

## Strong margin expansion

We maintain our Hold rating on HT Media and revise our TP to Rs120 as we continue to value the company on our conservative Adj. OCF/EV yield based methodology and introduce FY20 estimates. We expect the ad growth to bounce back in FY19 as Q4FY18 could also be impacted due to high base of UP elections. Further we believe the worst is behind the circulation revenue decline as the company has started to take price hikes due increase in newsprint prices. We believe the margin expansion would sustain given the cost rationalisation initiatives undertaken in FY18 and hence we have modelled 115bps margin expansion from FY18E-20E. Increasing newsprint prices would limit margin expansion. Post the recent re-rating and stock trading at 2 year high, we believe the upside is currently limited and hence we maintain Hold.

- **Q3FY18 result update:** HT Media's revenue was down 3.8% YoY to Rs6254mn on the back of 3.1% decline in ad revenues and 14% decline in circulation revenue. However operating profit grew by 22% to Rs1347mn on 454bps margin expansion due to cost restructuring, lower employee cost and saving on raw material cost due to lower pagination. Radio business posted 4.7% revenue growth with operating margins at 40.4% on healthy operating leverage while digital business posted revenue decline of 24% while EBIT loss was at Rs99mn. Other income was high on one time gain of Rs311mn on sale of land and building while tax was lower by Rs235mn arising from finalisation of the return of previous year. Hence Adj. PAT after MI rose 36% YoY to Rs1244mn (71% above exp).
- **Ad growth expected in FY19:** While Hindi print posted 4.9% ad growth, we expect the growth to bounce back to double digit only from Q1FY19 since Q4FY18 could also be impacted due to high base of UP elections. Further the company is witnessing strong uptick from sectors such as FMCG, entertainment and luxury while Government and real estate continue to remain sluggish. English print posted a decline of 7.6% YoY vs. double digit decline in industry volumes. Circulation revenue was down ~14% on the back of rationalisation of unproductive copies in English business while Hindi vertical continues to be impacted due to lower cover prices which is expected to reverse from Q4FY18.
- **Cost rationalisation to sustain and help in margin expansion:** During the quarter operating profit expanded by 22% to Rs1347mn on 454bps margin expansion to 21.5%. We believe the cost rationalisation initiatives would sustain for couple of more quarters and help in margin expansion. Further the operating profit in the radio business would expand as the new stations start increasing inventory utilisation levels while losses in the digital business reduce. While the newsprint cost is under control, management expects the same to increase by 5-7% in FY19E which would keep margin expansion under check. Hence we have modelled 115bps operating margin expansion over FY18E-20E.
- **Maintain Hold:** We have marginally reduced our revenues by ~1.5% for both FY18E and FY19E on the back of lower ad and circulation revenues while operating profit has been reduced by 3.8% respectively. PAT for FY18E is increased on higher other income and lower taxes. We maintain our hold rating with revised TP of Rs120 as we value the company on an adjusted OCF to EV yield based methodology, taking its account five year average cash flows. Key upside risk is stronger than expected ad growth while downside risk being increase in newsprint cost.

Y/E Mar (Rsmn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	Q3FY18E	Var (%)
<b>Net Sales</b>	<b>6,254</b>	<b>6,499</b>	<b>(3.8)</b>	<b>5,606</b>	<b>11.5</b>	<b>6,292</b>	<b>(0.6)</b>
Employee cost	1,299	1,448	(10.3)	1,218	6.6	1,230	5.6
Raw Material	1,757	1,789	(1.8)	1,615	8.8	1,720	2.1
Admin & Other Exp	1,852	2,157	(14.2)	1,728	7.2	2,050	(9.7)
<b>EBITDA</b>	<b>1,347</b>	<b>1,105</b>	<b>21.9</b>	<b>1,045</b>	<b>28.8</b>	<b>1,292</b>	<b>4.2</b>
EBITDA margin (%)	21.5	17.0	454 bps	18.6	289 bps	20.5	99 bps
Depreciation	307	312		317		320	
Interest	194	241		199		200	
Other Income	645	549		435		400	
<b>PBT</b>	<b>1,491</b>	<b>1,100</b>	<b>35.5</b>	<b>997</b>	<b>49.6</b>	<b>1,172</b>	<b>27.2</b>
<b>Adjusted PAT after MI</b>	<b>1,244</b>	<b>914</b>	<b>36.1</b>	<b>631</b>	<b>97.1</b>	<b>726</b>	<b>71.3</b>

