Media: Print Sector

Initiating Coverage - Overweight

Stock Reco

Co.	Reco	CMP	TP	Upside
JPL	Buy	137	165	20%
HTML	Hold	145	157	8.5%

Source: BSE, Ambit Capital research

Jagran Prakashan - Valuation

Rs mn	FY10E	FY11E	FY12E
Revenue	9,458	10,918	12,908
EBITDA	2,778	3,320	3,996
PAT	1,709	2,053	2,483
EBITDA mgn (%)	29.4	30.4	31.0
PAT mgm (%)	18.1	18.8	19.2
RoE (%)	25.9	25.8	25.5
EPS (Rs)	5.7	6.8	8.2
P/E (x)	24.1	20.1	16.6
EV/EBITDA (x)	14.2	11.7	9.4
EV/Sales (x)	4.2	3.6	2.9

Source: Company, Ambit Capital research

HT Media - Valuation

Rs mn	FY10E	FY11E	FY12E
Revenue	14,390	16,247	18,590
EBITDA	2,559	3,087	3,743
PAT	1,237	1,641	2,053
EBITDA mgn (%)	17.8	19.0	20.1
PAT mgm (%)	8.6	10.1	11.0
RoE (%)	12.8	14.7	15.6
EPS (Rs)	5.3	7.0	8.7
P/E (x)	27.5	20.8	16.6
EV/EBITDA (x)	12.9	10.2	7.8
EV/Sales (x)	2.3	1.9	1.6

Source: Company, Ambit Capital research

We initiate coverage on the Indian print sector with an **Overweight** outlook and recommend **BUY** on Jagran Prakashan (JPL) and **HOLD** on HT Media (HTML). We believe that a revival in the economy will result in robust growth in ad spend going forward. JPL's strong presence in the high growth Hindi belt coupled with its dependence on local ads would lead to higher revenue growth. JPL has been trading in the PE band of 20-30x historically, with an average of ~22x. We are valuing the company at 20x FY12 EPS and initiate coverage on JPL with a **BUY** rating and March 2011 target of Rs165 (20% upside). HTML being a diversified play offers higher earnings growth on the back of turnaround of operations. We, however, believe that at its CMP of Rs145, the stock is fairly valued and hence initiate coverage on HTML with a **HOLD** rating and March 2011 target of Rs157 (8.5% upside). We value the company at 18x FY12 EPS (a discount of 10% compared to JPL).

High-growth Hindi market to provide support

JPL's *Dainik Jagran* is the country's largest read newspaper and is also dominant in the Uttar Pradesh (UP) market. HTML's *Hindustan*, on the other hand, is the third largest Hindi newspaper in the country and the No.1 in Bihar and Jharkhand. Increasing newspaper penetration in tier II and tier III cities coupled with higher ad spend versus the national average will continue to benefit JPL and the Hindi business of HTML. Over FY09-12E we expect JPL and HTML to post revenue CAGR of 16.2% and 11.3% respectively.

Lower newsprint prices to support margins

After touching new highs in FY09, newsprint prices have softened over the last two quarters. International newsprint prices are hovering at around US$525/ tonne and we expect the prices to firm up by 8-10% in 2H FY10E. They are further expected to move up by 10% during FY11. The higher newsprint prices, would, however, be offset by higher ad and circulation revenue growth. As a result, we expect margins for JPL and HTML to remain firm.

Key risks

(1) Slower-than-expected growth in ad revenue; (2) increasing competition in the Hindi segment; and (3) more-than-anticipated increase in newsprint prices.

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COMPANIES

Strong fundamentals driving valuations

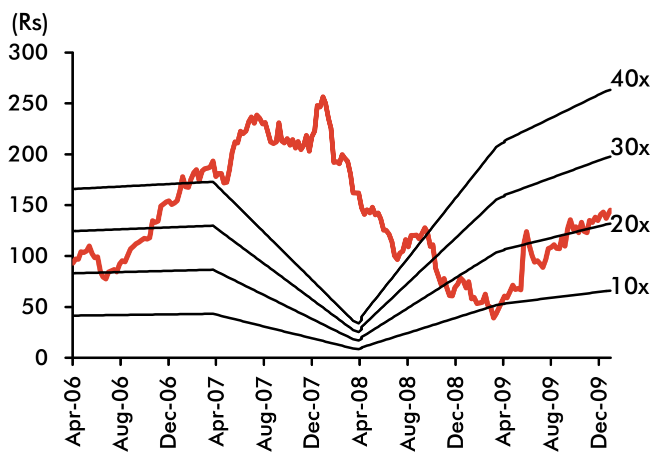
We initiate coverage on the print sector with an Overweight rating. We are positive on growth prospects of the Indian print media industry. Growth of the print sector is correlated to GDP growth. Strong growth in GDP is expected to result in higher ad spend by corporates leading to increased ad revenue for media companies. Increasing literacy rate coupled with growing per capita income has increased consumers' affordability in tier II and tier III cities. As a result, ad revenue growth in these areas is higher than the national average.

