

Growth outlook remain elusive...

DB Corp's revenues dipped 34.8% YoY to ₹ 346.4 crore amid current Covid-19 led situation. Print & digital ad revenue declined 37.8% YoY to ₹ 226.3 crore while radio ad revenue also registered de-growth of 42.4% YoY to ₹ 18.2 crore. Circulation revenue fell 19.7% YoY to ₹ 103.3 crore mainly due to lower circulation of copies. EBITDA was down 27.8% to ₹ 71.1 crore while margins at 20.5%, up 201 bps YoY as the company benefitted from softened newsprint prices and cost rationalisation measures. Consequently, reported PAT was at ₹ 28.5 crore, down 62.3% YoY.

Print ad revenue in recovery mode but still far from normal

Print ad revenue is in recovery mode and has improved MoM from lockdown lows. Ad revenues improved sequentially during the quarter from 52% in July, 72% in August to 77% in September (adjusted for festive boost). Ad spend from sectors like education, auto, real estate, pharma, jewellery has increased. The management said the retail segment seen relatively faster recovery up to 70% whereas corporate ad spend is still lower at 50% of pre-Covid level. Going forward, taking festive season into account, we are baking in print, digital ad revenue CAGR at -3.4% with ~35% fall in FY21E, followed by sharp recovery of ~44% in FY22E on a depressed base. Circulation has improved from 78% in July to 81% in September and is currently at 86%. DB Corp hiked cover prices in range of ₹ 5-12% in certain markets which led to realisation at ₹ 2.7. We estimate circulation revenue de-growth of ~15% in FY21E followed by growth of ~18% in FY22E on a benign base.

Operating margins improve; digital outperforms peers

Softened newsprint prices coupled with cost rationalisation led to margins expansion YoY. However, operating margins remain lower compared to historical numbers. DB Corp has achieved set target of ₹ 125 crore annual savings in H1FY21 itself. The management said the digital segment growth rate is ahead of industry average and the segment is performing better on metrics such as time spent by users, monthly users, etc.

Valuation & Outlook

DB Corp's earnings, while sequentially improved, remains short of historical numbers. Print segment has lost its sheen in terms of growth trajectory recently and remains a laggard compared to other media segments. Hence, we expect recovery to be gradual and believe full recovery in ad revenue is at least few quarters away. Also, 26% of promoters' stake is pledged that is a concern. While digital segment is poised for growth, it currently forms minor part of revenue pie. Among positives, DB Corp has maintained steady dividend payout. Softened raw material prices and consistent FCF generation is encouraging. However, we remain cautious considering challenging ad growth outlook in near/medium term and maintain **HOLD** rating. We value the stock at 6x FY22E EPS with a target price of ₹ 80.



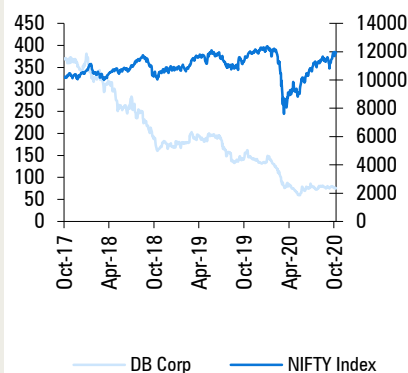
Particulars

Particular	Amount
Market Capitalization (₹Crore)	1,380.2
Total Debt (FY 20) (₹Crore)	168.2
Cash (FY 20) (₹Crore)	135.2
EV (₹Crore)	1,298.2
52 week H/L	162/ 59
Equity Capital (₹crore)	175.0
Face value	10.0

Key Highlights

- Print & digital ad revenue fell 37.8% YoY while circulation revenue de-grew 19.7% YoY
- Maintain HOLD, valuing the company at 6x FY22E EPS to arrive at revised target price of ₹ 80

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹crore)	2,319.9	2,462.7	2,223.8	1,513.1	2,060.8	(3.7)
EBITDA (₹crore)	555.2	504.2	481.5	294.8	431.8	(5.3)
Net Profit (₹crore)	315.4	273.8	275.0	136.2	232.4	(8.1)
EPS (₹)	17.1	15.7	15.7	7.8	13.3	
P/E (x)	4.4	4.8	4.8	9.6	5.6	
Price / Book (x)	0.7	0.7	0.8	0.8	0.8	
EV/EBITDA (x)	2.0	2.6	2.9	4.5	2.9	
RoCE (%)	23.0	21.0	19.3	10.6	17.1	
RoE (%)	16.3	15.0	16.4	8.0	13.4	