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY16	25,015	9.6	3,227	12.9	1,735	(10.5)	7.5	8.7	8.2	11.8	3.4
FY17	24,521	(2.0)	2,983	12.2	1,703	(1.9)	7.4	7.9	8.5	11.1	2.2
FY18E	23,531	(4.0)	4,080	17.3	2,696	58.4	11.7	11.4	9.6	7.9	1.4
FY19E	25,163	6.9	4,522	18.0	2,513	(6.8)	10.9	9.6	9.0	10.5	1.7
FY20E	26,987	7.2	4,988	18.5	2,839	13.0	12.3	9.9	9.2	9.3	0.8

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs120	Key Data	
CMP*	Rs115	Bloomberg Code	HTML IN
Upside	4%	Curr Shares O/S (mn)	232.7
Previous Target	Rs108	Diluted Shares O/S(mn)	232.7
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	26.7/420.2
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	117/73.6
		5 Year H / L (Rs)	145.1/68.9
HTML IN	17.9	38.9	49.0
Nifty	4.3	8.8	27.0
		Daily Vol. (3M NSE Avg.)	925323

\*as on 12 January 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	69.5	69.5	69.5	69.5
FIs	7.6	7.7	7.3	7.4
DIs	12.2	10.2	9.4	9.6
Others	10.7	12.6	13.9	13.5

Source: BSE, \*as on 12 January 2018

### Earning Revision

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	23,531	23,862	(1.4)	25,163	25,559	(1.5)
EBITDA	4,080	4,240	(3.8)	4,522	4,702	(3.8)
EBITDA Margin (%)	17.3	17.8	(43)bps	18.0	18.4	(42)bps
PAT	2,696	2,179	23.7	2,513	2,459	2.2

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	23,531	24,658	(4.6)	25,163	26,259	(4.2)
EBITDA	4,080	4,094	(0.4)	4,522	4,465	1.3
PAT	2,696	2,201	22.5	2,513	2,444	2.8

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
6	1	6	107	120	11.9

\*as on 12 January 2018, Source: Bloomberg, Centrum Research Estimates

Ankit Kedia, ankit.kedia@centrum.co.in; 91 22 4215 9634

Varshit Shah, varshit.shah@centrum.co.in; 91 22 4215 9495

## Valuation

We value HT Media on AOCF/EV yield methodology. We have ascribed 75% value to HMVL's Adj OCF and net cash as HT Media holds a 75% stake in HMVL and has been further given a 30% holding company discount. We have calculated HT Media's net cash and Adj OCF after reducing the 25% share of minority shareholders and holding company discount in HMVL. We value HTML at historical long-term average AOCF/EV yield of FY14-18E and arrived at a target AOCF/EV yield of 13.6% for HT Media, and hence, the implied EV/AOCF multiple of 7.4x. We use average cash flows generated over five years (and hence remain conservative) during FY16-20E and apply a 13.6% Adj OCF yield to arrive at our target EV and our TP of Rs120.

### Exhibit 1: Cash Flow based Valuation

HMVL Av Adj OCF (Rs Mn) FY16-20E	1,422	5 Year average Adj. OCF Yield (AOCF/EV) - % (FY14-18E)	13.6
25% share of minority shareholders	355	Implied EV/AOCF Multiple (x)	7.4
30% Holding company discount	320		
<b>HTML share of HMVL in Adj OCF</b>	<b>746</b>	Average Adj. OCF (Rs mn) - FY16-20E	1,670
HTML Av Adj OCF (Rs Mn) FY16-20E	2,346	Target EV (Rs mn)	12,288
<b>After Adjustment for HMVL</b>	<b>1,670</b>	Less: Net debt (FY19E)	(15,399)
HMVL Net Cash (Rs Mn) FY20E	15,367	Target market cap (Rs mn)	27,688
25% share of minority shareholders	3,842	No. of shares (mn)	230.5
30% Holding company discount	3,458		
<b>HTML share of HMVL in Net Cash</b>	<b>8,068</b>	<b>Target Price/share (Rs)</b>	<b>120</b>
HTML Net Cash (Rs Mn) FY16-20E	22,699		
<b>After Adjustment for HMVL</b>	<b>15,399</b>		

