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DB CORP LTD.

BUY

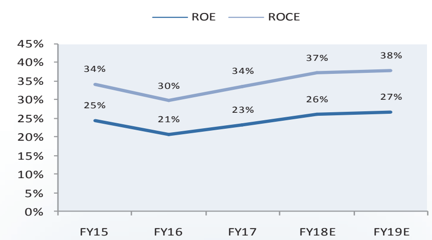
24-Jul-17

INDUSTRY -	Publishing
BSE Code -	533151
NSE Code -	DBCORP
NIFTY -	9915

Company Data

CMP	376
Target Price	**430**
Previous Target Price	430
Upside	**14%**
52wk Range H/L	448/345
Mkt Capital (Rs Cr)	6,918
Av. Volume (,000)	106

RoE & ROCE

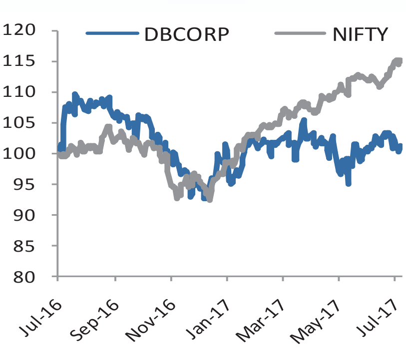


Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	69.9	69.9	69.9
Public	30.1	30.1	30.1
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(0.2)	(0.1)	(0.6)
Rel.to Nifty	(2.9)	(8.6)	(16.9)



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Key Highlights of the Report:

- ☑ DBCORP's result for this quarter remained largely in line to our estimates. Revenue for this quarter grew by 3% YoY whereas PAT grew by 6%YoY.
- ☑ Digital business remained subdued, declined by 2% YoY (QoQ by 15%) to Rs 12cr(Expectation Rs 14cr).
- ☑ Print advertisement grew by 5% YoY to Rs 390cr(Expectation Rs 395 cr) for Q1FY18.
- ☑ Presently DBCORP is trading at 12 times of FY19's expected EPS, We expect ROE to improve in FY18 and FY19 by 275 and 62 bps to 26.1% and 26.7%respectively backed by better advertisement growth in 2HFY18. We maintain BUY rating on this stock with the previous target price of Rs 430.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,010	2,049	2,258	2,462	2,737
EBITDA	562	535	642	776	883
EBIT	474	450	556	695	805
PAT	316	290	373	473	553
EPS (Rs)	17	16	20	26	30
EPS growth (%)	3%	-8%	28%	27%	17%
ROE (%)	25%	21%	23%	26%	27%
ROCE (%)	34%	30%	34%	37%	38%
BV	70	76	87	99	113
P/B (X)	4.5	4.7	4.1	3.8	3.4
P/E (x)	18	23	18	15	12

New initiatives and digital business highlights:

- ✓ DBCORP launched Surat edition on April 30, 2017 which will cater readership base of almost 28 lacs of non Gujrati speaking people.
- ✓ Digital Media Unique Visitors (UV) remained 8.56 cr in June 2017 Vs 4.15 cr in June 2016.
- ✓ Page views(PV) reached to 1.9 billion for the month of June 2017 from 1.6 billion in June 2016.
- ✓ YTD Dainik Bhaskar and Divya Bhaskar app downloads are .99 cr.
- ✓ Digital business revenue remained subdued, declined by 2% YoY (QoQ by 15%) to Rs 12cr, as management took conscious decision to remove irritant advertising from their websites to improve user experience.