Exhibit 1: Variance Analysis

₹ crore	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	346.4	531.4	210.4	-34.8	64.6	Ad & circulation revenues remain lower YoY. Although recovery witnessed compared to April lows
Other Income	3.4	2.2	5.3	57.2	-35.3	
Raw Material Expenses	98.6	191.2	80.2	-48.4	22.9	
Employee Expenses	89.9	103.6	92.3	-13.2	-2.5	
(Increase) / Decrease in Stock of Finished Goods	0.7	0.8	0.1	-4.5	1,396.0	
Administrative Expenses	0.0	0.0	0.0	NA	NA	
Other operating Expenses	86.0	137.4	71.0	-37.4	21.2	
EBITDA	71.1	98.4	-33.1	-27.8	-315.1	
EBITDA Margin (%)	20.5	18.5	-15.7	201 bps	3623 bps	EBITDA margins improve on account of soft newsprint prices and cost control initiatives
Depreciation	28.8	30.3	28.9	-4.8	-0.1	
Interest	6.9	6.4	7.1	7.7	-2.7	
Total Tax	10.3	-11.7	-15.7	-187.7	-165.4	
PAT	28.5	75.6	-48.0	-62.3	-159.4	

Key Metrics

Print+Digital revenue growth -37.8% -10.8% -75.6%

Circulation Revenue Growth -19.7% -2.4% -29.4%

Newsprint Costs (₹crore) 98.6 191.17 80.2 -48 22.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,927.9	1,513.1	-21.5	2,188.2	2,060.8	-5.8	Realigned estimates post Q2FY 21 performance
EBITDA	360.3	294.8	-18.2	474.5	431.8	-9.0	
EBITDA Margin (%)	18.7	19.5	80 bps	21.7	21.0	-73 bps	
PAT	172.2	136.2	-20.9	255.4	232.4	-9.0	
EPS (₹)	9.8	7.8	-20.9	14.6	13.3	-9.0	

Source: Company, ICICI Direct Research

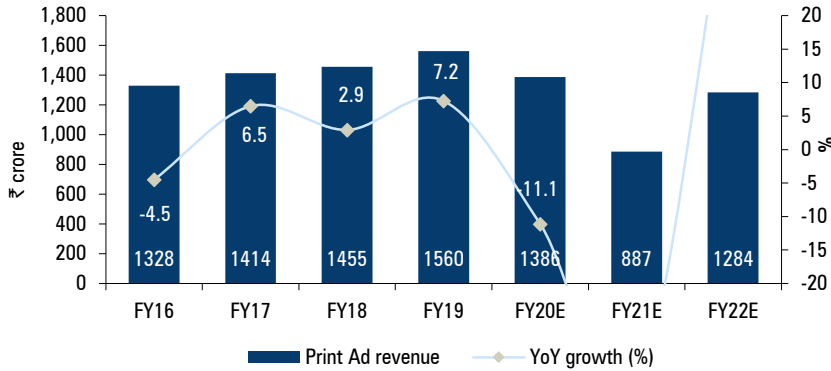
Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Print+Digital revenue growth	2.5%	6.7%	-11.4%	-35.1%	43.7%	-15.2%	14.9%
Circulation Revenue Growth	5.2%	3.4%	-2.2%	-15.4%	17.5%	-9.1%	12.4%
Newsprint Costs (₹Crore)	734.1	922.6	766.4	465.3	722.3	661.4	768.4

