

## Cost rationalisation drives earnings...

DB Corp's revenues fell 17.4% YoY to ₹ 494.3 crore as prevailing Covid-19 situation continued to impact revenues. Print & digital ad revenue dipped 12.9% YoY to ₹ 337.6 crore while radio ad revenue also registered de-growth of 21.9% YoY to ₹ 29.1 crore. Circulation revenue fell 18.1% YoY to ₹ 108.2 crore mainly due to lower circulation of copies. EBITDA was up 16.9% YoY to ₹ 165.6 crore while margins at 33.5% were up 984 bps YoY. Operating performance improved on the back of cost control measures and soft newsprint prices. Hence, reported PAT was at ₹ 99 crore, up 21.3% YoY.

## Ad volume improves QoQ; circulation seeing slower recovery

Print ad revenue has improved sequentially and was at 87% of pre-Covid level during the quarter. Festive period in October and November saw ad spend at 95% of corresponding period in previous year. While ad volume was down 8-10%, ad yield was also down due to discounts offered. The management stated tier 2 and 3 cities saw faster recovery and they expect faster recovery in auto, education and FMCG segment, going ahead. We estimate print+digital ad revenue of ₹ 1434 crore in FY23E with nil CAGR in FY20-23E. Circulation was down ~20% YoY during the quarter. DB Corp's realisation per copy was ₹ 2.7, slightly up YoY. We estimate circulation revenue CAGR of ~0.5% in FY20-23E as circulation of copies is yet to be normalised.

## Operating margins surprise; increase in newsprint price likely

Cost control measures along with low newsprint prices led to sharp margins expansion YoY. DB Corp has achieved cost saving of ₹ 178 crore during 9MFY21 and annual cost saving of ~₹ 200 crore is expected in FY21E as per management. The management expect ~₹ 80-100 crore of the cost rationalisation to sustain even in normalised scenario. Newsprint prices are likely to increase 3-4% QoQ (albeit lower YoY) due to shortage of waste paper and possible revision in prices by Indian manufactures.

## Valuation & Outlook

Print segment was among the worst hit sectors during the pandemic. Although we expect ad revenue to fully recover only by FY23E, continuous cost cutting initiatives and soft newsprint prices augur well for operating margins in near term. Consistent FCF generation is encouraging. Lowering of pledged shares also provides comfort. We assume healthy dividend payout in normalised scenario (paid dividend of ₹ 10/share for both FY19 and FY20), given the absence of any major capex, which is an attractive proposition. We rollover to FY23 and upgrade to **BUY** rating (vs. HOLD earlier) considering attractive valuation. We value the stock at 5x FY23E EPS (vs. 6x FY22 EPS earlier) with a target price of ₹ 95 (vs. earlier TP of ₹ 80).



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,478.7
Total Debt (FY20) (₹ Crore)	168.2
Cash (FY20) (₹ Crore)	135.2
EV (₹ Crore)	1,396.6
52 week H/L	142/ 59
Equity Capital (₹ crore)	175.0
Face value	10.0

### Key Highlights

- Print & digital ad revenue fell 12.9% YoY while circulation revenue de-grew 18.1% YoY
- Upgrade to BUY, valuing the company at 5x FY23E EPS to arrive at a revised target price of ₹ 95

### Key risks to our call

- Increase in raw material prices leading to lower earnings
- Failure of recovery in circulation, which might also impact ad recovery prospect

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	2,462.7	2,223.8	1,511.2	2,066.9	2,201.8	(0.3)
EBITDA (₹ crore)	504.2	481.5	323.3	489.3	571.8	5.9
Net Profit (₹ crore)	273.8	275.0	143.3	266.5	331.5	6.4
EPS (₹)	15.7	15.7	8.2	15.2	19.0	
P/E (x)	5.1	5.1	9.8	5.3	4.2	
Price / Book (x)	0.8	0.8	0.8	0.8	0.7	
EV/EBITDA (x)	2.8	3.1	4.4	2.7	2.1	
RoCE (%)	21.0	19.3	11.1	19.2	22.3	
RoE (%)	15.0	16.4	8.3	15.0	17.5	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

