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Q2FY21 result review
and earnings revision

Media

Target price: Rs87

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 9.7	↓ 5.3
EBITDA	↓ 22.8	↓ 13.4
EPS	↓ 34.3	↓ 18.0

Target price revision

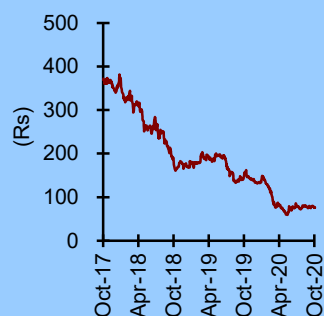
Rs87 from Rs106

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	71.6	71.6	71.8
Institutional investors	21.3	20.5	19.7
MFs and other	3.9	3.9	3.9
Insurance Cos.	0.0	0.0	0.0
FII	17.4	16.6	15.8
Others	7.1	7.9	8.5

Source: NSE

Price chart



INDIA

DB Corp

BUY

Maintain

Rs75

Ad revenue recovery slower than expected

DB Corp's (DBCL) Q2FY21 EBITDA dip was restricted at 27% YoY to Rs1.8bn despite 35% decline in revenues to Rs3.5bn due to aggressive cost savings, which helped other expenses decline 37%. Also, circulation EBITDA have turned positive due to lower newsprint prices and reduced pagination. Though circulation has shown good recovery, ad revenues are still lagging. DBCL is betting on the ongoing festive season for improvement in ad revenues, which is critical in our view. Company expects significant cost savings even in FY22, which would enable strong FCF recovery if ad revenues bounce back. We have cut our EPS estimates by 34% / 18% for FY21E / FY22E respectively factoring-in the slower than expected recovery in ad revenues. Accordingly, we cut our target price to Rs87 (from Rs106). Reiterate BUY.

- ▶ **Ad revenue recovery slower than expected.** DBCL's ad revenues dipped 38.3% YoY to Rs2.3bn on decline in print segment by 37.9% YoY to Rs2mn, and in radio by 42% YoY to Rs182mn. Ad revenues in Sep'20 were 77% of Sep'19, adjusted for four days *Navaratri* in the base, but have improved from 53% in Jul'20. DBCL expects normalisation soon and is optimistic on the festive season. 65% of ad revenues come from retail, which has improved to 70-72%, while the 35% from corporate is still at 50-52%. Large customers across segments have shown significant improvement while the long tail is under-performing. Auto, education, real estate, healthcare and jewellery have shown good comeback. FMCG has increased spend on print to promote prices / offers.
- ▶ **Circulation normalising.** Circulation revenues dipped 20% YoY to Rs1bn driven by drop in copies by 23.3% YoY to 4.3mn while realisation was up 2.7% YoY on price rise (Rs5-10/month). Circulation has reached 86% of pre-Covid levels in Oct'20-TD. Pagination however remains low at 19 pages (vs 21 pre-Covid) on lower ad volumes. The trend of mega editions should help drive higher pagination and ad volumes, which should benefit ad volumes in Q3FY21. Newsprint prices continued to dip (10% YoY) and DBCL expects another 1% QoQ fall in Q3FY21. In past two quarters, circulation added positively to EBITDA vs losses in pre-Covid thus cushioning EBITDA decline.
- ▶ **Aggressive cost savings.** DBCL guided for 'other expenses' to drop by Rs1.15bn in FY21 which it has achieved in six months. It sees more scope for cost savings, but has not given any guidance. The company expects some of the cost savings to reverse with improvement in revenues, but it has guided for 50-60% of cost savings even in FY22.
- ▶ **Other highlights.** 1) In the digital space, DBCL has seen growth in DAU and rise in time spent by users; 2) new customer addition has been very little; ad revenue recovery has come mostly from existing customers; 3) in radio, volumes are back to 90% of pre-Covid, but yield has declined by 25%; 4) company does not see need of more price hike in print if ad revenues recover and newsprint prices remain low; 5) company is targeting FY21 FCF to be equal to FY20; and 6) capex has been limited to maintenance expenses of Rs400mn.

