

Margin to expand but revenue growth elusive!!!

DB Corp reported largely in line revenue numbers in Q4FY19 but a beat on EBITDA (margin of 17.7% vs. 16.7% expected), driven by lower-than-anticipated newsprint as well as employee costs. Overall revenues at ₹ 588.5 crore, up 5% YoY, were driven by print ad growth of 8.2% YoY and radio revenue growth of 7.7%. Circulation revenues came in at ₹ 127.3 crore (up 1.7% YoY) with growth being largely volume led. Digital revenues, on the other hand, declined 24.1% YoY to ₹ 9.9 crore, with the company focusing on building direct traffic to site and doing away with low paying inventory. PAT came in better than anticipated at ₹ 54.5 crore driven by superior operating profitability.

Print growth driven by DAVP hike; lowering our estimates

The company indicated that print ad revenue growth for the quarter was driven by government segment (that grew 26% YoY, mainly a function of ~25% DAVP ad rate hike). Among the non-government segment, education and real estate (up 10% YoY) saw decent growth while auto remained weak. Going ahead, the company aspires to beat this growth. However, we note that with possible tepid growth from the government segment (remains weak in the first few months of new government) and weak performance of key segments such as auto in the near term, double digit growth is a tough ask. Consequently, we lower our print ad growth CAGR to ~8% over FY19-21E vs. 10.5% earlier. Similarly, given the company's moderation in guidance, we lower our circulation revenue growth estimates to 3.5% CAGR in FY19-21E vs. 5.5% CAGR, earlier.

Newsprint cost correction benefits to be seen in FY20

The company indicated that newsprint prices have moderated and Q1FY20 blended prices are expected at ~₹ 40/kg vs. ~₹ 44.5/kg currently and further lower thereafter. This is largely due to a reduction of demand in the US, China and reopening of a couple of paper mills, globally. Consequently we revise our margins estimates upwards for FY20 and FY21 to 24.2% and 24.1% vs. 23.2% and 23.7%, respectively.

Valuation & Outlook

We note that print players, in the near term, are likely to witness a respite in the form of correction of newsprint prices, which would drive margins expansion. However, revenue growth remains elusive, with no signs of a sustained pick-up in print ad growth. Given the lower than earlier estimated growth, we marginally cut our earnings estimates, despite superior margins. Therefore, we downgrade the stock to HOLD, valuing the stock at 10x FY21E EPS to arrive at a target price of ₹ 210.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	3,373.2
Total Debt (FY19) (₹ Crore)	50.8
Cash (FY19) (₹ Crore)	132.9
EV (₹ Crore)	3,291.2
52 week H/L	351/ 151
Equity Capital (₹ crore)	174.9
Face value	10.0

Key Highlights

- Beat on EBITDA driven by lower-than-anticipated newsprint as well as employee costs
- Lower our print ad growth CAGR to ~8% in FY19-21E vs. 10.5% earlier, given no clear signs of sustainable improvement in print ad sentiment
- Given the newsprint price correction, we increase our margin estimates for FY20 and FY21 to 24.2% and 24.1% vs. 23.2% and 23.7%, respectively
- We downgrade to HOLD, valuing the company at 10x FY21E EPS to arrive at a target price of ₹ 210

