

DB CORP LTD.

BUY

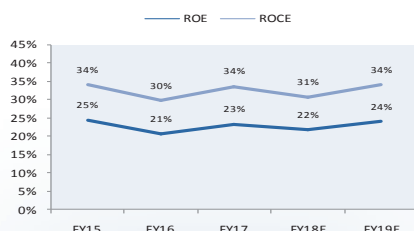
06-Nov-17

INDUSTRY - Publishing
BLOOMBERG- DBCL IN
BSE Code - 533151
NSE Code - DBCORP
NIFTY - 10453

Company Data

CMP	371
Target Price	405
Upside	9%
52wk Range H/L	395/345
Mkt Capital (Rs Cr)	6,831
Av. Volume (,000)	92

Expect 66 bps improvement in ROE in FY19E.

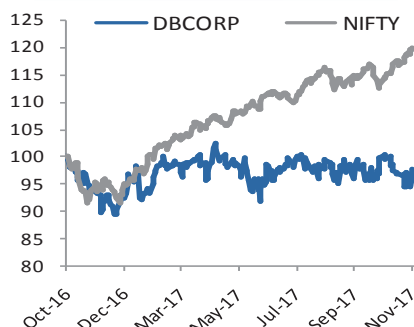


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	69.9	69.9	69.9
Public	30.2	30.1	30.1
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	0.6	(1.3)	(4.1)
Rel.to Nifty	(6.4)	(5.7)	(25.2)



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Key Highlights of the Report:

- ✓ DBCORP has posted mixed set of numbers for Q2FY18. Revenue grew by 7.5% YoY to Rs 568 cr while PAT declined by 11% YoY to Rs 79 cr.
- ✓ EBITDA margin declined by 386 bps YoY to 24.6% led by higher COGS(51 bps) and other expenses (453 bps) YoY.
- ✓ Advertising revenue grew by healthy 6% YoY to Rs 397 cr while circulation revenue grew robustly by 8%YoY to Rs 127.
- ✓ Radio business has reported a growth of 17% YoY to Rs 35 cr in Q2FY18.
- ✓ DBCORP is presently trading at 13.7 x of FY19 expected EPS, we value it at 15 x of FY19's expected EPS and maintain 'BUY' with the price target of Rs 405.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,010	2,049	2,258	2,421	2,691
EBITDA	562	535	642	663	811
EBIT	474	450	556	572	719
PAT	316	290	373	390	494
EPS (Rs)	17	16	20	21	27
EPS growth (%)	3%	-8%	28%	5%	26%
ROE (%)	25%	21%	23%	22%	24%
ROCE (%)	34%	30%	34%	31%	34%
BV	70	76	87	98	112
P/B (X)	4	5	4	4	3
P/E (x)	18	23	18	17	14

DBCORP's digital business highlights:

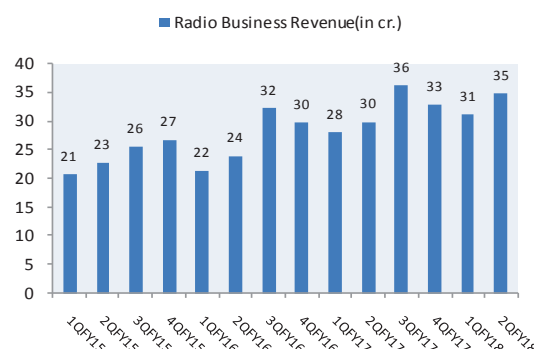
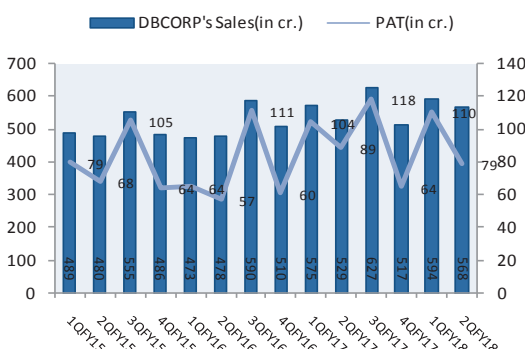
- ✓ Digital advertisement has degrown by 12.3% YoY(improved by 2% QoQ) to Rs 12 cr in this quarter on the back of lower yield.
- ✓ Digital Media Unique Visitors (UV) has risen by 80% YoY to 10.2 cr for Sept.2017 from 5.7 cr in the previous year.
- ✓ Pages views declined by 29% YoY(11% QoQ) to 1.7 bn in this quarter as compared to 2.39 bn in the previous quarter.
- ✓ Internet business has registered a loss at the EBITDA level of Rs 5 cr as compared to the loss of Rs 4 cr in the previous quarter.
- ✓ Digital business was impacted by Higher digital inventory supply which affected yield negatively.

Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	529	627	517	594	568	7%	-4%	2,049	2,258	10%
Other Income	4	4	5	7	6	38%	-18%	24	17	-30%
COGS	163	177	161	171	179	9%	5%	619	661	7%
Employee Cost	107	109	106	109	109	1%	0%	391	429	10%
Other Expenses	107	144	138	128	141	31%	10%	505	526	4%
EBITDA	151	198	112	186	140	-7%	-25%	535	642	20%
Depreciation	22	22	22	22	23	6%	4%	85	86	1%
Interest	1	3	0	2	2	267%	31%	14	7	-46%
PBT	133	177	95	170	121	-9%	-29%	436	548	26%
Tax	44	59	31	60	42	-4%	-30%	168	191	14%
PAT	89	118	64	110	79	-11%	-29%	292	375	28%

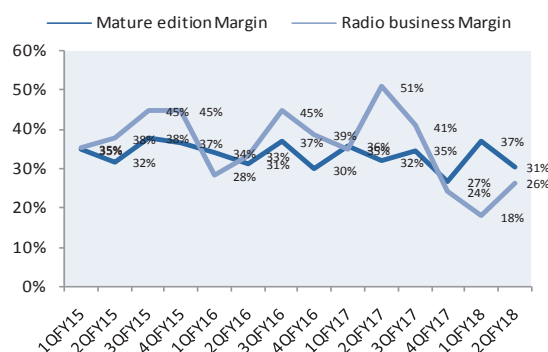
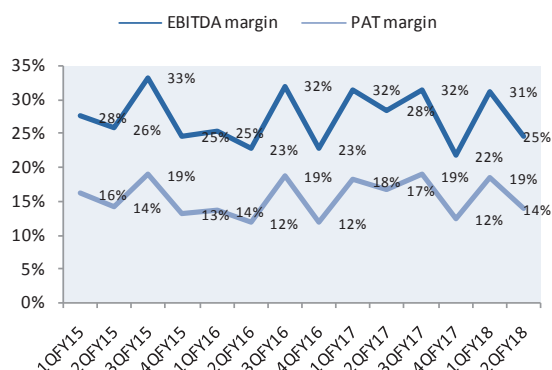
Handsome growth in revenue while margins remained dampener

- ✓ DBCORP's revenue for this quarter grew by 7% YoY to Rs 568 cr on the back of 6% YoY improvement in Ad revenue led by better traction from automobile, FMCG and Lifestyle.
- ✓ Radio business revenue grew by 17% YoY to Rs 35 cr with improvement in EBITDA margin by 841 bps QoQ.
- ✓ Circulation revenue grew by 8% YoY to Rs 127 cr led by yield growth largely from the mature market. The company has added 3.87 lakh copies in Q2FY18.
- ✓ EBITDA margin declined by 386 bps YoY to 24.6% led by higher COGS(51 bps) and other expenses (453 bps) YoY. Employee expenses were declined by 117 bps YoY.
- ✓ Revenue from mature edition grew by 7% while EBITDA margin declined by 142 bps whereas revenue from emerging edition grew by 22% with an EBITDA loss of Rs 6 cr.
- ✓ Digital advertisement has degrown by 12.3% YoY(improved by 2% QoQ) to Rs 12 cr in this quarter on the back of lower yield.
- ✓ PAT margin declined by 290 bps YoY to 13.8% while PAT for this quarter remained at Rs 79 cr. Provisioning for Taxes was higher by 162 bps YoY to 34.8% in Q2FY18.



Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	69.1%	71.8%	68.9%	71.3%	68.6%	-0.51%	-2.7%	69.8%	70.7%	0.9%
EBITDA Margin	28.5%	31.6%	21.7%	31.4%	24.6%	-3.9%	-6.7%	26.1%	28.4%	2.3%
PAT Margin	16.7%	18.8%	12.4%	18.5%	13.8%	-2.9%	-4.7%	14.2%	16.5%	2.3%

- ✓ Gross margin declined by 51 bps YoY to 68.6% led by increase in newsprint prices. Newsprint costs went up by 9% YoY led by inflation (2%), pagination (6%) and rest are from an increase in circulation.
- ✓ EBITDA margin declined by 386 bps YoY to 24.6% led by higher COGS(51 bps) and other expenses (453 bps) YoY. Employee expenses were declined by 117 bps YoY.
- ✓ PAT margin declined by 290 bps YoY to 13.8% while PAT for this quarter remained at Rs 79 cr. Provisioning for Taxes was higher by 162 bps YoY to 34.8% in Q2FY18.



