

Higher newsprint costs to impact margins...

About the stock: DB Corp (DB Corp) is India's largest print media company that publishes five newspapers in three multiple languages (Hindi, Gujarati and Marathi) across 12 states in India.

- Other segments of the company include radio (MY FM) with a presence in seven states, 30 cities and digital business

Q3FY22 Results: DB Corp's performance was impacted by higher newsprint costs.

- Revenues at ₹ 446.8 crore, were up ~10.4% on a depressed base (Q3FY21 revenues were down ~17%). Print & digital ad revenue was up ~6% YoY on base of 13% decline while subscription revenues remained resilient and were up 5.4% YoY driven by cover price hike. Radio ad revenue registered growth of 29% YoY (base had ~22% decline)
- EBITDA was at ₹ 142 crore, down 14.3% while margins at 26% were down 747 bps YoY owing to higher newsprint expenses (up 31% YoY)
- Reported PAT at ₹ 86.5 crore was down ~12.6% YoY, due to lower margins

What should investors do? DB Corp's share price has declined by ~77% over the past five years, owing to print/radio sector weakness.

- We maintain our HOLD rating as growth trajectory of print post normalisation does not have the visibility while higher newsprint prices risks on margins remain

Target Price and Valuation: We value DB Corp at ₹ 95 i.e. 6x FY23E P/E.

Key triggers for future price performance:

- Newsprint prices trajectory, which is key to margins trajectory
- Recovery in print and radio ad
- Return of government ad, which forms key for news segment

Alternate Stock Idea: Besides DB Corp, we like Inox Leisure in the media space.

- A play on recovery of multiplexes and strong balance sheet
- BUY with a target price of ₹ 495



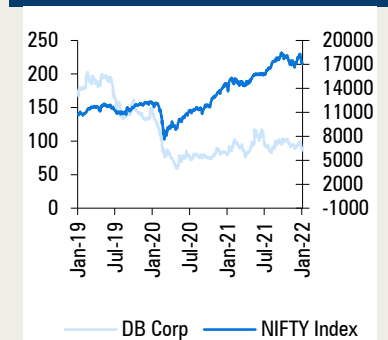
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,633.2
Total Debt (FY21) (₹ Crore)	56.3
Cash (FY21) (₹ Crore)	312.5
EV (₹ Crore)	1,377.0
52 week H/L	125/ 76
Equity Capital (₹ crore)	175.0
Face value	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	71.8	71.8	71.8	71.8
DII	3.9	3.9	3.9	3.8
FII	13.2	12.5	12.2	12.4
Other	11.1	11.8	12.1	11.9

Price Chart



Key risks

Key Risk: (i) Higher newsprint prices, (ii) Faster recovery

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Key Financial Summary

(Year-end March)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	3yr CAGR (FY21-24E)
Net Sales (₹ crore)	2,223.8	1,507.7	(6.0)	1,780.4	2,028.2	2,156.2	12.7
EBITDA (₹ crore)	481.5	304.8	(10.6)	360.5	466.4	528.0	20.1
Net Profit (₹ crore)	275.0	141.4	(13.5)	185.2	272.9	315.2	30.6
EPS (₹)	15.7	8.1		10.6	15.6	18.0	
P/E (x)	5.6	11.0		8.4	5.7	4.9	
Price / Book (x)	0.9	0.9		0.8	0.8	0.7	
EV/EBITDA (x)	3.5	4.5		3.5	2.5	1.9	
RoCE (%)	19.3	10.4		13.7	18.6	20.3	
RoE (%)	16.4	7.2		10.1	14.1	15.2	

Key performance highlight and outlook

Third wave impacts ad in December, 2021 second half

We highlight that print + digital revenues were at ~92.3% of the pre-Covid levels in Q2FY22. The company indicated that during the festive period it has witnessed ad recovery albeit third wave impact was seen from second half of December, impacting ad volumes. We note that the company continues to face no advertisements from certain state governments in the last couple of quarter and ex-government pie, ad was slightly higher than pre-Covid levels, as per the company. The cover prices were up ~7% YoY as the company took circulation pricing hike to counter the rising newsprint. The overall circulation continues to remain at 90% of pre-Covid levels. We now bake in print + digital ad revenue CAGR of 14.2% CAGR in FY21-24E to ₹ 1379 crore, on depressed base. We estimate circulation revenue CAGR of ~9% in FY21-24E to ₹ 540 crore with circulation reaching pre-Covid levels in FY23.