In the above backdrop, we expect Jagran Prakashan, with its numero uno position in the biggest Hindi market, namely UP, to witness higher ad revenue growth going forward. The company also enjoys leadership position in other northern states. HT Media, on the other hand, enjoys market leadership in other Hindi market — in the states of Bihar and Jharkhand — which is expected to benefit the company. The higher share of circulation revenue and dependence on domestic newsprint augurs well for vernacular newspapers.

Historically, JPL has been trading at the 1-year PE band of 20-30x, with an average of 22x. Owing to strong ad revenue growth on the back of an improved economic scenario and benign newsprint prices compared to the past, we value the company at 20x FY12E EPS and initiate with a BUY rating (TP: Rs165).

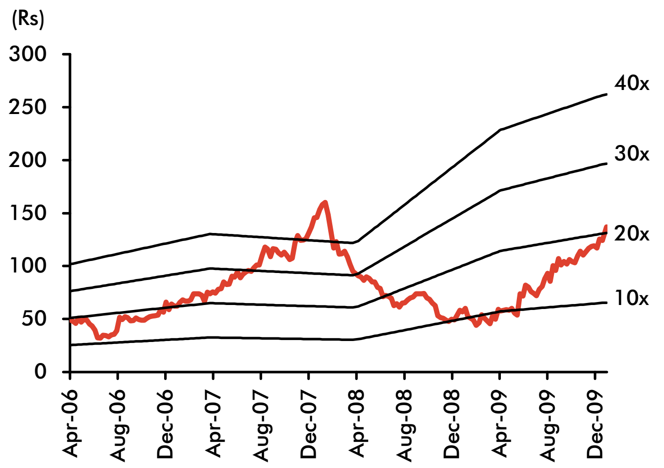
We value HTML at a target P/E multiple of 18x FY12 EPS. It is derived using a discount of 10% to our target multiple of Jagran Prakashan owing to the higher competition in Delhi market, continuing losses in HT Mumbai and in the business daily, Mint. A diversified business model and expected turnaround in most operations is expected to result in higher earnings growth for the company. Considering current valuations, we believe that the stock is fairly valued and hence initiate coverage with a HOLD rating (TP of Rs157).

Exhibit 1: HTML - 1 yr forward PE



Source: Bloomberg, Ambit Capital research

Exhibit 2: JPL - 1 yr forward PE



Source: Bloomberg, Ambit Capital research

Indian M&E industry back on the growth trajectory

The Indian Media & Entertainment (M&E) industry having grown at a compounded annual growth rate (CAGR) of 14.9% over 2005-08 is estimated to reach Rs628bn in 2009E. During 2009, due to the economic slowdown, the M&E industry did witness a decline in growth rates. However, M&E is expected to grow at a healthy CAGR of 13.8% over the next four years (2009-13E) to Rs1,052bn in 2013E. The growth is expected to be driven by: (a) favorable demographics and strong long term fundamentals of the Indian economy; (b) low advertising to GDP ratio of 0.47% v/s 0.95% in the UK and 1.34% in the US; and (c) substantial scope for media penetration in the tier II and tier III cities on the back of increased literacy rate.

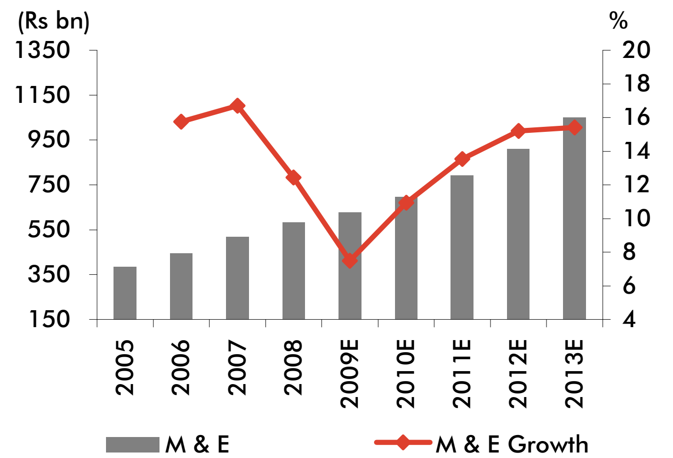
Television, Print and Film together contribute 90% to revenues in the Indian M&E industry. Going forward, although new segments such as internet, outdoor, animation and gaming are expected to grow rapidly; these three major segments are still expected to contribute about 85% to revenues by 2013.