₹ crore	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	494.3	598.7	346.4	-17.4	42.7	Ad & circulation revenues remain lower YoY. Although recovery witnessed QoQ
Other Income	2.3	3.1	3.4	-26.7	-33.8	
Raw Material Expenses	121.4	201.3	98.6	-39.7	23.2	
Employee Expenses	91.1	106.4	89.9	-14.4	1.3	
(Increase) / Decrease in Stock of Finished Goods	-0.1	-1.1	0.7	-89.0	-116.6	
Administrative Expenses	0.0	0.0	0.0	NA	NA	
Other operating Expenses	116.3	150.6	86.0	-22.7	35.2	
EBITDA	165.6	141.7	71.1	16.9	132.9	
EBITDA Margin (%)	33.5	23.7	20.5	984 bps	1298 bps	EBITDA margins improve on account of soft newsprint prices and cost control initiatives
Depreciation	29.0	29.9	28.8	-3.0	0.6	
Interest	5.6	6.4	6.9	-13.2	-19.4	
Total Tax	34.3	26.8	10.3	27.9	234.1	
PAT	99.0	81.6	28.5	21.3	247.2	
<b>Key Metrics</b>						
Print+ Digital revenue growth	-12.9%	-10.9%	-37.8%			
Circulation Revenue Growth	-18.1%	1.6%	-19.7%			
Newsprint Costs (₹ crore)	121.4	201.3	98.6	-39.7	23.2	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,513.1	1,511.2	-0.1	2,060.8	2,066.9	0.3	2,201.8	Realigned estimates post Q3FY21 performance
EBITDA	294.8	323.3	9.7	431.8	489.3	13.3	571.8	
EBITDA Margin (%)	19.5	21.4	191 bps	21.0	23.7	272 bps	26.0	
PAT	136.2	143.3	5.2	232.4	266.5	14.7	331.5	
EPS (₹)	7.8	8.2	5.2	13.3	15.2	14.7	19.0	

Source: Company, ICICI Direct Research

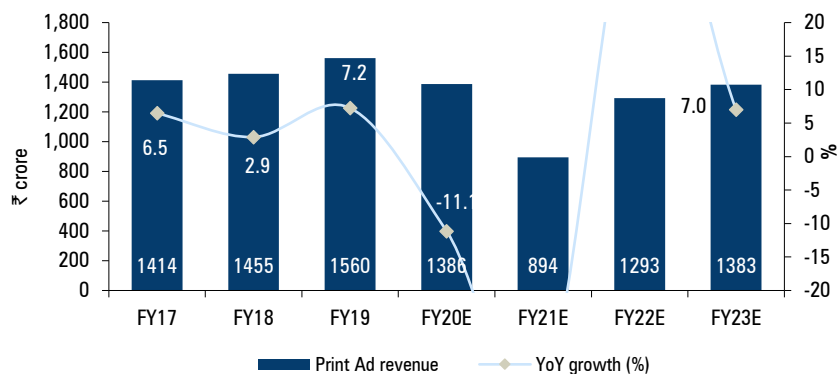
**Exhibit 3: Assumptions**

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Print+ Digital revenue growth	6.7%	-11.4%	-34.7%	43.5%	7.2%	-35.1%	43.7%
Circulation Revenue Growth	3.4%	-2.2%	-16.7%	19.2%	2.1%	-15.4%	17.5%
Newsprint Costs (₹ Crore)	922.6	766.4	445.5	693.1	725.2	465.3	722.3