Source: Company, ICICI Direct Research

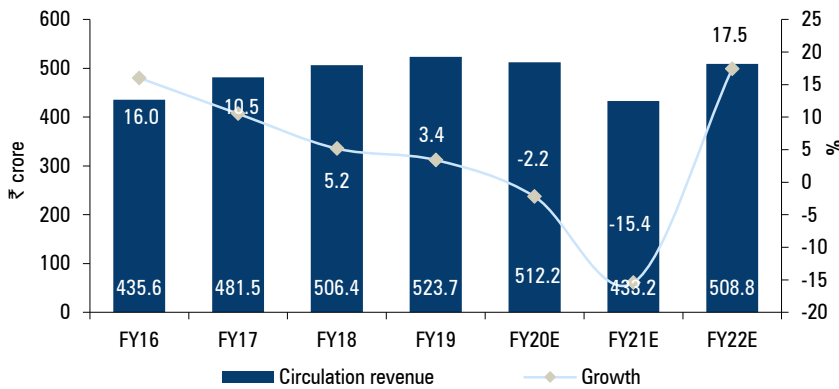
Story in Charts

Exhibit 4: Print ad revenue trend



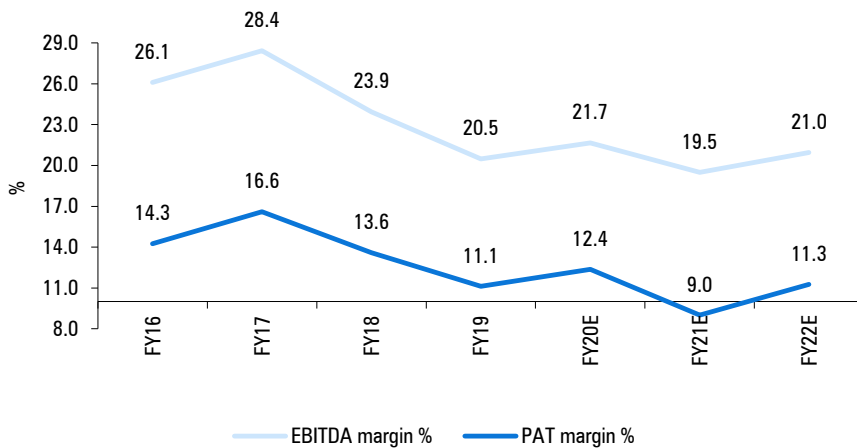
Source: Company, ICICI Direct Research

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

- **Print ad revenue improved MoM:** Ad revenues improved sequentially during the quarter from 52% in July, 72% in August to 77% in September (adjusted for festive boost). The management indicated in October and November, ad revenues will further improve due to festive season. They also said retail and corporate segment constitutes 65% and 35% each of total revenue. Currently, retail segment has recovered up to 70% while corporate segment recovered up to 50%. The company has seen good ad traction from education, auto, real estate, pharma and jewellery sectors. FMCG sector ad spend was also increased for announcement of price benefit schemes. Ad revenue from new customers is marginal at 1-2%
- **Circulation in recovery mode:** The circulation of copies was at 78% in July, 80% in August and 81% in September. Currently, it is at 86%. The management informed cash sales point (which constitute 5-6% of total circulation) are yet to recover. The management expects incremental 2% growth each month in circulation and is expected to reach normal level in three to four months. Number of average copies sold during the quarter was at 42.68 lakh
- **Cost rationalisation benefits; Cover price increase in some markets:** The management said cost rationalisation measures coupled with softened newsprint prices resulted in EBITDA margin expansion. The company achieved target of cost savings in range of ₹ 125 crore in H1FY21 itself. The management said 60-70% of cost savings will be permanent in nature and will benefit the company in FY22 also. Newsprint prices were at ₹ 35500/tonne in Q2 and further price drop of 1-2% is expected in coming quarters. The management added that pages per copy in September was 18 and currently it is 19. They are planning to increase it to 21 pages i.e. equivalent to average pages per copy in Q3FY20. Cover prices were increased in range of 5-12% in markets like MP, Jharkhand, Punjab and Rajasthan which resulted in better realisation at ₹ 2.72 per copy
- **Radio segment still weak; digital outperforms peers:** Radio ad revenue reported de-growth of 42.4% YoY to ₹ 18.2 crore in Q2. Radio business EBITDA declined 60.2% YoY to ₹ 2.7 crore. The management added that radio in metro markets recovered up to 70% and they are hopeful of full recovery in six months. They expect similar timeframe for recovery in print as well as radio. They also said that monthly users on digital platform/app increased four times in last six months. However, they declined to share numbers and indicated that numbers will be shared once platform yields better results. They added that digital segment is growing at higher rate than industry average and time spent on app by users has increased
- **Other highlights:**
 - Cash and bank balance: ₹ 103 crore; planned capex for FY21: ₹ 47-48 crore (similar to FY20)
 - Revenues from jobwork and others will take longer time for revival