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales (₹ crore)	2,258.0	2,319.9	2,462.7	2,619.0	2,787.8	6.4
EBITDA (₹ crore)	642.2	555.2	504.2	633.1	672.8	15.5
Net Profit (₹ crore)	374.7	315.4	273.8	351.1	367.7	15.9
EPS (₹)	20.4	17.1	15.7	20.1	21.0	
P/E (x)	9.0	10.7	11.7	9.1	8.7	
Price / Book (x)	2.1	1.7	1.8	1.7	1.5	
EV/EBITDA (x)	5.1	5.6	6.5	5.2	4.5	
RoCE (%)	32.2	23.0	21.0	26.2	24.6	
RoE (%)	23.5	16.3	15.0	18.6	17.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	Q3FY19	YoY (%)	QoQ (%)	Comments
Revenue	588.5	586.1	560.3	659.7	5.0	-10.8	Numbers largely in line with estimates. Overall revenues up 5% YoY, driven by print ad growth of 8.2% YoY & radio revenues growth of 7.7%
Other Income	2.5	3.0	7.2	1.9	-64.9	30.8	
Raw Material Expenses	220.4	226.1	195.4	251.7	12.8	-12.4	
Employee Expenses	107.8	111.4	109.5	111.4	-1.5	-3.2	
(Increase) / Decrease in Stock of Finished	0.8	0.0	-1.9	-0.4	-139.5	-281.9	
Administrative Expenses	0.0	0.0	0.0	0.0	NA	NA	
Other operating Expenses	155.3	150.6	159.4	157.3	-2.5	-1.2	
EBITDA	104.2	98.0	97.9	139.7	6.4	-25.5	EBITDA beat on account of lower than anticipated newsprint and employee costs
EBITDA Margin (%)	17.7	16.7	17.5	21.2	22 bps	-348 bps	
Depreciation	24.3	25.3	24.3	24.9	0.2	-2.3	
Interest	1.8	1.7	2.0	1.9	-8.3	-4.8	
Total Tax	26.1	24.4	21.8	39.2	19.8	-33.5	
PAT	54.5	49.6	57.1	75.6	-4.6	-28.0	Higher PAT on account of superior operating performance
Key Metrics							
Print Ad revenue growth	8.2%	7.0%	8.3%	12.9%			
Circulation Revenue Growth	1.7%	0.1%	2.9%	-1.4%			
Newsprint Costs	220.4	226.1	195.4	251.7	12.8	-12.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,718.6	2,619.0	-3.7	2,921.9	2,787.8	-4.6	Realign ad growth estimates on management commentary
EBITDA	631.8	633.1	0.2	693.3	672.8	-3.0	
EBITDA Margin (%)	23.2	24.2	93 bps	23.7	24.1	41 bps	Building in higher margins to incorporate lower newsprint prices
PAT	350.1	351.1	0.3	376.6	367.7	-2.4	
EPS (₹)	20.0	20.1		21.5	21.0		

Source: Company, ICICI Direct Research

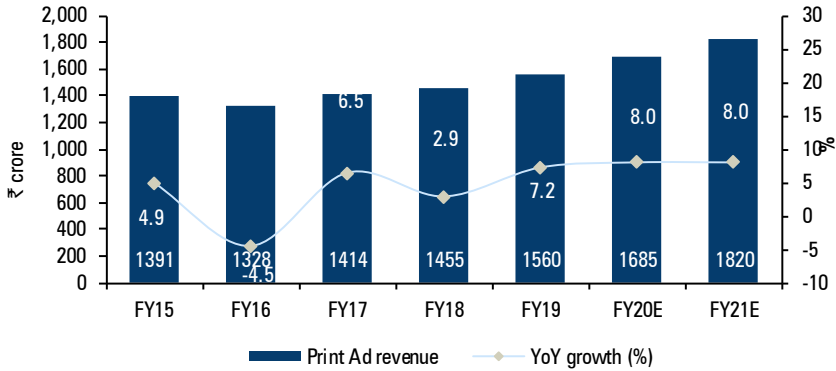
Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Print Ad revenue growth	2.9%	7.2%	8.0%	8.0%	7.9%	12.0%	9.0%
Circulation Revenue Growth	5.2%	3.4%	4.4%	2.7%	4.1%	5.9%	4.1%
Newsprint Costs (₹ Crore)	734.1	922.6	852.4	872.6	948.1	923.1	915.1