Source: Company, ICICI Direct Research

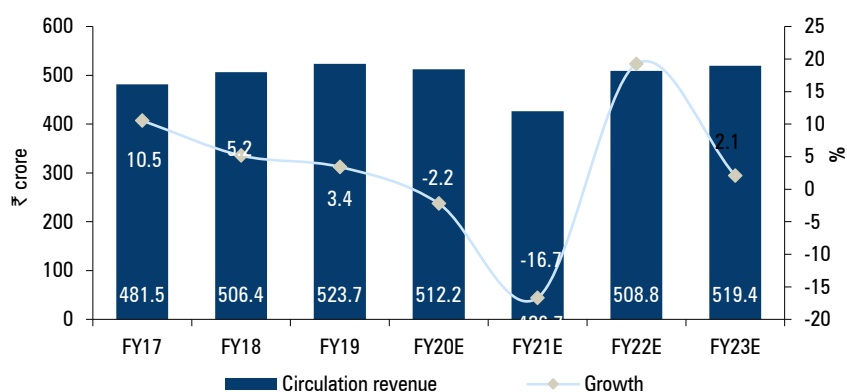
## Story in Charts

**Exhibit 4: Print ad revenue trend**



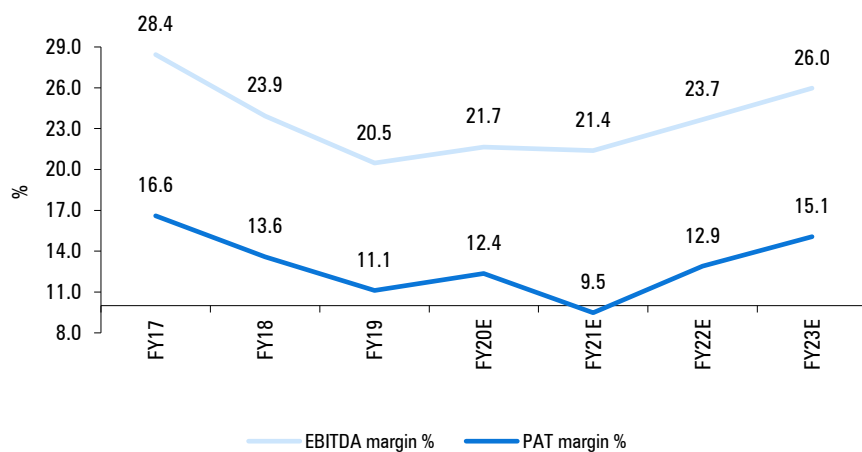
Source: Company, ICICI Direct Research

**Exhibit 5: Circulation revenue trend**



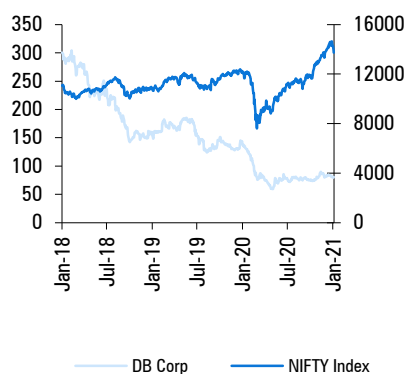
Source: Company, ICICI Direct Research

**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

- Print ad revenue growth led by local advertisers:** Ad spend of local advertisers constitute 64% of total ad spend compared to 61% earlier. While education and government ad spend has seen some increase, ad spend by lifestyle category was sharply down by 53%. Auto and real estate categories were also down due to no new launches and unexpected opening of markets
- Circulation seeing gradual recovery:** Circulation of copies is currently at 44 lakh and spot sale forms minor part of the total circulation. Recovery in circulation is being affected due to logistics issues
- Radio ad yields down:** Radio business EBITDA declined 19.6% YoY to ₹ 10.8 crore, leading to PAT at ₹ 4.4 crore, down ~29% YoY. Radio volumes were at 90-95% of pre-Covid level while yield dipped by 25-30%. The management said that latest IPAB order regarding royalty cost will lead to some savings