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total operating income	2,462.7	2,223.8	1,513.1	2,060.8	
Growth (%)	6.2	-9.7	-32.0	36.2	
Raw Material Expenses	922.7	766.2	465.1	722.3	
Employee Expenses	435.1	418.1	370.0	395.6	
Other Operating Expenses	599.8	557.8	382.3	511.1	
Other expenses	0.9	0.2	0.8	-	
Total Operating Expenditure	1,958.5	1,742.3	1,218.2	1,629.0	
EBITDA	504.2	481.5	294.8	431.8	
Growth (%)	-9.2	-4.5	-38.8	46.5	
Depreciation	98.6	120.7	98.3	107.2	
Interest	8.5	25.1	28.0	28.0	
Other Income	16.6	12.5	14.7	14.0	
Exceptional Items	-	-	-	-	
PBT	413.7	348.2	183.2	310.7	
M/PAT from associates	-	-	-	-	
Total Tax	139.9	73.2	47.0	78.3	
PAT	273.8	275.0	136.2	232.4	
Growth (%)	-13.2	0.4	-50.5	70.7	
EPS (₹)	15.7	15.7	7.8	13.3	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	273.8	275.0	136.2	232.4	
Add: Depreciation	98.6	120.7	98.3	107.2	
Add: Interest Paid	8.5	25.1	28.0	28.0	
(Inc)/dec in Current Assets	-162.9	11.2	142.0	-75.0	
Inc/(dec) in CL and Provisions	41.6	-10.0	-122.6	86.7	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	259.6	422.0	281.9	379.3	
(Inc)/dec in Investments	-1.0	18.4	-40.0	-40.0	
(Inc)/dec in Fixed Assets	-63.2	59.7	-50.0	-60.0	
Others	-5.9	-166.5	20.0	20.0	
CF from investing activities	-70.1	-88.4	-70.0	-80.0	
Issue/(Buy back) of Equity	-9.1	0.0	0.0	0.0	
Inc/(dec) in loan funds	5.9	117.3	0.0	-50.0	
Dividend paid & dividend tax	-63.2	-378.9	-105.3	-210.5	
Interest Paid	8.5	25.1	28.0	28.0	
Others	-320.7	-94.8	-55.9	-56.0	
CF from financing activities	-378.5	-331.2	-133.2	-288.5	
Net Cash flow	-189.1	2.3	78.7	10.8	
Opening Cash	321.9	132.9	135.2	213.9	
Closing Cash	132.9	135.2	213.9	224.7	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	174.9	175.0	175.0	175.0	
Reserve and Surplus	1652.0	1503.5	1534.4	1556.3	
Total Shareholders funds	1826.9	1678.4	1709.3	1731.2	
Total Debt	50.8	168.2	168.2	118.2	
Others	136.1	268.9	288.9	308.9	
Total Liabilities	2013.8	2115.5	2166.4	2158.3	
Assets					
Gross Block	1772.6	1713.2	1763.1	1823.1	
Less: Acc Depreciation	788.2	908.9	1007.2	1114.4	
Net Block	984.4	804.3	755.8	708.7	
Capital WIP	1.2	0.9	1.0	1.0	
Total Fixed Assets	985.6	805.2	756.8	709.7	
Right of Use	-	415.2	415.2	415.2	
Investments	36.6	18.2	58.2	98.2	
Goodwill on consolidation	1.9	1.9	1.9	1.9	
Inventory	249.6	252.9	186.5	237.1	
Debtors	636.9	630.6	580.4	581.5	
Loans and Advances	30.7	30.7	20.9	28.4	
Other Current Assets	93.2	85.0	69.4	85.1	
Cash	132.9	135.2	213.9	224.7	
Total Current Assets	1143.3	1134.4	1071.1	1156.9	
Creditors	295.7	276.8	186.5	254.1	
Provisions	19.0	26.2	17.7	24.1	
Other Current Liabilities	65.7	67.4	43.5	56.3	
Total Current Liabilities	380.4	370.4	247.8	334.5	
Net Current Assets	762.9	764.1	823.3	822.4	
Other non current assets	226.9	111.0	111.0	111.0	
Application of Funds	2013.8	2115.5	2166.4	2158.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	15.7	15.7	7.8	13.3	
Cash EPS	21.3	22.6	13.4	19.4	
BV	104.5	96.0	97.7	99.0	
DPS	10.0	10.0	5.0	10.0	
Cash Per Share	52.7	59.7	69.8	76.6	
Operating Ratios (%)					
EBITDA Margin	20.5	21.7	19.5	21.0	
EBIT / Total Operating income	16.5	16.2	13.0	15.8	
PAT Margin	11.1	12.4	9.0	11.3	
Inventory days	37.0	41.5	45.0	42.0	
Debtor days	94.4	103.5	140.0	103.0	
Creditor days	43.8	45.4	45.0	45.0	
Return Ratios (%)					
RoE	15.0	16.4	8.0	13.4	
RoCE	21.0	19.3	10.6	17.1	
RoIC	24.6	24.9	13.8	23.1	
Valuation Ratios (x)					
P/E	4.8	4.8	9.6	5.6	
EV / EBITDA	2.6	2.9	4.5	2.9	
EV / Net Sales	0.5	0.6	0.9	0.6	
Market Cap / Sales	0.6	0.6	0.9	0.7	
Price to Book Value	0.7	0.8	0.8	0.8	
Solvency Ratios					
Debt/EBITDA	0.1	0.3	0.6	0.3	
Debt / Equity	0.0	0.1	0.1	0.1	
Current Ratio	2.7	2.7	3.5	2.8	
Quick Ratio	2.0	2.0	2.7	2.1	

Source: Company, ICICI Direct Research

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