

CMP: ₹ 67

Target: ₹ 80 (20%)

Target Period: 12 months

BUY

October 27, 2021

## Cost rationalisation drives profitability recovery...

**About the stock:** Jagran Prakashan (Jagran) is a media conglomerate with interests spanning across printing and publication of newspapers & magazines, FM radio, digital, outdoor advertising and promotional marketing, event management and activation businesses.

- It publishes 10 publications from 13 states in five different languages. Group's radio has operations at 39 FM stations besides web stations

**Q2FY22 Results:** Jagran reported a strong performance on a benign base.

- Revenues at ₹ 270.3 crore were up 33% YoY on a depressed base. Print ad revenue was up 50% YoY (~23% below pre-Covid levels) while radio ad revenue also registered de-growth of 40% on benign base
- EBITDA was at ₹ 101.4 crore while margins at 25.2%, up ~10.4 percentage points YoY due to cost rationalisation
- PAT was at ₹ 61.8 crore, up 380% YoY

**What should investors do?** Jagran's share price has declined by ~65% over the past five years, owing to print/radio sector weakness.

- We maintain our BUY rating with cost rationalisation driving profitability recovery faster than anticipated along with healthy payout potential.

**Target Price and Valuation:** We value Jagran at ₹ 80 i.e. 8x FY23E P/E.

**Key triggers for future price performance:**

- Decline in newsprint prices, which is key for margins trajectory
- Recovery in print and radio ad
- Return of government ad, which forms key for the news segment

**Alternate Stock Idea:** Besides Jagran, we like Inox Leisure in the media space.

- A play on reopening and improving market share of multiplexes
- BUY with a target price of ₹ 495



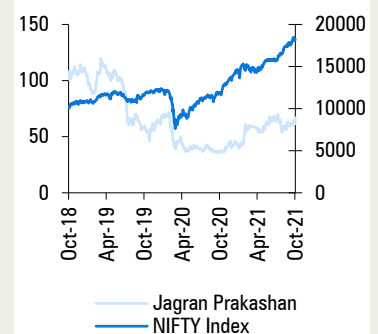
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,671.0
Total Debt (FY21) (₹ Crore)	56.3
Cash (FY21) (₹ Crore)	312.5
EV (₹ Crore)	1,414.7
52 week H/L	125/ 73
Equity Capital (₹ crore)	175.0
Face value	10.0

### Shareholding pattern

	Mar-21	Jun-21	Aug-21	Sep-21
Promoters	65.8	69.4	69.4	69.4
DII	16.4	11.8	11.8	11.8
FII	-	1.7	2.4	2.7
Other	17.8	17.2	16.4	16.2

### Price Chart



### Key risks

**Key Risk:** (i) Higher newsprint prices, (ii) Slower ad recovery

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR FY16-FY21	FY22E	FY23E	2 yr CAGR FY21-FY23E
Net Sales (₹ crore)	2,362.7	2,097.3	1,289.2	(9.1)	1,606.4	1,973.7	23.7
EBITDA (₹ crore)	533.7	432.6	227.7	(17.3)	368.7	494.0	47.3
Adj. Net Profit (₹ crore)	260.6	273.4	96.4	(21.3)	205.7	262.8	65.1
EPS (₹)	9.9	10.4	3.4		7.8	10.0	
P/E (x)	7.6	6.9	19.3		8.6	6.7	
Price / Book (x)	1.1	1.0	0.9		0.8	0.8	
EV/EBITDA (x)	3.3	3.6	7.4		4.4	3.0	
RoE (%)	13.9	14.3	4.8		9.9	11.5	
RoCE (%)	16.7	12.6	5.7		11.2	13.7	

Source: Company, ICICI Direct Research

## Key performance highlight and outlook

### Gradual ad recovery likely ahead...

Print ad revenue was up 50% YoY on favourable base of Q2FY21 wherein revenues had declined ~49%. The growth was attributable largely to volumes, as per the management. On the circulation front, the company is largely focussing growth through pricing (raised cover prices by ~20% in all markets except Bihar/Jharkhand since the pandemic) and expects overall circulation volumes to improve gradually as the overall market improves. Going forward, we believe that gradual economic recovery and resumption of spending by some key sectors and tailwind from UP election would help print advertisement. The company expects pre-Covid ad revenues only by Q2FY23. We are baking in 22.5% CAGR print advertisement growth over FY21-23E to ₹ 1070 crore on a depressed base while circulation growth is expected to grow at 15.2% CAGR over FY21-23E, largely due to a recovery in circulation. We expect digital, radio revenues to grow ~15%, ~40% CAGR, respectively, in FY21-23E.

