crore, up 157.4% YoY, aided by onetime benefit of ₹ 13.2 crore in the radio business, Adjusted PAT was at ₹ 48.7 crore.

Ad growth to be volume led in FY22

The management indicated that their focus in FY22 would be to bring back volumes, which means that ad pricing would be still suppressed. We expect a pricing recovery only in FY23, provided circulation is not impacted by any potential third wave. The company had taken ₹ 8-10 per month circulation hike, which was positively surprising considering the on ground situation. However, we believe it could be largely absorbed due to market share gain in its key markets. We now bake in lower print + digital ad revenue at ₹ 1299 crore in FY23E with 18.4% CAGR in FY21-23E on a suppressed base. DB Corp's realisation per copy was ₹ 2.85, up 5.9% YoY. We estimate circulation revenue CAGR of ~11% in FY21-23E with circulation reaching pre-Covid levels in FY23.

Higher newsprint to restrict EBITDA growth

Cost control measures along with low newsprint prices led to sharp margin expansion YoY. DB Corp has achieved cost saving of ₹ 195 crore during FY21. The company expects significant proportion to be retained. The management indicated that newsprint prices, which were up 3% QoQ, are expected to rise further by 12-15% in Q1FY22 and are expected to normalise only in Q3FY22. The company also indicated the imported newsprint mix has also increased for the company from 39% to 54% in FY21. We bake in 22% and 25% margins in FY22E and FY23E, respectively.

Valuation & Outlook

The company has curtailed dividend payout to shareholders (from 60%+ in earlier years to ~37%) that was disappointing, considering its peer has been returning more cash to shareholders. Also, the impact of rising newsprint prices remains a concern. The stock has also run up sharply (~42% since our last update), which, we believe, prices in all positives pertaining to cost savings. We downgrade the stock from BUY to **HOLD** rating. We now value the stock at 7x FY23E EPS with a target price of ₹ 120 (earlier ₹ 95).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,083.2
Total Debt (FY21) (₹ Crore)	56.3
Cash (FY21) (₹ Crore)	312.5
EV (₹ Crore)	1,827.0
52 week H/L	125/ 68
Equity Capital (₹ crore)	175.0
Face value	10.0

Key Highlights

- Print & digital ad revenue fell 5.9% YoY while circulation revenue de-grew 8% YoY
- Downgrade to HOLD, valuing stock at 7x FY23E EPS to arrive at revised target price of ₹ 120

Key risks to our call

- Increase in raw material prices leading to lower earnings
- Faster than expected recovery, however, remain upside risk

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales (₹ crore)	2,462.7	2,223.8	1,507.7	1,838.2	2,054.0	16.7
EBITDA (₹ crore)	504.2	481.5	304.8	404.9	513.4	29.8
Net Profit (₹ crore)	273.8	275.0	141.4	216.5	295.2	44.5
EPS (₹)	15.7	15.7	8.1	12.4	16.9	
P/E (x)	7.2	7.2	14.0	9.1	6.7	
Price / Book (x)	1.1	1.2	1.1	1.1	1.0	
EV/EBITDA (x)	4.0	4.4	6.0	4.2	3.1	
RoCE (%)	21.0	19.3	10.4	15.6	20.2	
RoE (%)	15.0	16.4	7.2	11.6	14.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