Market Cap	Rs13.1bn/US\$179mn
Reuters/Bloomberg	DBCL.BO/DBCL IN
Shares Outstanding (mn)	175.0
52-week Range (Rs)	162/59
Free Float (%)	27.2
FII (%)	15.8
Daily Volume (US\$'000)	324
Absolute Return 3m (%)	(3.3)
Absolute Return 12m (%)	(48.5)
Sensex Return 3m (%)	7.5
Sensex Return 12m (%)	4.8

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	24,627	22,238	16,443	20,319
Rec. Net Income (Rs mn)	2,738	2,750	1,210	2,174
EPS (Rs)	17.6	15.7	6.9	12.4
% Chg YoY	(11.1)	0.4	(56.0)	79.7
P/E (x)	4.8	4.8	10.8	6.0
CEPS (Rs)	21.3	22.6	13.8	19.4
EV/E (x)	2.7	2.8	4.6	3.2
Dividend Yield (%)	13.3	13.3	7.8	12.4
RoCE (%)	15.8	15.7	7.1	12.6
RoE (%)	14.6	15.7	7.2	12.6

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Table 1: Q2FY21 result review (consolidated)

(Rs mn, year ending March 31)

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ (%)	YoY (%)
Net revenue	5,314	5,987	4,867	2,104	3,464	64.6	(34.8)
Cost of Goods sold	1,920	2,001	1,692	802	993	23.8	(48.3)
Gross profit	3,394	3,986	3,175	1,302	2,471	89.8	(27.2)
Gross profit margin (%)	63.9	66.6	65.2	61.9	71.3		
Employee cost	1,036	1,064	1,043	923	899	(2.5)	(13.2)
% of revenue	19.5	17.8	21.4	43.9	26.0		
Other expenses	1,374	1,506	1,472	710	860	21.2	(37.4)
% of revenue	25.9	25.2	30.3	33.7	24.8		
Total expenses	2,410	2,570	2,516	1,632	1,760	7.8	(27.0)
EBITDA	984	1,417	659	(331)	711		
EBITDA margin (%)	18.5	23.7	13.6	(15.7)	20.5		
Depreciation	303	299	301	289	288		
EBIT	681	1,117	358	(619)	422		
EBIT margin (%)	12.8	18.7	7.4	(29.4)	12.2		
Other income	22	31	31	53	34		
Finance cost	64	64	70	71	69		
PBT	639	1,084	319	(637)	388		
Tax expenses	(117)	268	79	(157)	103		
ETR (%)	(18.3)	24.7	24.7	24.6	26.4		
PAT	756	816	241	(480)	285		
Net profit margin (%)	14.2	13.6	4.9	(22.8)	8.2		
EPS (Rs)	4.3	4.7	1.4	(2.7)	1.6		

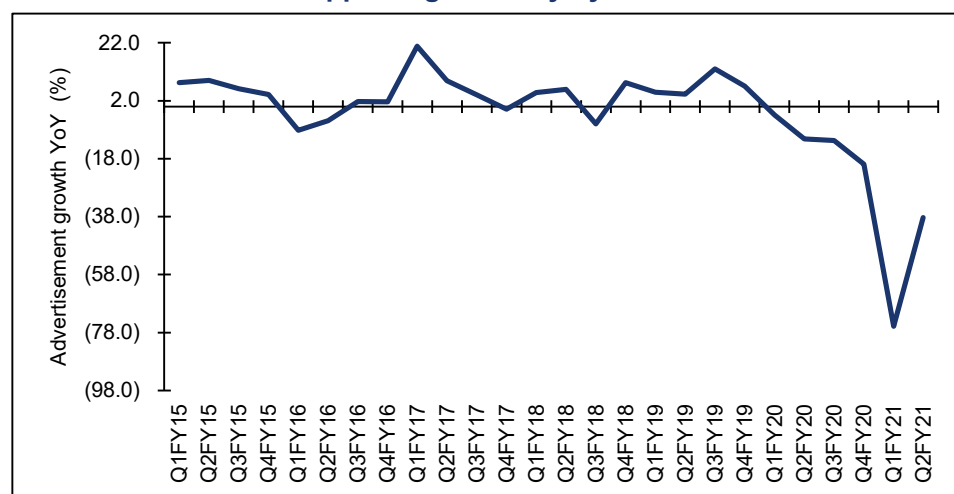
Source: Company data, I-Sec research

Table 2: Circulation stays EBITDA-positive on lower newsprint prices

(Rs mn, year ending March 31)