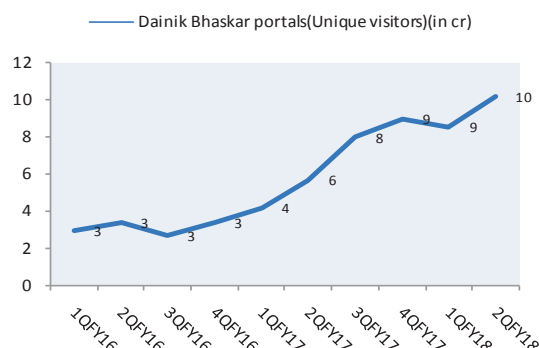
Concall Highlights(Q2FY18):

- ✓ Other expense went up in this quarter due to the addition of new copies in Bihar & other markets (By Rs 7 cr) and cost related to readership scheme (by Rs 6 cr for 15 cr Jeeto Offer).
- ✓ Automobile, FMCG and Lifestyle have done better in this quarter while real estate and education remained laggards in terms of advertising growth.
- ✓ Real estate was down by 30%YoY in Q2FY18 and it is still in bad shape due to uncertainty related to RERA.
- ✓ Digital business: Due to Higher digital inventory supply, yield has gone down. It will take few more quarters to stabilize but management is seeing an early sign of improvement.
- ✓ Newsprint cost: company envisages 2-3% newsprint cost inflation in next 2 quarters. After Q4FY18, more clarity will emerge as the company will sign a new contract.
- ✓ IRS (Indian Readership survey): may be out in Jan 18.
- ✓ Presently DBCORP is present in the 11 districts of Bihar with ~3.5 lacs copies and it plans to cover all 38 districts till Jan18 to make total copies count to 7.5 lacs.
- ✓ Estimated Capex: 70-80 cr for FY18.
- ✓ Government Advertising has grown by high single digits in Bihar in Q2FY18.
- ✓ The company added around 3.87 cr copies in this quarter on which half of this came from new market expansion.

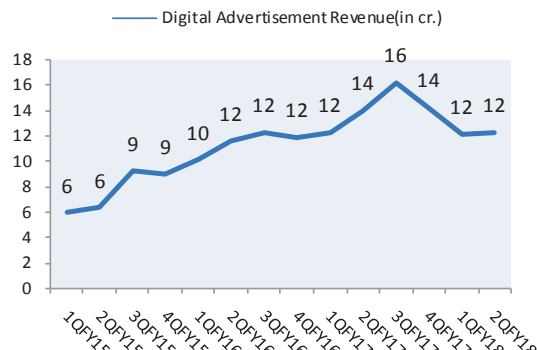
Investment Arguments:

- ✓ **Improvement in ROE going ahead:** For last two years, company is struggling in terms of ad growth due to lower volume led by company's ad rate increase in FY16 and secondly demonetization in FY17 which impacted 2HFY17. We see similar headwinds related to implementation of GST and RERA in FY18. But going forward we expect 66 bps YoY improvement in ROE in FY19 on the back of improvement in general economic condition, come back of real estate and FMCG sector advertising.
- ✓ **Strong Balance sheet with reasonable dividend yield:** DBCORP has strong balance sheet with no long term borrowing and negligible short term borrowings of Rs 56 cr. The company maintains dividend payout above 40% and at present price its dividend yield is approx. 2.3%. Above 2% dividend yield is a handsome cash flow for investors and gives comfort to hold investment for long term.
- ✓ **Scope to grow in Regional market:** DBCORP has strong presence in MP, Chattisgarh, Rajasthan, Gujarat and Maharashtra. Apart from this company is also present in Jharkhand, Chandigarh, Punjab Haryana and Bihar. But as literacy rate is improving we see lot of room for DBCORP to expand its footprint in other states and regional market also. India is a vast country with different demographics so we expect that change from newspaper to internet will happen with a very slower pace. Hence threat from internet will not impact business of the company as swiftly as in the Western world.
- ✓ **Strengthening footprint in digital space:** The Company's digital business has grown at the CAGR of 52% over last 3 years from Rs 16 cr to Rs 57 cr. The number of unique visitors remained 10.2 cr and page view remained 170 cr in Q2FY18. DBCORP is rapidly strengthening its position in the digital space and we expect this to continue in near future barring few hiccups, digital may be next growth driver for the company.

Dainik Bhaskar portal(unique visitors)(in cr)



Digital Advertisement Revenue (in cr.)