### Cost rationalisation drives EBITDA recovery

Given the sharp control over marketing and other administrative costs, the EBITDA has recovered well over pre-Covid levels. Jagran also indicated that given the lower pagination and contracted inventory, the impact of newsprint rise has been lower than the price rise. With new inventory likely to be used from Q3 onwards, it expects ~10% sequential rise in blended newsprint costs. We highlight, as the business scales up, some cost like employee and marketing expenses may also see some rise. We are baking in 47.3% EBITDA growth over FY21-23E, with margins reaching 25% in FY23E.

**The recovery in profitability is a key positive and underscores the efficient cost rationalisation efforts taken by the company. One key attractive feature of Jagran has been strong distribution to shareholders in the form of dividend and buyback (total distribution of ₹ 1204 crore in the last four years), especially ₹ 101 crore in the challenging times in last one year. We maintain BUY rating with a revised target price of ₹ 80, at 8x FY23 P/E (earlier TP: ₹ 70/share).**

**Exhibit 1: Variance Analysis**

	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)	Comments
Revenue	402.5	289.1	270.3	39.2	48.9	
Other Income	17.8	11.1	20.2	60.5	-12.1	
Raw Material Expenses	99.0	71.5	82.2	38.4	20.5	
Employee Expenses	93.6	93.5	90.0	0.0	4.0	
Marketing Expenses	108.6	81.2	92.4	33.7	17.5	
Total Expenses	301.2	246.3	264.5	22.3	13.8	
EBITDA	101.4	42.8	5.8	136.9	1,653.9	Cost rationalisation led to improved EBITDA
EBITDA Margin (%)	25.2	14.8	2.1	1038 bps	2304 bps	
Depreciation	29.6	32.1	29.4	-8.1	0.7	
Interest	7.9	8.6	8.0	-7.8	-1.2	
Total Tax	20.7	3.0	-4.4	590.8	-570.1	
PAT	61.8	12.9	-2.6	379.0	-2,494.1	
<b>Key Metrics</b>						
Print Ad Growth (%)	50.0	-48.8	57.0			
Subscription Growth (%)	10.7	-26.0	14.0			

Source: Company, ICICI Direct Research

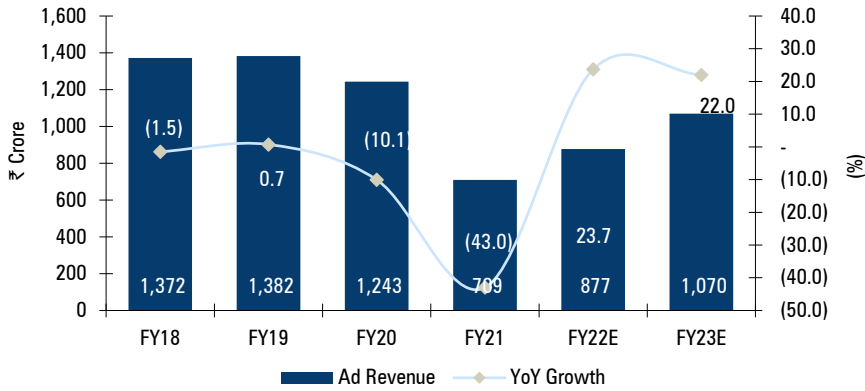
**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,607.0	1,606.4	0.0	2,005.1	1,973.7	-1.6	Realigned estimates post Q2
EBITDA	275.8	368.7	33.7	460.3	494.0	7.3	
EBITDA Margin (%)	17.2	23.0	579 bps	23.0	25.0	207 bps	Raise FY22 margins sharply owing to cost control
PAT	107.8	205.7	90.8	237.2	262.8	10.8	
EPS (₹)	4.1	7.8		9.0	10.0		