₹ crore	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	456.6	486.7	494.3	-6.2	-7.6	Ad & circulation revenues remain lower YoY. Although recovery witnessed QoQ
Other Income	3.5	3.1	2.3	14.1	56.5	
Raw Material Expenses	121.3	168.7	121.4	-28.1	-0.1	
Employee Expenses	106.1	104.3	91.1	1.7	16.4	
(Increase) / Decrease in Stock of Finished Goods	-0.4	0.5	-0.1	-190.3	237.9	
Administrative Expenses	0.0	0.0	0.0	NA	NA	
Other operating Expenses	128.5	147.2	116.3	-12.7	10.5	
EBITDA	101.1	65.9	165.6	53.3	-38.9	
EBITDA Margin (%)	22.1	13.6	33.5	860 bps	-1136 bps	
Depreciation	28.2	30.1	29.0	-6.5	-3.0	
Interest	4.8	7.0	5.6	-31.5	-13.7	
Total Tax	23.0	7.9	34.3	192.0	-32.9	
PAT	61.9	24.1	99.0	157.4	-37.5	
Key Metrics						
Print+ Digital revenue growth	-5.7%	-20.3%	-12.9%			
Circulation Revenue Growth	-8.0%	-5.7%	-18.1%			
Newsprint Costs (₹ crore)	121.3	168.7	121.4	-28.1	-0.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,066.9	1,838.2	-11.1	2,201.8	2,054.0	-6.7	Bake in second wave weakness
EBITDA	489.3	404.9	-17.3	571.8	513.4	-10.2	
EBITDA Margin (%)	23.7	22.0	-165 bps	26.0	25.0	-97 bps	
PAT	266.5	216.5	-18.8	331.5	295.2	-10.9	
EPS (₹)	15.2	12.4	-18.8	19.0	16.9	-10.9	

Source: Company, ICICI Direct Research

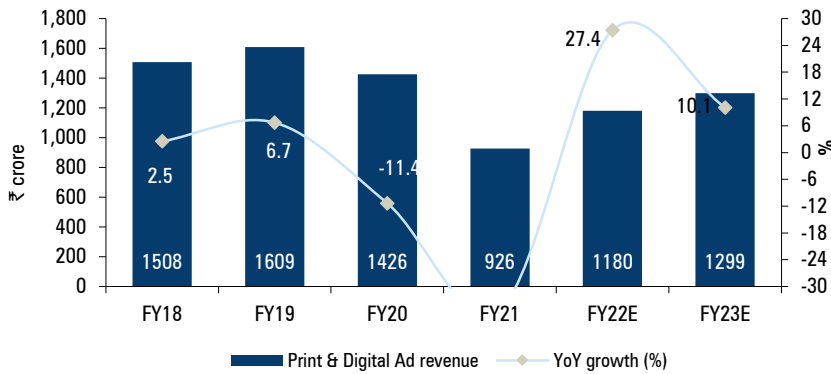
Exhibit 3: Assumptions

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E
Print+ Digital revenue growth	6.7%	-11.4%	-35.0%	27.4%	10.1%	43.5%	7.1%
Circulation Revenue Growth	3.4%	-2.2%	-19.0%	7.1%	14.8%	19.2%	2.1%
Newsprint Costs (₹ Crore)	922.6	766.4	421.4	606.1	701.4	693.1	725.2