Source: Company, ICICI Direct Research

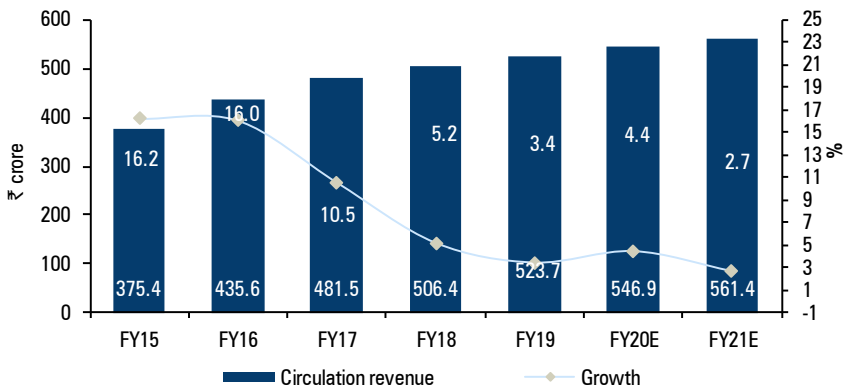
Story in Charts

Exhibit 4: Print ad revenue trend



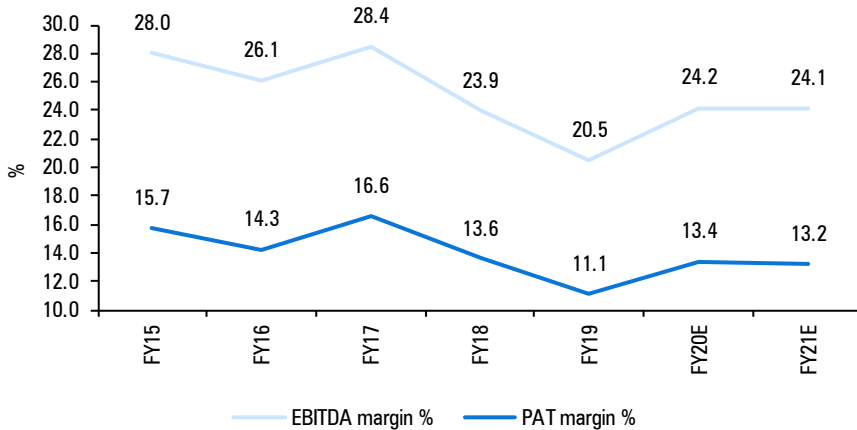
Source: Company, ICICI Direct Research

Exhibit 5: Circulation ad revenue trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend