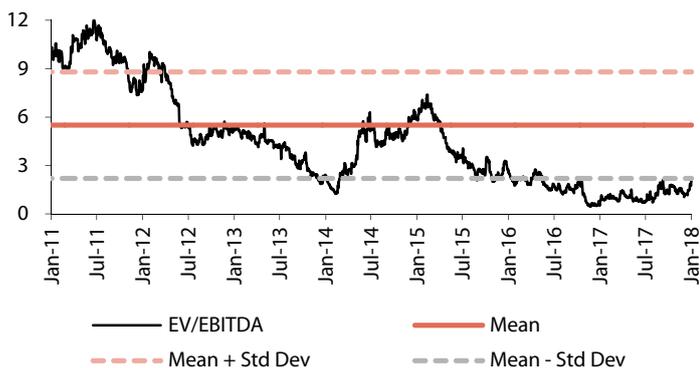
Source: Centrum Research Estimates

### Exhibit 2: Sensitivity Analysis

Sensitivity to key variables (FY18E)	% increase	% impact on EBITDA	% impact on EPS
Ad growth	1	4.2	5.1
Newsprint Cost	1	(1.5)	(1.8)

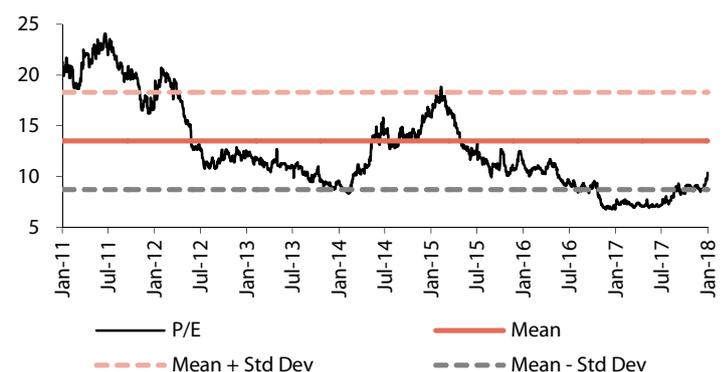
Source: Company, Centrum Research Estimates

### Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 5: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
HT Media	26,731	1.3	23.1	21.5	12.2	17.3	18.0	11.1	7.9	10.5	2.2	1.4	1.7	7.9	11.4	9.6	0.5	0.4	0.3
DB Corp	68,812	8.5	6.1	5.6	28.4	26.2	27.2	18.3	19.2	16.5	10.4	10.7	9.0	25.1	21.5	23.0	1.1	2.7	2.9
Jagran Prakashan	57,720	6.7	7.6	8.5	28.0	27.4	28.5	16.8	16.5	14.1	8.2	8.0	6.7	18.4	16.6	18.9	1.7	2.2	2.7

Source: Centrum Research Estimates

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 6: Quarterly Financials

Y/E Mar (Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Total Revenues</b>	<b>6,316</b>	<b>6,147</b>	<b>6,022</b>	<b>6,499</b>	<b>5,853</b>	<b>5,990</b>	<b>5,606</b>	<b>6,254</b>
Expenditure								
RM Cost	1,770	1,804	1,782	1,789	1,589	1,643	1,615	1,757
Employee Cost	1,259	1,489	1,528	1,448	1,371	1,313	1,218	1,299
Admin & Other exp	2,520	2,211	2,208	2,157	2,163	2,235	1,728	1,852
<b>EBIDTA</b>	<b>767</b>	<b>643</b>	<b>505</b>	<b>1,105</b>	<b>731</b>	<b>799</b>	<b>1,045</b>	<b>1,347</b>
Depreciation/Amortisation	287	295	304	312	337	320	317	307
EBIT	480	348	201	793	394	479	729	1,040
Interest Cost	201	247	245	241	218	194	199	194
Other income	538	478	780	549	488	531	435	645
PBT from operations	817	579	736	1,100	664	817	965	1,491
Exceptional Items	0	0	0	0	0	0	31	0
<b>PBT</b>	<b>817</b>	<b>579</b>	<b>736</b>	<b>1,100</b>	<b>664</b>	<b>817</b>	<b>997</b>	<b>1,491</b>
Tax	232	186	224	36	225	239	219	121
PAT	585	392	512	1,064	440	578	778	1,370
Minority Interest	154	168	202	150	184	162	116	126
<b>Adj PAT after MI</b>	<b>431</b>	<b>224</b>	<b>309</b>	<b>914</b>	<b>256</b>	<b>415</b>	<b>662</b>	<b>1,244</b>
<b>Margins %</b>								
Gross	72.0	70.6	70.4	72.5	72.9	72.6	71.2	71.9
EBIDTA	12.1	10.5	8.4	17.0	12.5	13.3	18.6	21.5
EBIT	7.6	5.7	3.3	12.2	6.7	8.0	13.0	16.6
PBT	12.9	9.4	12.2	16.9	11.4	13.6	17.8	23.8
PAT	9.3	6.4	8.5	16.4	7.5	9.6	13.9	21.9
<b>Growth %</b>								
Revenue	9.5	4.5	0.2	(4.6)	(7.3)	(2.5)	(6.9)	(3.8)
EBIDTA	58.8	8.7	(23.4)	(8.7)	(4.7)	24.3	107.1	21.9
Adj PAT	9.8	(9.4)	(16.0)	32.8	(40.8)	85.4	114.1	36.1
<b>KPI's</b>								
Print Ad growth %	5.8	1.5	(3.7)	(8.6)	(12.5)	(4.6)	(8.1)	(3.1)
Circulation Growth %	6.5	5.9	2.4	2.2	(3.8)	(7.8)	(8.7)	(14.1)
Radio ad growth %	22.2	35.4	23.1	39.3	44.2	29.5	18.4	4.7
Profit/(Loss) in Digital (Rs mn)	(108)	(132)	(129)	(63)	(65)	(121)	(116)	(100)