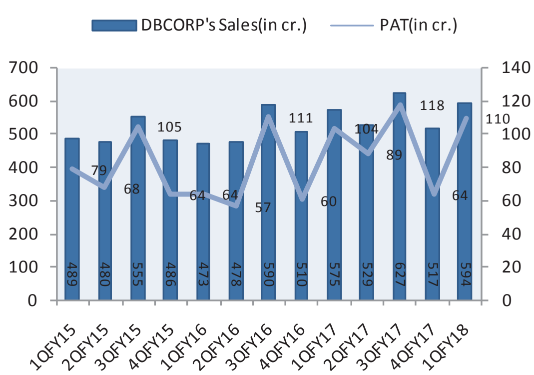
Quarterly Performance

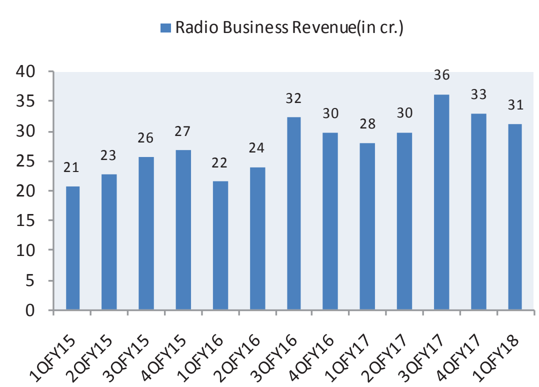
Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	575	529	627	517	594	3%	15%	2,049	2,258	10%
Other Income	4	4	4	5	7	69%	37%	24	17	-30%
COGS	160	163	177	161	171	7%	6%	619	661	7%
Employee Cost	106	107	109	106	109	3%	3%	391	429	10%
Other Expenses	127	107	144	138	128	1%	-7%	505	526	4%
EBITDA	181	151	198	112	186	3%	66%	535	642	20%
Depreciation	21	22	22	22	22	4%	1%	85	86	1%
Interest	3	1	3	0	2	-54%	225%	14	7	-46%
PBT	161	133	177	95	170	6%	79%	436	548	26%
Tax	57	44	59	31	60	5%	93%	168	191	14%
PAT	104	89	118	64	110	6%	72%	292	375	28%

Better margin from mature edition remained main positive in Q1FY18 result

- ✓ Sales came below our expectation grew by 3% YoY to Rs 594cr (Expect. Rs 615 cr) whereas PAT remained inline to Rs 110cr (Expect. Rs 110 cr) for Q1FY18.
- ✓ EBITDA margin declined by 17 bps YoY to 31.4% led by 89 bps YoY increase COGS. Employee and other expenses went down by 12 and 61 bps respectively.
- ✓ Print advertisement grew by 5% YoY to Rs 390cr (Expectation Rs 395 cr) for Q1FY18. This growth was majorly contributed by auto, education and healthcare.
- ✓ Revenue from radio business grew by 11% YoY to Rs 31 cr from 28cr. This growth came from news radio stations.
- ✓ Circulation revenue grew by 5% YoY to Rs 123 cr from 118 cr previous year majorly led by volume.
- ✓ Major positive for this quarter remained mature edition's margin which remained 37%, improvement of 115 bps YoY and 1038 bps QoQ.
- ✓ PAT margin for this quarter improved by 43 bps YoY to 18.5% from 18.1%.

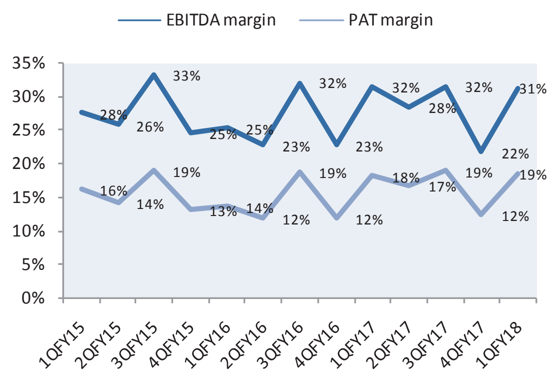
Mature edition's margin remained 37%,improvement of 115 YoY and 1038 bps QoQ.

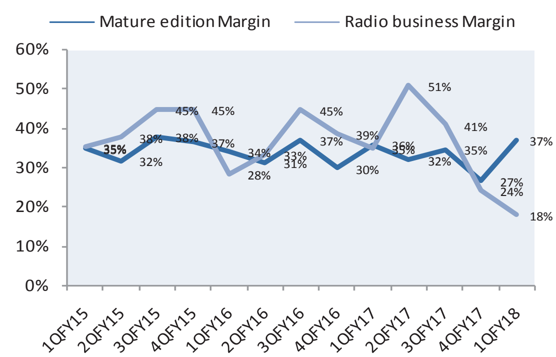




Margin %	*1QFY17*	*2QFY17*	*3QFY17*	*4QFY17*	*1QFY18*	*YoY(+/-)*	*QoQ(+/-)*	*FY16*	*FY17*	*YoY(+/-)*
Gross Margin	72.2%	69.1%	71.8%	68.9%	71.3%	***-0.89%***	***2.3%***	69.8%	70.7%	***0.9%***
EBITDA Margin	31.5%	28.5%	31.6%	21.7%	31.4%	***-0.2%***	***9.7%***	26.1%	28.4%	***2.3%***
PAT Margin	18.1%	16.7%	18.8%	12.4%	18.5%	***0.4%***	***6.1%***	14.2%	16.5%	***2.3%***

- ✓ Gross margin for this quarter deteriorated by 89 bps YoY to 71.3% from 72.2% led by rise in newsprint prices.
- ✓ EBITDA margin declined by 17 bps YoY to 31.4% led by 89 bps YoY increase COGS. Employee and other expenses went down by 12 and 61 bps respectively.
- ✓ PAT margin for this quarter improved by 43 bps YoY to 18.5% from 18.1%.