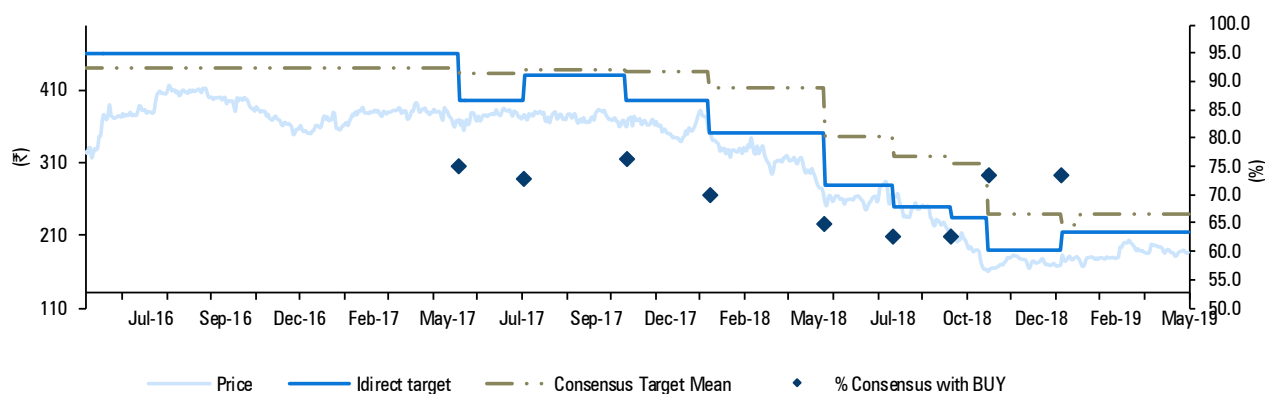


Source: Company, ICICI Direct Research

Conference Call and other highlights

- Government, real estate, education boost print ad revenue; Aspire to beat FY19 print ad revenue, going ahead:** The management indicated that print ad revenue growth for the quarter was aided by government (which grew 26% YoY, 15-16% of the print ad revenue mix, largely from DAVP rate hike), Education and real estate (10% YoY growth). *We note that barring government, print ad revenue growth has been below 5% YoY for the quarter.* The company indicated that print ad revenue is yet to see meaningful growth (largely to be driven by political advertisement in Q1FY20, which, as per management, is expected to make up for no government advertising for the quarter) as corporates are waiting for the election outcome to firm up their advertising spend. The company is aspiring to beat FY19 print ad revenue growth of 7% in FY20
- Circulation revenue growth aided largely by volumes; guides for 2-3% circulation revenue growth in FY20:** The management indicated that out of 1.7% circulation revenue growth for the quarter, ~70% was driven by volumes while rest came in from yield increase. The company indicated they have taken a cover price increase of ₹ 1 in Gujarat market (only for Sunday edition) and also took some cover price increase (not quantified) in Haryana. The company guided for 2-3% circulation revenue growth in FY20, largely to be aided by volume growth
- Newsprint cost expects to taper down in FY20:** The company indicated that the blended average price for newsprint was ₹ 44/kg in Q4FY19, down 3% QoQ. As per the management, newsprint spot prices are hovering around ₹ 40/ kg. The management guided for further softening of newsprint prices in FY20 on account of reduction in demand from US and China, while additional supply is coming in from a couple of newly opened mills in the US
- Radio business growth aided by volume; low paying inventory impacts digital revenue growth:** The company indicated that radio revenue growth for the quarter was largely driven by volume as the company did not undertake any price hike during the quarter. The management indicated that realisation for the quarter was in the range of ₹ 3500-4000/10 sec for the entire network. The management indicated that digital business revenue was muted on account of low paying inventory still lying on the network, which is being taken out to boost growth. The company maintained that they continue to work their strategy of direct traffic on their digital platform, which is expected to boost revenue, going forward
- Special dividend of ₹ 4 per share on Diamond Jubilee:** The company declared a special dividend of ₹ 4 per share on the occasion of Diamond Jubilee, in addition to ₹ 4 per share interim dividend, taking total dividend to ₹ 10 per share for FY19
- Other highlights:** i) The management indicated that debtors have gone up on account of under-recovery from government side on account of model code of conduct ii) circulation was at 56.20 lakh copies in Q4FY19 iii) Blended cover price of ₹ 4.16 and realisation of ₹ 2.69 iv) In Rajasthan, the company added 1.64 lakh copies, which resulted in a market share improvement v) As per the company, inventory days for imported newsprint was around 129 days while that of domestic was much lower vii) As per latest IRS survey, 1.8 crore new readers added in overall markets, 93.27 lakh new readers added in Hindi, out of which DB Corp added 63.55 lakh