View & Valuation

DBCORP has posted mixed set of numbers for Q2FY18. Revenue grew by 7.5% YoY to Rs 568 cr, in a tough economic scenario, which is commendable while PAT declined by 11% YoY to Rs 79 cr due to higher other expenses related to the addition of new copies in Bihar & other markets and cost related to readership scheme. Going forward, we expect better advertisement growth in H2FY18 considering the lower base of the previous year due to demonetization. Radio business grew by 17% YoY and its EBITDA margin improved by 841 bps QoQ. We expect better growth from radio business in H2FY18 with margin expansion on the back of improvement in general demand scenario and benefits of operating leverage. Robust plan to add number of copies may translate into better advertisement growth for the company led by better IRS rating. On the negative side, overall margin may be under pressure due to higher expenses related to supporting new copies. DBCORP is presently trading at 13.7 x of FY19 expected EPS, we value it at 15 x of FY19's expected EPS and maintain 'BUY' with the price target of Rs 405.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	2,049	2,258	2,421	2,691
Change (%)	2%	10%	7%	11%
Other Operating Income				
EBITDA	535	642	663	811
Change (%)	-5%	20%	3%	22%
Margin (%)	26%	28%	27%	30%
Dep & Amortization	85	86	91	92
EBIT	450	556	572	719
Interest & other finance cost	14	7	6	6
Other Income	24	17	26	35
EBT	460	565	592	748
Exceptional Item	-	-	-	-
Tax	168	191	200	252
Minority Int & P/L share of Ass.	(0)	-	-	-
Reported PAT	290	373	390	494
Adjusted PAT	290	373	390	494
Change (%)	-8%	28%	5%	27%
Margin(%)	14%	16%	16%	18%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	184	184	184	184
Reserves	1,214	1,410	1,614	1,872
Networth	1,398	1,594	1,797	2,055
Debt	112	56	56	56
Other Non Current Liab	126	127	127	127
Total Capital Employed	1,510	1,651	1,854	2,111
Net Fixed Assets (incl CWIP)	911	881	878	903
Non Current Investments	67	90	90	90
Other Non Current Assets	254	246	246	246
Non Current Assets	1,234	1,219	1,216	1,241
Inventory	167	199	213	237
Debtors	377	418	448	498
Cash & Bank	90	174	345	520
Other Current Assets	66	68	73	78
Current Assets	717	859	1,078	1,333
Creditors	118	128	137	152
Provisions	20	22	23	26
Other Current Liabilities	178	151	154	158
Curr Liabilities	403	357	370	392
Net Current Assets	315	502	708	941
Total Assets	1,951	2,078	2,294	2,574

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	23%	22%	24%
ROCE	30%	34%	31%	34%
Asset Turnover	1.1	1.1	1.1	1.0
Debtor Days	67	68	68	68
Inventory Days	30	32	32	32
Payable Days	21	21	21	21
Interest Coverage	33	75	102	128
P/E	23	18	17	14
Price / Book Value	4.7	4.1	3.8	3.3
EV/EBITDA	12	10	10	8
FCF per Share	7	15	21	24
Dividend Yield	1.9%	2.3%	2.3%	2.9%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Ad revenue gr.(YoY)	-5%	7%	7%	9%
Radio ad revenue gr.(YoY)	11%	20%	15%	27%
Circulation revenue gr. (YoY)	16%	11%	10%	10%
Digital revenue gr.(YoY)	55%	23%	-22%	-7%

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	466	565	592	748
(inc)/Dec in Working Capital	(63)	(120)	(15)	(57)
Non Cash Op Exp	110	61	91	92
Interest Paid (+)	9	7	6	6
Tax Paid	(175)	(194)	(200)	(252)
others	(12)	2	-	-
CF from Op. Activities	335	331	475	536
(inc)/Dec in FA & CWIP	(200)	(54)	(87)	(95)
Free Cashflow	135	277	388	441
(Pur)/Sale of Investment	(9)	42	-	-
others	27	9	(23)	(22)
CF from Inv. Activities	(182)	(3)	(110)	(117)
inc/(dec) in NW	1	-	-	-
inc/(dec) in Debt	9	(57)	-	-
Interest Paid	(7)	(6)	(6)	(6)
Dividend Paid (inc tax)	(243)	(183)	(188)	(238)
others	(7)	(6)	(6)	(6)
CF from Fin. Activities	90	174	346	520
Inc(Dec) in Cash	(87)	84	171	175
Add: Opening Balance	177	90	174	345
Closing Balance	90	174	345	520