Concall Highlights(Q1FY18):

- ✓ Circulation Revenue: The Company will not increase cover price in near future.
- ✓ The company is planning to launch some kind of scheme to boost circulation.
- ✓ Company will keep working on curtailment of cost.
- ✓ GST impact: Growth in April month was: 7-7.5% and June was almost flat due to GST.
- ✓ Real estate is not doing well for last 9 months. Advertisement from real estate declined by 20% in Q1FY18.
- ✓ Sectors performed well in terms of advertisement growth in this quarter, are education, Auto and healthcare.
- ✓ Major chunk of advertisement came from national players. Real estate advertisement is mostly local and declined severely in Q1FY18.
- ✓ Input cost: Don't see substantial change in newsprint prices in next 9 months.
- ✓ No plans for entering news broadcasting business.
- ✓ Radio business: Growth form legacy market remained flat in Q1FY18.

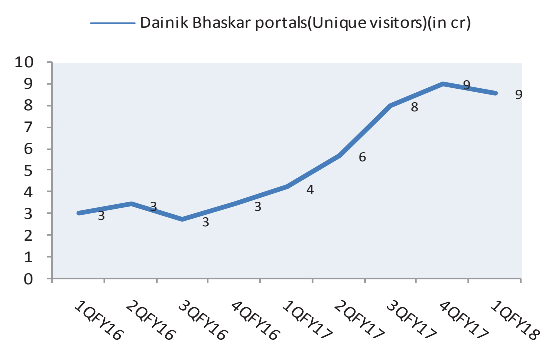
Print advertisement growth: Largely volume driven (approx. 80%).

- ✓ No new launch in FY18. Gross cash level: Rs 180 cr.

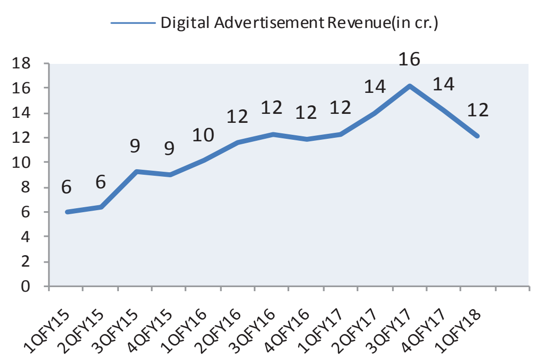
Investment Arguments:

- ✓ **Expectation of 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. Going forward we expect normalization in ad volume albeit there may be slight hiccups due to GST in 1HFY18. We expect ROE to improve in FY18 and FY19 by 275 and 62 bps to 26.1% and 26.7%respectively considering normalization of volume in 2HFY18.
- ✓ **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 going ahead. India is a vast country with different demographics and 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 western world.
- ✓ **Strengthening footprint in digital space:** The Company's digital business has growth at the CAGR of 52% for last 3 years from Rs 16 cr to Rs 57 cr. Number of unique visitors remained 8.6 cr and page view remained 190 cr in Q1FY18. DBCORP is rapidly strengthening its position in the digital space and we expect this to continue in near future. Digital may be next growth driver for the company.

Dainik Bhaskar portal(Unique visitors)(in cr)



Digital Advertisement Revenue (in cr.)



View & Valuation

DBCORP's result for this quarter remained largely in line to our estimates. Revenue for this quarter grew by 3% YoY whereas PAT grew by 6%YoY. Digital business remained subdued, declined by 2% YoY (QoQ by 15%) to Rs 12cr, as management took conscious decision to remove irritant advertising from their websites to improve user experience. Going forward we expect better revenue growth for DBCORP in FY18 considering lower base of previous year (2HFY17) and expectation of FMCG and real estate advertising coming back in a big way in the 2HFY18. We expect Margin to improve due to operating leverage, better cost management and improvement in radio margin going ahead. Presently DBCORP is trading at 12 times of FY19's expected EPS, We expect ROE to improve in FY18 and FY19 by 275 and 62 bps to 26.1% and 26.7%respectively backed by better advertisement growth in 2HFY18. We maintain BUY rating on this stock with the previous target price of Rs 430.