Source: Company, ICICI Direct Research

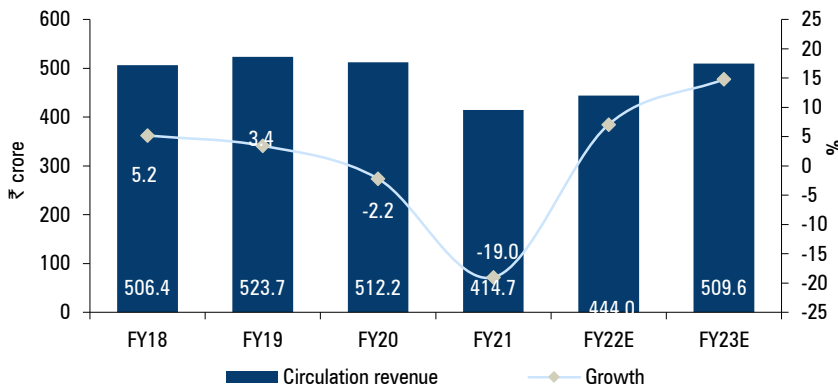
Story in charts

Exhibit 4: Print & digital ad revenue trend



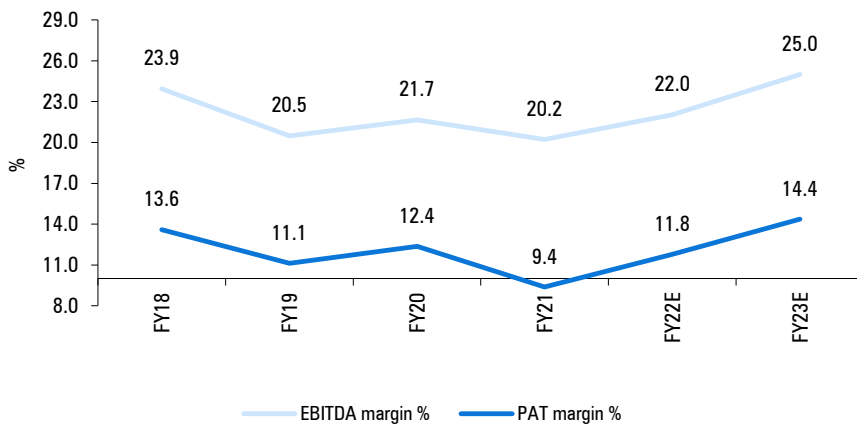
Source: Company, ICICI Direct Research

Exhibit 5: Circulation revenue trend



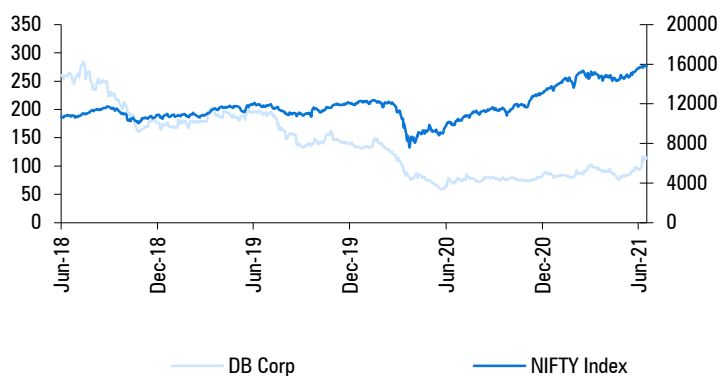
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Conference call and other Highlights

- Market share gain:** The company mentioned that they gained market share in its key markets of Gujarat, Madhya Pradesh and Rajasthan as the circulation of peers is still hovering around 70-75% while the circulation for DB Corp has reached 90% of pre-Covid levels
- Circulation seeing gradual recovery:** Circulation of copies is currently at 45.2 lakh. The management indicated that the impact of second wave on their circulation has been much lower compared to the first wave
- Radio ad yields down:** Radio business EBITDA declined 3.8% YoY to ₹ 9.3 crore while it reported PAT at ₹ 13.2 crore, largely due to one-time benefit from reversal of royalty in the tune of ₹ 13.2 crore after recent IPAB order. The management indicated that ad rate recovery could be gradual but volumes have picked up in the industry after a dip was witnessed due to Covid