Higher newsprint prices impact margins

The management indicated that newsprint prices were up ~26% YoY to ~₹ 44000/tonne. We note that the company had continued to benefit from forward contracts in imported newspaper, earlier. Therefore, Q3 saw the first full impact of higher newsprint. The company expects higher newsprint prices for the next couple of quarter before it stabilises. Continued higher newsprint will be key risk, in our view, to the overall margins ahead. The company has reiterated that it will be able maintain 40-50% of its cost reduction of ₹ 195 crore in FY21 on a sustainable basis. For 9MFY22, the company has managed to maintain cost saving at ~65-70%. We cut our FY23 margins estimate to 23% vs. 24.6%, expected earlier, owing to higher newsprint costs.

Other Highlights

- Circulation copies were at 43.4 lakh in Q3FY22 vs. 43.8 in Q3FY21
- It indicated that print ad revenues are driven by volume growth. Real estate ad volume grew 13%. Other sectors driving ad growths are education, jewellery & quick delivery mobile apps. Weaker segment included auto, lifestyle & government
- The company for the time being has stopped accepting real estate barter. In Q3FY22, it sold eight to 10 properties. In the coming quarter, the company looks forward to sell another 10-12 properties. The management is also in talks with builders for a buyback of properties with a certain credit period to facilitate faster sell off
- On the radio front, it is focusing on getting yields back. It aims for double digit revenues growth ahead. It is currently operating at 14-15 minutes' utilisation levels
- The company has seen massive growth in digital app monthly user from ~2 million in January 2021 to ~14 million in November 2021. It will soon enough start monetisation through advertising on its digital platform
- On the shares pledge front, the company indicated promoters pledged shares are now merely 4% and loan is ~₹ 25 crore. It expects to clear the same in near term

The impact of rising newsprint prices remains a concern. We would also monitor how advertisement growth recovery happens, especially government ad pie. We maintain HOLD rating and value the stock at 6x FY23E EPS with a target price of ₹ 95.

Exhibit 1: Variance Analysis

₹ crore	Q3FY22	Q3FY21	Q2FY22	YoY (%)	QoQ (%)	Comments
Revenue	545.5	494.3	446.8	10.4	22.1	
Other Income	3.9	2.3	4.5	74.1	-11.8	
Raw Material Expenses	159.4	121.4	128.4	31.3	24.2	
Employee Expenses	95.3	91.1	95.2	4.6	0.1	
(Increase) / Decrease in Stock of Finished Goods	0.2	-0.1	-0.1	-241.9	-445.1	
Other operating Expenses	148.7	116.3	122.3	27.8	21.5	
EBITDA	142.0	165.6	101.0	-14.3	40.7	
EBITDA Margin (%)	26.0	33.5	22.6	-747 bps	343 bps	EBITDA margins declined owing to higher news print costs
Depreciation	27.5	29.0	27.6	-5.1	-0.3	
Interest	2.0	5.6	4.7	-63.1	-56.9	
Total Tax	29.8	34.3	19.3	-12.9	54.8	
PAT	86.5	99.0	53.8	-12.6	60.9	
Key Metrics						
Print+ Digital revenue growth	6.0%	-12.9%	31.8%			
Circulation Revenue Growth	5.4%	-18.1%	12.1%			
Newsprint Costs (₹ crore)	159.4	121.4	128.4	31.3	24.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22E			FY23E			FY24E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,808.0	1,780.4	-1.5	2,078.4	2,028.2	-2.4	2,156.2	
EBITDA	407.7	360.5	-11.6	512.1	466.4	-8.9	528.0	
EBITDA Margin (%)	22.6	20.2	-230 bps	24.6	23.0	-165 bps	24.5	
PAT	214.1	185.2	-13.5	291.4	272.9	-6.4	315.2	
EPS (₹)	12.2	10.6	-13.5	16.7	15.6	-6.4	18.0	