Source: Company, ICICI Direct Research

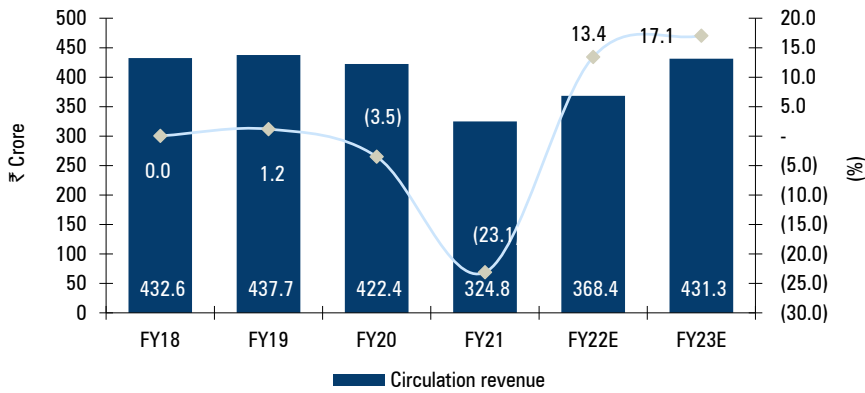
## Story in Charts

Exhibit 3: Print & digital ad revenue trend



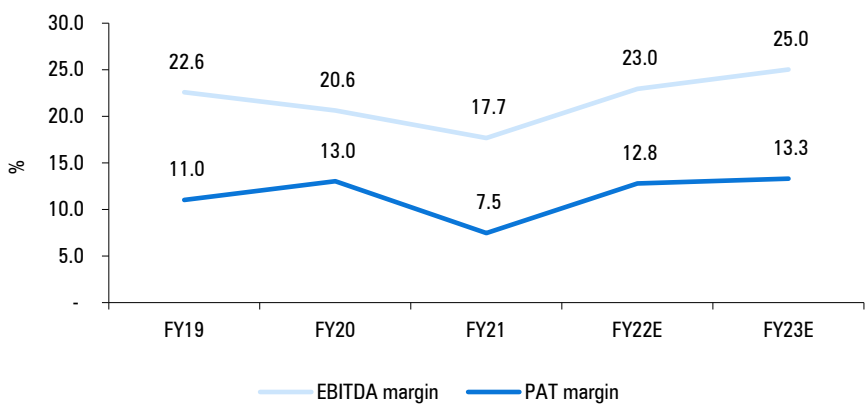
Source: Company, ICICI Direct Research

Exhibit 4: Circulation revenue trend



Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>2,097.3</b>	<b>1,289.2</b>	<b>1,606.4</b>	<b>1,973.7</b>
Growth (%)	-8.1	-38.5	24.6	22.9
Raw Material Expenses	601.0	305.3	408.6	501.9
Employee Expenses	417.1	371.5	376.1	413.2
Administrative Expenses	646.6	384.7	453.0	564.5
Other Expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	1,664.7	1,061.4	1,237.7	1,479.7
<b>EBITDA</b>	<b>432.6</b>	<b>227.7</b>	<b>368.7</b>	<b>494.0</b>
Growth (%)		-47.4	61.9	34.0
Depreciation	145.8	128.6	120.5	128.3
Interest	33.3	33.6	32.5	34.0
Other Income	32.3	52.0	56.0	36.0
Exception Items	0.0	10.6	0.0	0.0
PBT	285.8	107.0	271.8	367.8
MI/PAT from associates	7.5	-10.6	-1.4	11.6
Prior Period Items	0.0	0.0	0.0	0.0
Total Tax	4.9	28.9	67.5	93.4
<b>PAT</b>	<b>273.4</b>	<b>88.7</b>	<b>205.7</b>	<b>262.8</b>
Adjusted PAT	273.4	96.4	205.7	262.8
Growth (%)	-21.4	-64.7	113.3	27.8
<b>Diluted EPS (₹)</b>	<b>10.4</b>	<b>3.4</b>	<b>7.8</b>	<b>10.0</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	273.4	88.7	205.7	262.8
Add: Depreciation	145.8	128.6	120.5	128.3
Add: Interest Paid	33.3	33.6	32.5	34.0
(Inc)/dec in Current Assets	49.8	235.7	-113.6	-162.0
Inc/(dec) in CL & Provisions	-17.5	-63.7	85.3	99.1
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>484.8</b>	<b>422.8</b>	<b>330.4</b>	<b>362.2</b>
(Inc)/dec in Investments	-19.3	-313.9	-100.0	-100.0
(Inc)/dec in Fixed Assets	-106.2	-20.3	-20.0	-20.0
Others	-36.4	-33.4	-1.5	11.6
<b>CF from investing activities</b>	<b>-161.8</b>	<b>-367.5</b>	<b>-121.5</b>	<b>-108.4</b>
Issue/(Buy back) of Equity	-3.0	-0.6	-2.9	0.0
Inc/(dec) in loan funds	-139.7	60.2	0.0	0.0
Dividend paid & dividend tax	-118.1	0.0	-56.2	-56.2
Interest Paid	33.3	33.6	32.5	34.0
Others	-169.8	-78.4	-145.0	-68.0
<b>CF from financing activities</b>	<b>-397.3</b>	<b>14.8</b>	<b>-171.6</b>	<b>-90.2</b>
<b>Net Cash flow</b>	<b>-74.4</b>	<b>70.0</b>	<b>37.2</b>	<b>163.5</b>
Opening Cash	127.6	53.2	123.2	160.4