## Financial summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>2,223.8</b>	<b>1,511.2</b>	<b>2,066.9</b>	<b>2,201.8</b>
Growth (%)	-9.7	-32.0	36.8	6.5
Raw Material Expenses	766.2	445.5	693.1	725.2
Employee Expenses	418.1	364.9	396.7	422.6
Other Operating Expenses	557.8	376.9	487.8	482.2
Other expenses	0.2	0.7	-	-
Total Operating Expenditure	1,742.3	1,187.9	1,577.6	1,630.0
<b>EBITDA</b>	<b>481.5</b>	<b>323.3</b>	<b>489.3</b>	<b>571.8</b>
Growth (%)	-4.5	-32.9	51.3	16.9
Depreciation	120.7	116.4	113.7	116.7
Interest	25.1	26.5	28.0	28.0
Other Income	12.5	14.0	12.0	16.0
Exceptional Items	-	-	-	-
PBT	348.2	194.4	359.6	443.1
MI/PAT from associates	-	-	-	-
Total Tax	73.2	51.1	93.1	111.7
<b>PAT</b>	<b>275.0</b>	<b>143.3</b>	<b>266.5</b>	<b>331.5</b>
Growth (%)	0.4	-47.9	86.0	24.4
<b>EPS (₹)</b>	<b>15.7</b>	<b>8.2</b>	<b>15.2</b>	<b>19.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>275.0</b>	<b>143.3</b>	<b>266.5</b>	<b>331.5</b>
Add: Depreciation	120.7	116.4	113.7	116.7
Add: Interest Paid	25.1	26.5	28.0	28.0
(Inc)/dec in Current Assets	11.2	143.1	-78.8	-51.9
Inc/(dec) in CL and Provisions	-10.0	-122.9	88.0	18.9
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>422.0</b>	<b>306.3</b>	<b>417.3</b>	<b>443.1</b>
(Inc)/dec in Investments	18.4	-40.0	-40.0	-40.0
(Inc)/dec in Fixed Assets	59.7	-50.0	-60.0	-60.0
Others	-166.5	20.0	20.0	20.0
<b>CF from investing activities</b>	<b>-88.4</b>	<b>-70.0</b>	<b>-80.0</b>	<b>-80.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	117.3	0.0	-50.0	-50.0
Dividend paid & dividend tax	-378.9	-105.3	-210.5	-210.5
Interest Paid	25.1	26.5	28.0	28.0
Others	-94.8	-53.0	-56.0	-56.0
<b>CF from financing activities</b>	<b>-331.2</b>	<b>-131.8</b>	<b>-288.5</b>	<b>-288.5</b>
Net Cash flow	2.3	104.6	48.8	74.6
Opening Cash	132.9	135.2	239.8	288.6
<b>Closing Cash</b>	<b>135.2</b>	<b>239.8</b>	<b>288.6</b>	<b>363.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	175.0	175.0	175.0	175.0
Reserve and Surplus	1503.5	1541.5	1597.4	1718.4
Total Shareholders funds	1678.4	1716.4	1772.4	1893.3
Total Debt	168.2	168.2	118.2	68.2
Others	268.9	288.9	308.9	328.9
<b>Total Liabilities</b>	<b>2115.5</b>	<b>2173.5</b>	<b>2199.5</b>	<b>2290.4</b>
<b>Assets</b>				
Gross Block	1713.2	1763.1	1823.1	1883.1
Less: Acc Depreciation	908.9	1025.3	1138.9	1255.6
Net Block	804.3	737.8	684.1	627.4
Capital WIP	0.9	1.0	1.0	1.0
Total Fixed Assets	805.2	738.8	685.1	628.4
Right of Use	415.2	415.2	415.2	415.2
Investments	18.2	58.2	98.2	138.2
Goodwill on consolidation	1.9	1.9	1.9	1.9
Inventory	252.9	186.3	237.8	253.4
Debtors	630.6	579.6	583.3	621.3
Loans and Advances	30.7	20.8	28.5	30.4
Other Current Assets	85.0	69.3	85.4	81.8
Cash	135.2	239.8	288.6	363.2
Total Current Assets	1134.4	1095.9	1223.6	1350.1
Creditors	276.8	186.3	254.8	271.5
Provisions	26.2	17.7	24.2	25.7
Other Current Liabilities	67.4	43.5	56.5	57.2
Total Current Liabilities	370.4	247.5	335.5	354.4
Net Current Assets	764.1	848.4	888.1	995.7
Other non current assets	111.0	111.0	111.0	111.0
<b>Application of Funds</b>	<b>2115.5</b>	<b>2173.5</b>	<b>2199.5</b>	<b>2290.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	15.7	8.2	15.2	19.0
Cash EPS	22.6	14.8	21.7	25.6
BV	96.0	98.1	101.3	108.3
DPS	10.0	5.0	10.0	10.0
Cash Per Share	59.7	72.3	81.6	92.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	21.7	21.4	23.7	26.0
EBIT / Total Operating income	16.2	13.7	18.2	20.7
PAT Margin	12.4	9.5	12.9	15.1
Inventory days	41.5	45.0	42.0	42.0
Debtor days	103.5	140.0	103.0	103.0
Creditor days	45.4	45.0	45.0	45.0
<b>Return Ratios (%)</b>				
RoE	16.4	8.3	15.0	17.5
RoCE	19.3	11.1	19.2	22.3
RoIC	24.9	14.7	27.2	32.6
<b>Valuation Ratios (x)</b>				
P/E	5.1	9.8	5.3	4.2
EV / EBITDA	3.1	4.4	2.7	2.1
EV / Net Sales	0.7	0.9	0.6	0.5
Market Cap / Sales	0.7	1.0	0.7	0.7
Price to Book Value	0.8	0.8	0.8	0.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.3	0.5	0.2	0.1
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	2.7	3.5	2.8	2.8
Quick Ratio	2.0	2.7	2.1	2.1

Source: Company, ICICI Direct Research

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