Source: Company, Centrum Research

### Exhibit 7: Assumptions

Assumptions	FY15	FY16	FY17	FY18E	FY19E	FY20E
Print Ad growth %	4.4	9.0	(5.6)	(4.4)	6.0	7.0
Radio Ad growth %	11.8	18.2	35.3	17.0	14.0	12.0
Circulation growth %	10.8	4.0	2.6	(8.9)	7.3	4.6

Source: Company, Centrum Research

## Financials

### Exhibit 8: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Revenues</b>	<b>25,015</b>	<b>24,521</b>	<b>23,531</b>	<b>25,163</b>	<b>26,987</b>
Material Cost	7,230	6,965	6,713	7,430	7,963
% of revenues	28.9	28.4	28.5	29.5	29.5
Employee Cost	5,487	5,835	5,135	5,495	5,934
% of revenues	21.9	23.8	21.8	21.8	22.0
Admin & other expenses	9,071	8,738	7,603	7,717	8,103
% of revenues	36.3	35.6	32.3	30.7	30.0
<b>EBIDTA</b>	<b>3,227</b>	<b>2,983</b>	<b>4,080</b>	<b>4,522</b>	<b>4,988</b>
EBIDTA Margins (%)	12.9	12.2	17.3	18.0	18.5
Depreciation & Amortisation	1,022	1,248	1,250	1,322	1,394
EBIT	2,205	1,735	2,830	3,200	3,593
Interest expenses	626	951	790	800	800
PBT from operations	1,579	784	2,040	2,400	2,793
Other income	1,562	2,295	1,980	1,710	1,850
Exceptional items	-	-	-	-	-
PBT	3,140	3,079	4,020	4,110	4,643
Taxes	803	671	784	986	1,114
Effective tax rate (%)	25.6	21.8	19.5	24.0	24.0
PAT	2,337	2,407	3,236	3,123	3,529
Minority/Associates	(459)	(488)	(540)	(610)	(690)
<b>Adjusted PAT</b>	<b>1,735</b>	<b>1,703</b>	<b>2,696</b>	<b>2,513</b>	<b>2,839</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth ratios (%)</b>					
Revenues	9.6	(2.0)	(4.0)	6.9	7.2
EBIDTA	24.0	(7.6)	36.8	10.8	10.3
Adj Net Profit	(10.5)	(1.9)	58.4	(6.8)	13.0
<b>Margin ratios (%)</b>					
EBITDA	12.9	12.2	17.3	18.0	18.5
PBT from operations	6.3	3.2	8.7	9.5	10.4
Adjusted PAT	9.3	9.8	13.8	12.4	13.1
<b>Return Ratios (%)</b>					
ROE	8.7	7.9	11.4	9.6	9.9
ROCE	8.2	8.5	9.6	9.0	9.2
RoIC	11.9	10.2	17.4	18.9	21.8
<b>Turnover Ratios</b>					
Gross block turnover(x)	2.1	1.6	1.4	1.4	1.4
Inventory	23.6	23.0	24.0	24.0	24.0
Receivables	54.3	48.5	50.0	50.0	50.0
Creditors	62.5	59.9	60.0	60.0	60.0
Cash conversion cycle	15.4	11.6	14.0	14.0	14.0
<b>Solvency Ratios (%)</b>					
D/E (x)	0.5	0.5	0.5	0.4	0.3
Net debt/equity	(0.5)	(0.6)	(0.6)	(0.7)	(0.8)
Interest coverage ratio (x)	3.5	1.8	3.6	4.0	4.5
Current ratio	1.2	1.0	1.4	1.5	1.8
Gross debt/EBITDA	3.4	3.8	2.8	2.1	1.9
<b>Per Share (Rs)</b>					
FDEPS (Adjusted)	7.5	7.4	11.7	10.9	12.3
CEPS	12.0	12.8	17.1	16.6	18.4
Book Value	90.3	96.8	108.0	118.4	130.2
Dividend	0.4	0.4	0.4	0.4	0.4
Dividend payout(%)	6.5	6.6	4.3	4.6	4.1
<b>Valuations (x)</b>					
PER	11.8	11.1	7.9	10.5	9.3
P/BV	1.0	0.8	0.9	1.0	0.9
EV/EBIDTA	3.4	2.2	1.4	1.7	0.8
Dividend yield(%)	0.5	0.5	0.4	0.3	0.3
5 Yr Avg AOCF/EV yield %	18.8	34.6	42.0	32.8	61.6