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	2,223.8	1,507.7	1,838.2	2,054.0
Growth (%)	-9.7	-32.2	21.9	11.7
Raw Material Expenses	766.2	421.4	606.1	701.4
Employee Expenses	418.1	379.4	386.0	393.4
Other Operating Expenses	557.8	401.9	441.2	445.7
Other expenses	0.2	0.3	-	-
Total Operating Expenditure	1,742.3	1,202.9	1,433.3	1,540.6
EBITDA	481.5	304.8	404.9	513.4
Growth (%)	-4.5	-36.7	32.9	26.8
Depreciation	120.7	114.9	110.3	113.0
Interest	25.1	24.3	19.2	18.0
Other Income	12.5	14.5	14.0	16.0
Exceptional Items	-	(13.2)	-	-
PBT	348.2	193.2	289.4	398.4
MI/PAT from associates	-	-	-	-
Total Tax	73.2	51.8	72.9	103.2
PAT	275.0	141.4	216.5	295.2
Growth (%)	0.4	-48.6	53.1	36.4
EPS (₹)	15.7	8.1	12.4	16.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	275.0	141.4	216.5	295.2
Add: Depreciation	120.7	114.9	110.3	113.0
Add: Interest Paid	25.1	24.3	19.2	18.0
(Inc)/dec in Current Assets	11.2	162.6	-13.3	-89.9
Inc/(dec) in CL and Provisions	-10.0	-47.0	66.9	41.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	422.0	396.2	399.6	377.9
(Inc)/dec in Investments	18.4	3.8	-40.0	-40.0
(Inc)/dec in Fixed Assets	59.7	-56.5	-50.0	-50.0
Others	-166.5	-33.0	20.0	20.0
CF from investing activities	-88.4	-85.7	-70.0	-70.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	117.3	-111.9	-50.0	-50.0
Dividend paid & dividend tax	-378.9	-52.5	-174.9	-174.9
Interest Paid	25.1	24.3	19.2	18.0
Others	-94.8	6.9	-38.4	-36.0
CF from financing activities	-331.2	-133.1	-244.1	-242.9
Net Cash flow	2.3	177.3	85.5	65.0
Opening Cash	132.9	135.2	312.5	398.0
Closing Cash	135.2	312.5	398.0	463.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	175.0	175.0	175.0	175.0
Reserve and Surplus	1503.5	1647.9	1689.5	1809.8
Total Shareholders funds	1678.4	1822.9	1864.4	1984.8
Total Debt	168.2	56.3	6.3	-43.7
Others	268.9	273.4	293.4	313.4
Total Liabilities	2115.5	2152.6	2164.2	2254.5
Assets				
Gross Block	1713.2	1770.1	1820.1	1870.1
Less: Acc Depreciation	908.9	1023.8	1134.1	1247.1
Net Block	804.3	746.4	686.1	623.1
Capital WIP	0.9	0.4	0.4	0.4
Total Fixed Assets	805.2	746.8	686.5	623.5
Right of Use	415.2	453.8	453.8	453.8
Investments	18.2	14.3	54.3	94.3
Goodwill on consolidation	1.9	1.9	1.9	1.9
Inventory	252.9	233.5	211.5	236.4
Debtors	630.6	496.9	518.7	579.6
Loans and Advances	30.7	25.3	30.8	34.4
Other Current Assets	85.0	81.0	88.9	89.4
Cash	135.2	312.5	398.0	463.0
Total Current Assets	1134.4	1149.2	1247.9	1402.8
Creditors	276.8	230.2	280.7	313.7
Provisions	26.2	27.3	33.3	37.2
Other Current Liabilities	67.4	65.8	76.2	80.9
Total Current Liabilities	370.4	323.4	390.2	431.8
Net Current Assets	764.1	825.8	857.7	971.0
Other non current assets	111.0	109.9	109.9	109.9
Application of Funds	2115.5	2152.6	2164.2	2254.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	15.7	8.1	12.4	16.9
Cash EPS	22.6	14.7	18.7	23.3
BV	96.0	104.2	106.6	113.5
DPS	10.0	3.0	10.0	10.0
Cash Per Share	59.7	76.4	87.6	97.8
Operating Ratios (%)				
EBITDA Margin	21.7	20.2	22.0	25.0
EBIT / Total Operating income	16.2	12.6	16.0	19.5
PAT Margin	12.4	8.7	11.8	14.4
Inventory days	41.5	56.5	42.0	42.0
Debtor days	103.5	120.3	103.0	103.0
Creditor days	45.4	55.7	55.7	55.7
Return Ratios (%)				
RoE	16.4	7.2	11.6	14.9
RoCE	19.3	10.4	15.6	20.2
RoIC	24.9	14.9	24.5	32.7
Valuation Ratios (x)				
P/E	7.2	14.0	9.1	6.7
EV / EBITDA	4.4	6.0	4.2	3.1
EV / Net Sales	1.0	1.2	0.9	0.8
Market Cap / Sales	0.9	1.4	1.1	1.0
Price to Book Value	1.2	1.1	1.1	1.0
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.0	-0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	2.7	2.6	2.2	2.2
Quick Ratio	2.0	1.9	1.6	1.6

Source: Company, ICICI Direct Research

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