Source: Company, ICICI Direct Research

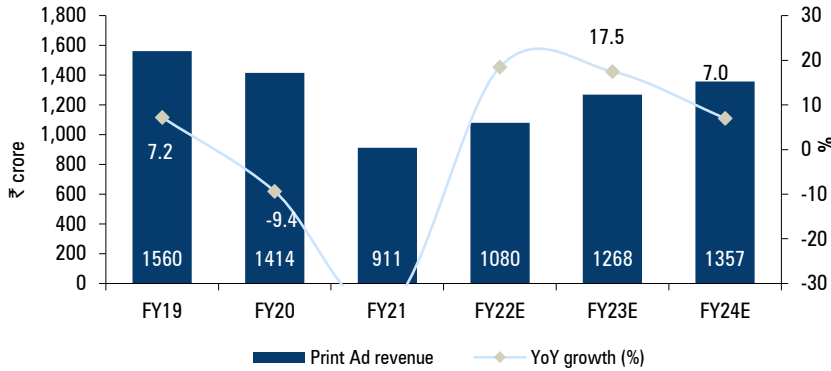
Exhibit 3: Assumptions

	Current						Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E
Print+ Digital revenue growth	6.7%	-11.4%	-35.1%	18.5%	17.4%	7.0%	22.9%	18.1%
Circulation Revenue Growth	3.4%	-2.2%	-19.0%	10.5%	12.4%	4.8%	11.3%	11.6%
Newsprint Costs (₹ Crore)	922.6	766.4	421.4	550.8	654.0	656.7	528.8	647.4