Source: Company, Centrum Research Estimates

### Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	461	461	461	461	461
Reserves & Surplus	20,356	21,858	24,439	26,837	29,561
Shareholders Funds	20,818	22,319	24,900	27,298	30,022
Total Debt	10,895	11,259	11,500	9,500	9,500
Deferred Tax Liab	213	369	369	369	369
Minority Interest	2,343	3,000	3,540	4,150	4,840
<b>Total Liabilities</b>	<b>34,269</b>	<b>36,948</b>	<b>40,309</b>	<b>41,317</b>	<b>44,731</b>
Gross Block	14,110	16,867	17,867	18,867	19,867
Accumulated Depreciation	1,138	2,528	3,778	5,101	6,495
Net Block	12,972	14,340	14,089	13,767	13,372
Capital WIP	358	372	372	372	372
Net Fixed Assets	13,331	14,712	14,461	14,139	13,744
Investments	19,119	22,634	22,634	22,634	22,634
Inventory	1,616	1,546	1,547	1,655	1,775
Sundry debtors	3,722	3,256	3,223	3,447	3,697
Loans & advances	3,669	2,297	2,458	2,630	2,814
Cash & bank balances	1,666	1,395	4,983	6,242	9,964
Other assets	89	78	78	78	78
Total current assets	10,763	8,573	12,290	14,052	18,328
Trade payables	4,282	4,026	3,868	4,136	4,436
Other current liabilities	4,244	4,626	4,857	5,003	5,153
Provisions	418	319	351	368	387
Net current assets	1,819	(398)	3,213	4,544	8,352
<b>Total</b>	<b>34,269</b>	<b>36,948</b>	<b>40,308</b>	<b>41,317</b>	<b>44,730</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Operating profit bef working capital changes	<b>3,954</b>	<b>3,317</b>	<b>4,080</b>	<b>4,522</b>	<b>4,988</b>
Changes in working capital	(932)	489	(24)	(71)	(86)
<b>Cash flow from operations</b>	<b>2,104</b>	<b>3,067</b>	<b>3,272</b>	<b>3,464</b>	<b>3,788</b>
Adj. OCF (OCF-Interest)	1,478	2,116	2,482	2,664	2,988
Change in Fixed assets	(6,570)	(842)	(1,000)	(1,000)	(1,000)
Adj. FCF (AOCF-Capex)	(5,092)	1,274	1,482	1,664	1,988
<b>Cash generated from investment activities</b>	<b>(8,790)</b>	<b>(2,691)</b>	<b>980</b>	<b>710</b>	<b>850</b>
<b>Cash generated from financing activities</b>	<b>6,356</b>	<b>(598)</b>	<b>(665)</b>	<b>(2,915)</b>	<b>(915)</b>
Net increase/decrease in cash & cash equivalents	(329)	(222)	3,588	1,259	3,723

Source: Company, Centrum Research Estimates

## Appendix A

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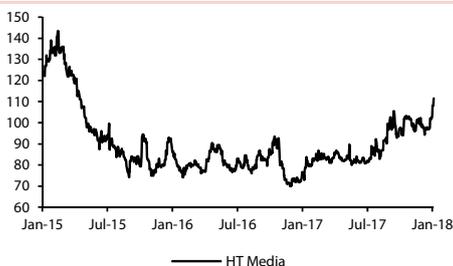
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## HT Media price chart



Source: Bloomberg, Centrum Research

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#### PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Website: [www.centrum.co.in](http://www.centrum.co.in)

Investor Grievance Email ID: [investor.grievances@centrum.co.in](mailto:investor.grievances@centrum.co.in)

#### Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: [Compliance@centrum.co.in](mailto:Compliance@centrum.co.in)

### Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000