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position(mn)	Change (m)
1	DB Consolidated Pvt. Ltd.	31-03-2019	50.4	88.17M	0.0
2	Nalanda Capital Pte Ltd	31-03-2019	9.9	17.39M	0.0
3	Agarwal (Pawan)	31-03-2019	4.5	7.90M	0.0
4	Agarwal (Girish R)	31-03-2019	4.5	7.90M	0.0
5	Agarwal (Sudhir)	31-03-2019	4.5	7.90M	0.0
6	Stitex Global, Ltd.	31-03-2019	4.3	7.56M	0.0
7	ICICI Prudential Life Insurance Company Ltd.	31-03-2019	3.3	5.78M	+0.13M
8	Bhaskar Publications & Allied Industries Pvt. L	31-03-2019	1.7	3.02M	0.0
9	Somerset Capital Management, L.L.P.	31-03-2019	1.6	2.84M	+0.67M
10	Fidelity International	31-12-2017	1.3	2.25M	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Fidelity International Asset Management Company (Korea)	+4.97M	+1.84M	Mellon Investments Corporation	-0.52M	-0.23M
Somerset Capital Management, L.L.P.	+1.81M	+0.67M	Union Asset Management Company Private Limited	-0.47M	-0.18M
ICICI Prudential Life Insurance Company Ltd.	+0.36M	+0.13M	Mahindra Asset Management Company Pvt. Ltd.	-0.23M	-0.10M
Baroda Asset Management India Ltd	+0.27M	+0.10M	Reliance Nippon Life Asset Management Limited	-0.05M	-0.02M
Dimensional Fund Advisors, L.P.	+0.03M	+0.01M	Bessemer Trust Company, N.A. (US)	-0.01M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	69.82	69.81	71.36	71.62	71.61
FII	17.55	18.41	17.91	18.63	18.88
DII	6.48	6.36	7.19	6.86	5.26
Others	6.15	5.42	3.54	2.89	4.25

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	2,319.9	2,462.7	2,619.0	2,787.8
Growth (%)	2.7	6.2	6.3	6.4
Raw Material Expenses	734.2	922.7	852.4	872.6
Employee Expenses	436.4	435.1	465.9	506.5
Other Operating Expenses	597.6	599.8	667.7	736.0
Other expenses	(3.4)	0.9	-	-
Total Operating Expenditure	1,764.7	1,958.5	1,986.0	2,115.0
EBITDA	555.2	504.2	633.1	672.8
Growth (%)	-13.5	-9.2	25.6	6.3
Depreciation	92.4	98.6	107.4	117.1
Interest	6.7	8.5	8.1	8.1
Other Income	23.8	16.6	16.0	13.0
Exceptional Items	-	-	-	-
PBT	479.9	413.7	533.5	560.6
MI/PAT from associates	-	-	-	-
Total Tax	164.5	139.9	182.5	192.8
PAT	315.4	273.8	351.1	367.7
Growth (%)	-15.8	-13.2	28.2	4.7
EPS (₹)	17.1	15.7	20.1	21.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	315.4	273.8	351.1	367.7
Add: Depreciation	92.4	98.6	107.4	117.1
Add: Interest Paid	6.7	8.5	8.1	8.1
(Inc)/dec in Current Assets	-162.9	-162.9	-64.1	-69.3
Inc/(dec) in CL and Provisions	38.6	41.6	20.7	22.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	290.1	259.6	423.1	446.0
(Inc)/dec in Investments	-8.7	-1.0	-40.0	-240.0
(Inc)/dec in Fixed Assets	-183.7	-63.2	-60.0	-60.0
Others	48.4	-5.9	0.0	0.0
CF from investing activities	-144.0	-70.1	-100.0	-300.0
Issue/(Buy back) of Equity	0.1	-9.1	0.0	0.0
Inc/(dec) in loan funds	-11.3	5.9	0.0	0.0
Dividend paid & dividend tax	0.0	-63.2	-294.7	-126.3
Interest Paid	6.7	8.5	8.1	8.1
Others	5.8	-320.7	-16.3	-16.3
CF from financing activities	1.4	-378.5	-302.8	-134.4
Net Cash flow	147.6	-189.1	20.3	11.6
Opening Cash	174.4	321.9	132.9	153.1
Closing Cash	321.9	132.9	153.1	164.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	184.0	174.9	174.9	174.9
Reserve and Surplus	1745.1	1652.0	1708.4	1949.8
Total Shareholders funds	1929.1	1826.9	1883.3	2124.7
Total Debt	44.9	50.8	50.8	50.8
Others	142.4	136.1	136.1	136.1
Total Liabilities	2116.3	2013.8	2070.2	2311.6
Assets				
Gross Block	1689.3	1772.6	1832.6	1892.6
Less: Acc Depreciation	689.6	788.2	895.6	1012.6
Net Block	999.7	984.4	937.0	879.9
Capital WIP	21.3	1.2	1.2	1.2
Total Fixed Assets	1021.0	985.6	938.2	881.1
Net Intangible Assets	-	-	-	-
Investments	35.6	36.6	76.6	316.6
Goodwill on consolidation	1.9	1.9	1.9	1.9
Inventory	159.9	249.6	265.4	282.5
Debtors	553.4	636.9	677.4	721.0
Loans and Advances	30.9	30.7	32.7	34.8
Other Current Assets	103.2	93.2	99.1	105.5
Cash	321.9	132.9	153.1	164.7
Total Current Assets	1169.4	1143.3	1227.7	1308.5
Creditors	259.1	295.7	314.5	334.7
Provisions	19.3	19.0	20.2	21.5
Other Current Liabilities	60.5	65.7	66.4	67.2
Total Current Liabilities	338.8	380.4	401.0	423.3
Net Current Assets	830.6	762.9	826.6	885.2
Other non current assets	227.2	226.9	226.9	226.9
Application of Funds	2116.3	2013.8	2070.2	2311.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	17.1	15.7	20.1	21.0
Cash EPS	22.2	21.3	26.2	27.7
BV	104.8	104.5	107.7	121.5
DPS	1.0	10.0	6.0	6.0
Cash Per Share	55.0	52.7	60.0	67.3
Operating Ratios (%)				
EBITDA Margin	23.9	20.5	24.2	24.1
EBIT / Total Operating income	19.9	16.5	20.1	19.9
PAT Margin	13.6	11.1	13.4	13.2
Inventory days	25.2	37.0	37.0	37.0
Debtor days	87.1	94.4	94.4	94.4
Creditor days	40.8	43.8	43.8	43.8
Return Ratios (%)				
RoE	16.3	15.0	18.6	17.3
RoCE	23.0	21.0	26.2	24.6
RoIC	30.0	24.6	31.2	32.4
Valuation Ratios (x)				
P/E	10.7	11.7	9.1	8.7
EV / EBITDA	5.6	6.5	5.2	4.5
EV / Net Sales	1.3	1.3	1.2	1.1
Market Cap / Sales	1.5	1.4	1.3	1.2
Price to Book Value	1.7	1.8	1.7	1.5
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.5	2.7	2.7	2.7
Quick Ratio	2.0	2.0	2.0	2.0