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ (%)	YoY (%)
Circulation revenue	1,286	1,321	1,200	928	1,033	11.3	(19.7)
COGS	1,920	2,001	1,692	802	993	23.8	(48.3)
NP cost per tonne (Rs)	39,386	38,158	37,223	35,864	35,571	(0.8)	(9.7)
EBITDA	(634)	(680)	(492)	126	40	(68.3)	(106.3)
EBITDA margin (%)	(49.3)	(51.5)	(41.0)	13.6	3.9		
Avg PO copies (mn)	5.6	5.6	5.3	4.0	4.3	6.7	(23.3)
Net realisation/copy (Rs)	2.7	2.7	2.7	2.6	2.7	3.0	2.1
EBITDA loss/copy (Rs)	(1.3)	(1.3)	(1.0)	0.3	0.1		
Advertisement revenue	3,670	4,248	3,313	1,070	2,265	111.7	(38.3)
of which							
Print	3,355	3,878	2,987	990	2,083	110.4	(37.9)
Radio	316	372	326	80	182	127.5	(42.4)

Source: Company data, I-Sec research

Chart 1: Ad revenues dipped significantly by 38.3% YoY

Source: Company data, I-Sec research

Ad revenue growth YoY

(%)	Q1	Q2	Q3	Q4
FY15	8.2	9.0	6.1	4.2
FY16	(8.2)	(4.9)	1.7	1.6
FY17	20.8	8.9	4.0	(0.9)
FY18	4.8	6.0	(6.0)	8.2
FY19	4.9	4.3	13.0	7.1
FY20	(2.8)	(11.2)	(11.7)	(19.9)
FY21	(75.8)	(38.3)		

Source: Company data, I-Sec research

Table 3: Emerging and matured editions' performance*(Rs mn, year ending March 31)*

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ (%)	YoY (%)
Matured editions							
Total Revenues	4,707	5,335	4,228	1,897	3,026	59.5	(35.7)
Expenses	3,617	3,852	3,434	2,055	2,156	4.9	(40.4)
EBITDA	1,090	1,483	794	(158)	870	NA	(20.2)
<i>EBITDA margin (%)</i>	23.2	27.8	18.8	(8.3)	28.8		
Emerging editions							
Total Revenues	312	310	311	180	291	61.7	(6.7)
Expenses	465	482	447	239	443	85.4	(4.7)
EBITDA	(153)	(172)	(136)	(59)	(152)	157.6	(0.7)
<i>EBITDA margin (%)</i>	(49.0)	(55.5)	(43.7)	(32.8)	(52.2)		

Source: Company data, I-Sec research

Table 4: Radio business – EBITDA turned positive in Q2FY21*(Rs mn, year ending March 31)*

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ (%)	YoY (%)
Total Revenues	316	372	326	80	182	127.5	(42.4)
Expenses	247	237	230	141	155	9.9	(37.2)
EBITDA	69	135	96	(61)	27	NA	(60.9)
<i>EBITDA margin (%)</i>	21.8	36.3	29.4	(76.3)	14.8		

Source: Company data, I-Sec research

Table 5: Segmental performance – DBCL turned EBIT positive*(Rs mn, year ending March 31)*

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ (%)	YoY (%)
Revenue							
Advertising	3,355	3,878	2,987	990	2,083	110.4	(37.9)
Circulation	1,286	1,321	1,200	928	1,033	11.3	(19.7)
Print	4,999	5,617	4,550	2,024	3,284	62.2	(34.3)
Radio	316	372	318	80	181	126.8	(42.6)
EBIT							
Print	717	1,079	454	(475)	458		(36.2)
Radio	27	97	58	(101)	(11)		(138.7)
EBIT margin (%)							
Print	14.3	19.2	10.0	(23.5)	13.9		
Radio	8.6	26.2	18.3	(126.8)	(5.8)		

Source: Company data, I-Sec research

Table 6: Earnings revision (consolidated)*(Rs mn, year ending March 31)*

Rs mn	Revised		Earlier		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	16,443	20,319	18,209	21,468	(9.7)	(5.3)
EBITDA	2,942	4,242	3,812	4,901	(22.8)	(13.4)
<i>EBITDA margin (%)</i>	17.9	20.9	20.9	22.8		
PAT	1,210	2,174	1,841	2,652	(34.3)	(18.0)
EPS (Rs)	6.9	12.4	10.5	15.2	(34.3)	(18.0)