<b>Closing Cash</b>	<b>53.2</b>	<b>123.2</b>	<b>160.4</b>	<b>323.9</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	56.2	55.6	52.7	52.7
Reserve and Surplus	1,862.2	1,939.7	2,021.0	2,227.5
Total Shareholders funds	1,918.5	1,995.3	2,073.7	2,280.2
Total Debt	204.1	264.4	264.4	264.4
Others	416.5	380.3	378.7	390.3
<b>Total Liabilities</b>	<b>2,539.2</b>	<b>2,640.0</b>	<b>2,716.8</b>	<b>2,934.9</b>
<b>Assets</b>				
Gross Block	2,342.9	2,363.4	2,383.4	2,403.4
Less: Acc Depreciation	1,305.0	1,433.6	1,554.1	1,682.4
Net Block	1,037.9	929.8	829.3	721.0
Capital WIP	2.1	1.9	1.9	1.9
Total Fixed Assets	1,040.0	931.7	831.2	722.9
Investments	637.0	950.9	1,050.9	1,150.9
Goodwill	338.1	338.1	338.1	338.1
Inventory	186.7	53.6	132.0	162.2
Debtors	563.3	431.9	440.1	540.7
Loans and Advances	18.9	48.7	60.6	74.5
Other Current Assets	61.6	60.7	75.6	92.9
Cash	41.3	111.3	160.4	323.9
Total Current Assets	871.8	706.1	868.8	1,194.3
Creditors	191.9	109.6	154.0	189.3
Provisions	137.6	137.9	154.0	189.3
Other Current Liabilities	82.3	100.6	125.3	153.9
Total Current Liabilities	411.8	348.1	433.4	532.5
Net Current Assets	460.0	358.1	435.4	661.8
Other non Current Assets	64.1	61.2	61.2	61.2
<b>Application of Funds</b>	<b>2,539.2</b>	<b>2,640.0</b>	<b>2,716.8</b>	<b>2,934.9</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	9.7	3.2	7.8	10.0
Adjusted EPS (Diluted)	10.4	3.4	7.8	10.0
BV	68.2	71.7	78.7	86.5
DPS	3.5	0.0	2.0	0.0
Cash Per Share	1.5	4.0	6.1	12.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	20.6	17.7	23.0	25.0
PBT / Total Operating inc	13.7	7.7	15.5	18.5
PAT Margin	13.0	7.5	12.8	13.3
Inventory days	32.5	15.2	30.0	30.0
Debtor days	98.0	122.3	100.0	100.0
Creditor days	33.4	31.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	14.3	4.8	9.9	11.5
RoCE	12.6	5.7	11.2	13.7
RoIC	16.5	5.2	12.9	18.6
<b>Valuation Ratios (x)</b>				
P/E	6.9	21.0	8.6	6.7
EV / EBITDA	3.6	7.4	4.4	3.0
EV / Net Sales	0.7	1.3	1.0	0.7
Market Cap / Sales	0.8	1.4	1.1	0.9
Price to Book Value	1.0	0.9	0.8	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.5	1.2	0.7	0.5
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.0	1.7	1.6	1.6
Quick Ratio	1.6	1.6	1.3	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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