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	2,049	2,258	2,462	2,737
Change (%)	*2%*	*10%*	*9%*	*11%*
Other Operating Income				
EBITDA	*535*	*642*	*776*	*883*
Change (%)	-5%	20%	21%	14%
Margin (%)	**26%**	**28%**	**32%**	**32%**
Dep & Amortization	*85*	*86*	*81*	*78*
EBIT	450	556	695	805
Interest & other finance cost	*14*	*7*	*6*	*6*
Other Income	24	17	28	38
EBT	460	565	717	837
Exceptional Item	-	-	-	-
Tax	168	191	242	282
Minority Int & P/L share of Ass.	(0)	-	-	-
Reported PAT	*290*	*373*	*473*	*553*
Adjusted PAT	**290**	**373**	**473**	**553**
Change (%)	*-8%*	*28%*	*27%*	*17%*
Margin(%)	14%	16%	19%	20%

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	23%	26%	27%
ROCE	30%	34%	37%	38%
Asset Turnover	1.1	1.1	1.1	1.1
Debtor Days	67	68	68	68
Inventory Days	30	32	32	32
Payable Days	21	21	21	21
Interest Coverage	33	75	124	143
P/E	23	18	15	12
Price / Book Value	4.7	4.1	3.8	3.4
EV/EBITDA	*12*	*10*	*8*	*7*
FCF per Share	7	19	27	29
Dividend Yield	1.9%	2.3%	3.1%	3.6%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Ad revenue gr.(YoY)	-5%	7%	11%	10%
Radio ad revenue gr.(YoY)	11%	20%	23%	29%
Circulation revenue gr. (YoY)	0	0	0	0
Digital revenue gr.(YoY)	55%	23%	-11%	49%

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	184	184	184	184
Reserves	1,214	1,410	1,628	1,883
Networth	**1,398**	**1,594**	**1,812**	**2,067**
Debt	*112*	*56*	*56*	*56*
Other Non Current Liab	126	127	127	127
Total Capital Employed	*1,510*	*1,651*	*1,868*	*2,123*
Net Fixed Assets (incl CWIP)	*911*	*881*	*851*	*845*
Non Current Investments	*67*	*90*	*90*	*90*
Other Non Current Assets	*254*	*246*	*246*	*246*
Non Current Assets	**1,234**	**1,219**	**1,189**	**1,183**
Inventory	167	199	217	241
Debtors	*377*	*418*	*455*	*506*
Cash & Bank	90	174	378	581
Other Current Assets	**66**	**68**	**73**	**79**
Current Assets	717	*859*	*1,123*	*1,407*
Creditors	118	128	139	155
Provisions	20	*22*	*24*	*27*
Other Current Liabilities	178	151	155	159
Curr Liabilities	403	357	374	396
Net Current Assets	**315**	**502**	**750**	**1,011**
Total Assets	*1,951*	*2,078*	*2,313*	*2,590*

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
PBT	466	565	717	837
(inc)/Dec in Working Capital	(63)	(68)	(22)	(59)
Non Cash Op Exp	110	86	81	78
Interest Paid (+)	9	7	6	6
Tax Paid	(175)	(191)	(242)	(282)
others	(12)	-	-	-
CF from Op. Activities	**335**	**401**	**540**	**580**
(inc)/Dec in FA & CWIP	*(200)*	*(57)*	*(50)*	*(50)*
Free Cashflow	*135*	*344*	*490*	*530*
(Pur)/Sale of Investment	(9)	-	-	-
others	27	(35)	(23)	(22)
CF from Inv. Activities	**(182)**	**(92)**	**(73)**	**(72)**
inc/(dec) in NW	1	-	-	-
inc/(dec) in Debt	9	(56)	-	-
Interest Paid	(7)	(7)	(6)	(6)
Dividend Paid (inc tax)	**(243)**	**(179)**	**(257)**	**(300)**
others	(7)	(7)	(6)	(6)
CF from Fin. Activities	90	157	379	581
Inc(Dec) in Cash	(87)	67	205	203
Add: Opening Balance	**177**	**90**	**174**	**378**
Closing Balance	90	157	378	581