Source: Company data, I-Sec research

Financial summary

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	24,627	22,238	16,443	20,319
of which Advertisement	17,625	15,640	10,947	14,277
of which Circulation	5,237	5,122	4,456	4,812
Operating Expenses	19,585	17,423	13,501	16,077
EBITDA	5,042	4,815	2,942	4,242
% margins	20.5	21.7	17.9	20.9
Depreciation & Amortisation	986	1207	1204	1222
Gross Interest	85	251	251	251
Other Income	166	125	131	138
Recurring PBT	4,137	3,482	1,618	2,906
Add: Extraordinary	-	-	-	-
Less: Taxes	1399	732	408	732
- Current tax	1484	940	387	696
- Deferred tax	-85	-208	20	37
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,738	2,750	1,210	2,174
Recurring Net Income	2,738	2,750	1,210	2,174

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	13,701	12,454	12,349	13,458
of which cash & cash eqv.	1,329	1,352	2,649	2,904
Total Current Liabilities & Provisions	3,873	3,704	3,227	3,605
Net Current Assets	9,828	8,751	9,122	9,853
Investments				
of which	366	182	182	182
Strategic/Group	366	182	182	182
Other Marketable	-	-	-	-
Net Fixed Assets	9,856	12,204	12,034	11,883
of which				
Capital Work-in-Progress	12	9	9	9
Goodwill	19	19	19	19
Total Assets	20,069	21,155	21,357	21,937
Liabilities				
Borrowings	508	3,447	3,447	3,447
Deferred Tax Liability	721	320	340	377
Minority Interest	570	604	604	604
Equity Share Capital	1749	1750	1750	1750
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	16,520	15,035	15,216	15,760
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	18,269	16,784	16,966	17,509
Total Liabilities	20,069	21,155	21,357	21,937

Source: Company data, I-Sec research

Table 9: Quarterly trends

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	5,987	4,867	2,104	3,464
% growth (YoY)	(9.2)	(17.3)	(65.3)	(34.8)
EBITDA	1,417	659	(331)	711
Margin (%)	23.7	13.6	(15.7)	20.5
Other income	31	31	53	34
Add: Extraordinary	-	-	-	-
Net profit	816	241	(480)	285

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	3,416	3,130	2,048	3,030
Working Capital Changes	(1,233)	1,064	925	(475)
Capital Commitments	(587)	3,973	(779)	(806)
Free Cashflow	1,596	8,166	2,194	1,749
Cashflow from Investing Activities	166	125	131	138
Issue of Share Capital	-	0	-	-
Buyback of shares	(91)	-	(0)	-
Inc (Dec) in Borrowings	59	1,173	-	-
Dividend paid	(2,099)	(1,977)	(1,029)	(1,630)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	(1,894)	4,176	1,297	256

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	15.7	15.7	6.9	12.4
Diluted Recurring EPS	15.7	15.7	6.9	12.4
Recurring Cash EPS	21.3	22.6	13.8	19.4
Dividend per share (DPS)	10.0	10.0	5.9	9.3
Book Value per share (BV)	104.4	95.9	97.0	100.1
Growth Ratios (%)				
Operating Income	6.6	(9.7)	(26.1)	23.6
EBITDA	(10.6)	(4.5)	(38.9)	44.2
Recurring Net Income	(15.5)	0.4	(56.0)	79.7
Diluted Recurring EPS	(11.1)	0.4	(56.0)	79.7
Diluted Recurring CEPS	(5.9)	6.2	(39.0)	40.7
Valuation Ratios (x)				
P/E	4.8	4.8	10.8	6.0
P/CEPS	3.5	3.3	5.4	3.9
P/BV	0.7	0.8	0.8	0.7
EV / EBITDA	2.7	2.8	4.6	3.2
EV / Operating Income	0.6	0.6	0.8	0.7
EV / Operating FCF	6.2	3.2	4.6	5.3
Operating Ratios (%)				
Raw Material/Sales	41.7	39.0	37.4	38.7
Other Income / PBT	4.0	3.6	8.1	4.7
Effective Tax Rate	33.8	21.0	25.2	25.2
NWC / Total Assets	42.4	35.0	30.3	31.7
Inventory Turnover (days)	37.0	41.5	49.1	43.9
Receivables (days)	94.4	103.5	129.0	108.5
Payables (days)	43.8	45.4	50.1	46.6
D/E Ratio (x)	(0.0)	0.1	0.0	0.0
Profitability Ratios (%)				
Recurring Net Income Margins	11.1	12.4	7.4	10.7
RoCE	15.8	15.7	7.1	12.6
RoNW	14.6	15.7	7.2	12.6
Dividend Payout	63.9	63.6	85.0	75.0
Dividend Yield	13.3	13.3	7.8	12.4
EBITDA Margins	20.5	21.7	17.9	20.9

Source: Company data, I-Sec research

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