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
DB Corp (DBCORP)	182	210	Hold	3,347	15.7	20.1	21.0	11.6	9.1	8.6	6.5	5.1	4.5	23.0	21.0	26.2	16.3	15.0	18.6
ENIL (ENTNET)	460	630	Buy	2,193	10.7	17.4	24.1	42.8	26.5	19.1	14.5	10.3	7.3	6.2	8.9	12.5	3.5	5.5	8.2
Inox Leisure (INOX)	309	385	Buy	3,173	13.0	14.6	18.4	23.8	21.1	16.8	10.6	9.5	7.6	13.2	19.6	18.5	10.6	14.2	13.5
PVR (PVRLIM)	1,740	1,910	Buy	8,129	39.2	45.1	60.5	44.4	38.5	28.8	16.0	13.9	11.5	14.7	13.8	14.5	11.5	14.8	14.7
Sun TV (SUNTV)	536	605	Hold	21,111	36.9	36.9	40.4	14.5	14.5	13.3	7.1	6.7	5.8	35.5	38.8	33.6	24.2	26.1	22.5
TV Today (TVTNET)	282	350	Hold	1,680	24.4	26.9	29.6	11.5	10.4	9.5	5.9	4.8	3.8	30.4	28.8	27.4	19.3	18.7	17.6
ZEE Ent. (ZEEENT)	346	410	Hold	33,187	16.2	17.9	20.5	21.3	19.4	16.8	11.8	10.5	8.9	25.6	24.8	23.3	15.3	15.1	14.5

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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