Source: Company, ICICI Direct Research

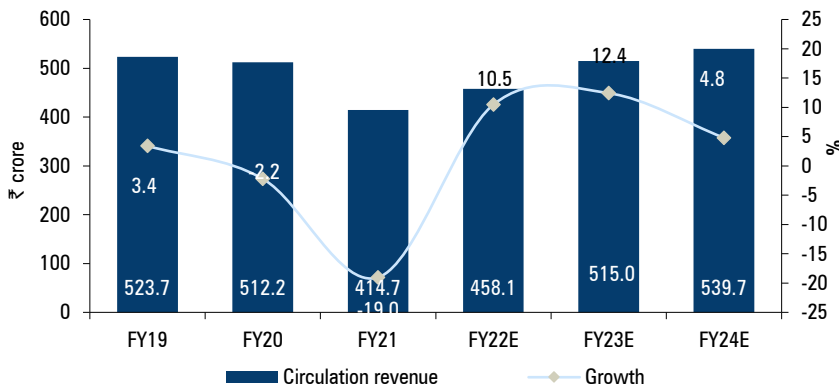
Story in Charts

Exhibit 4: Print & digital ad revenue trend



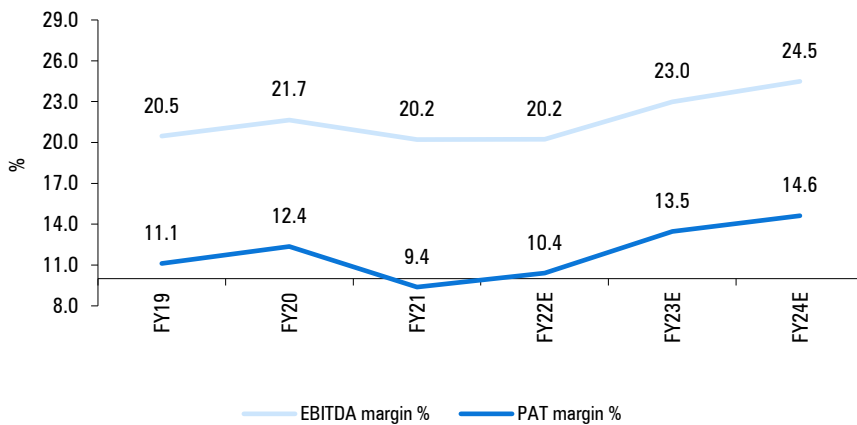
Source: Company, ICICI Direct Research

Exhibit 5: Circulation revenue trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT Margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
Total operating Income	1,507.7	1,780.4	2,028.2	2,156.2
Growth (%)	-32.2	18.1	13.9	6.3
Raw Material Expenses	421.4	550.7	654.0	656.7
Employee Expenses	379.4	373.4	401.0	429.3
Other Operating Expenses	401.9	495.7	506.8	542.2
Other expenses	0.3	0.0	-	-
Total Operating Expenditure	1,202.9	1,419.9	1,561.9	1,628.2
EBITDA	304.8	360.5	466.4	528.0
Growth (%)	-36.7	18.3	29.4	13.2
Depreciation	114.9	110.4	111.6	118.6
Interest	24.3	14.3	8.0	8.0
Other Income	14.5	16.1	18.0	20.0
Exceptional Items	(13.2)	-	-	-
PBT	193.2	251.9	364.8	421.4
MI/PAT from associates	-	-	-	-
Total Tax	51.8	66.7	91.9	106.2
PAT	141.4	185.2	272.9	315.2
Growth (%)	-48.6	30.9	47.4	15.5
EPS (₹)	8.1	10.6	15.6	18.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
Profit after Tax	141.4	185.2	272.9	315.2
Add: Depreciation	114.9	110.4	111.6	118.6
Add: Interest Paid	24.3	14.3	8.0	8.0
(Inc)/dec in Current Assets	162.6	13.5	-104.8	-49.2
Inc/(dec) in CL and Provisions	-47.0	54.6	48.4	22.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	396.2	377.9	336.0	415.3
(Inc)/dec in Investments	3.8	-40.0	-40.0	-40.0
(Inc)/dec in Fixed Assets	-56.5	-50.0	-50.0	-50.0
Others	-33.0	20.0	20.0	20.0
CF from investing activities	-85.7	-70.0	-70.0	-70.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-111.9	-50.0	-50.0	-50.0
Dividend paid & dividend tax	-52.5	-174.9	-174.9	-174.9
Interest Paid	24.3	14.3	8.0	8.0
Others	6.9	-28.6	-16.0	-16.0
CF from financing activities	-133.1	-239.2	-232.9	-232.9
Net Cash flow	177.3	68.7	33.2	112.4
Opening Cash	135.2	312.5	381.2	414.4
Closing Cash	312.5	381.2	414.4	526.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	175.0	175.0	175.0	175.0
Reserve and Surplus	1647.9	1658.2	1756.1	1896.5
Total Shareholders funds	1822.9	1833.1	1931.1	2071.5
Total Debt	56.3	6.3	-43.7	-93.7
Others	273.4	293.4	313.4	333.4
Total Liabilities	2152.6	2132.9	2200.8	2311.2
Assets				
Gross Block	1770.1	1820.1	1870.1	1920.1
Less: Acc Depreciation	1023.8	1134.2	1245.7	1364.3
Net Block	746.4	686.0	624.4	555.8
Capital WIP	0.4	0.4	0.4	0.4
Total Fixed Assets	746.8	686.4	624.9	556.3
Right of Use	453.8	453.8	453.8	453.8
Investments	14.3	54.3	94.3	134.3
Goodwill on consolidation	1.9	1.9	1.9	1.9
Inventory	233.5	204.9	233.4	248.1
Debtors	496.9	502.4	572.3	608.5
Loans and Advances	25.3	29.8	34.0	36.1
Other Current Assets	81.0	86.1	88.3	84.5
Cash	312.5	381.2	414.4	526.8
Total Current Assets	1149.2	1204.4	1342.4	1504.0
Creditors	230.2	271.9	309.7	329.3
Provisions	27.3	32.2	36.7	39.0
Other Current Liabilities	65.8	73.8	79.9	80.7
Total Current Liabilities	323.4	378.0	426.4	449.0
Net Current Assets	825.8	826.5	916.0	1054.9
Other non current assets	109.9	109.9	109.9	109.9
Application of Funds	2152.6	2132.9	2200.8	2311.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	8.1	10.6	15.6	18.0
Cash EPS	14.7	16.9	22.0	24.8
BV	104.2	104.8	110.4	118.4
DPS	3.0	10.0	10.0	10.0
Cash Per Share	76.4	86.6	94.9	108.1
Operating Ratios (%)				
EBITDA Margin	20.2	20.2	23.0	24.5
EBIT / Total Operating income	12.6	14.0	17.5	19.0
PAT Margin	8.7	10.4	13.5	14.6
Inventory days	56.5	42.0	42.0	42.0
Debtor days	120.3	103.0	103.0	103.0
Creditor days	55.7	55.7	55.7	55.7
Return Ratios (%)				
RoE	7.2	10.1	14.1	15.2
RoCE	10.4	13.7	18.6	20.3
RoIC	14.9	21.1	29.1	33.6
Valuation Ratios (x)				
P/E	11.0	8.4	5.7	4.9
EV / EBITDA	4.5	3.5	2.5	1.9
EV / Net Sales	0.9	0.7	0.6	0.5
Market Cap / Sales	1.1	0.9	0.8	0.8
Price to Book Value	0.9	0.8	0.8	0.7
Solvency Ratios				
Debt/EBITDA	0.2	0.0	-0.1	-0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.6	2.2	2.2	2.2
Quick Ratio	1.9	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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