Exhibit 3: Indian Media & Entertainment industry

	Market Size (Rs bn)			Market Share			CAGR (%)	
	2008	2009E	2013E	2008	2009E	2013E	2005-08	2009-13E
Television	241	263	473	41%	42%	45%	13.8	15.8
Print	173	184	266	30%	29%	25%	13.8	9.7
Film	109	109	169	19%	17%	16%	17.8	11.5
Radio	8	9	16	1.4%	1.5%	1.5%	19.7	15.4
Music	7	8	11	1.2%	1.2%	1.0%	(4.2)	9.3
Animation	17	20	39	3.0%	3.2%	3.7%	20.3	18.5
Gaming	7	9	27	1.1%	1.5%	2.6%	43.5	30.7
Internet Advertising	6	8	21	1.1%	1.3%	2.0%	45.8	26.3
Outdoor	16	18	29	2.8%	2.8%	2.8%	17.2	13.4
Total	**584**	**628**	**1,052**	**100%**	**100%**	**100%**	**14.9**	**13.8**

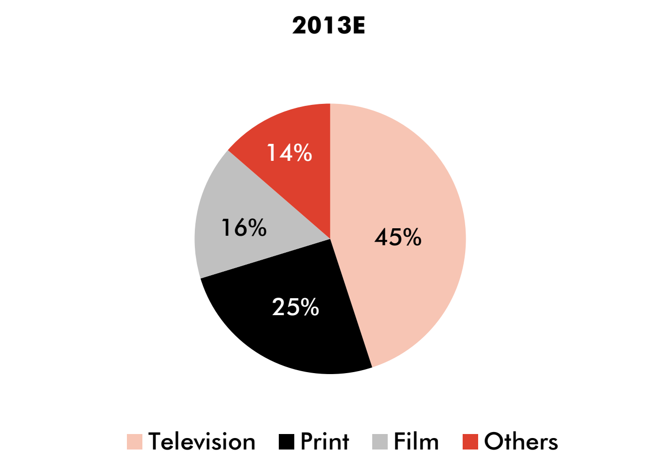
Source: FICCI, KPMG, Ambit Capital research

Exhibit 4: Size of M&E and growth



Source: FICCI, KPMG, Ambit Capital research

Exhibit 5: M&E segmental revenue break-up



Source: FICCI, KPMG, Ambit Capital research

Increasing ad and subscription revenues

Advertising contributes about 40% and subscription, the remaining 60%, to total M&E industry revenues. With economy back on the growth trajectory, ad revenues are expected to grow at a CAGR of 13.6% to reach about Rs397bn in 2013 from Rs238bn in 2009E, on the back of the following fundamental drivers:

- Growth in ad spend as firms compete to reach their target audience/ segments.
- Fragmentation of media due to multiple options available to the consumer. As a result, advertisers increase their outlay to reach the target markets.
- M&E industry moving from unorganised to organised hands.

The subscription revenues are expected to grow to Rs655bn in 2013E from Rs390bn in 2009E, growing at a CAGR of 13.9% over 2009-13E.

The key drivers of subscription revenues are:

- Increase in penetration of print media due to favourable demographics, increase in purchasing power in the hands of consumer and improving literacy rates.
- Digitilisation of distribution network in broadcasting leading to more addressability.
- Innovation of products in broadcasting, print, and other media.

Exhibit 6: M & E Revenue Break-up

										CAGR (%)	
Rs bn	**2005**	**2006**	**2007**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2005-08**	**2009-13E**
Advt Revenues	138	165	197	222	238	262	297	342	397	17.0	13.6
Subscription Revenues	247	280	323	363	390	435	494	570	655	13.7	13.9
M & E	385	445	520	584	628	697	791	911	1,052	14.9	13.8
Growth in Advertising (%)		19.5	19.1	12.7	7.5	9.9	13.4	15.0	16.1		
Growth in Subscription (%)		13.7	15.3	12.3	7.4	11.5	13.6	15.3	15.0		
Advertising share (%)	35.9	37.1	37.8	37.9	37.9	37.6	37.6	37.5	37.7		
Subscription share (%)	64.1	62.9	62.2	62.1	62.1	62.4	62.4	62.5	62.3		

Source: FICCI, KPMG, Ambit Capital research

Indian print media

The Indian print media contributes about 30% to total revenues of the M&E industry. It is predominantly driven by newspapers, which constitutes about 90% of the revenue with the balance being contributed by magazines. Revenues in the print media are primarily from advertising, which contributes nearly 60% while circulation contributing the balance of about 40%.

During FY09 the print media companies faced pressure on their margins due to: (a) rising newsprint costs; and (b) lower ad spend due to slowdown in economic growth.

However with the economy back on the path of recovery, the print media industry is set to witness higher growth on the back of:

- Increased revenue from ad spend, as driven by economic revival
- Low advertising to GDP ratio leading to higher ad spend
- Media penetration in tier II and tier III cities driven by - favourable demographics, increase in purchasing power in the hands of consumer and improving literacy rates.
- Significant drop in newsprint prices after reaching its highs in FY2009. Newsprint cost accounts for over 70% of total raw materials cost for print companies

Exhibit 7: Print Industry

										CAGR (%)	
Rs bn	**2005**	**2006**	**2007**	**2008E**	**2009P**	**2010P**	**2011P**	**2012P**	**2013P**	**2005-08**	**2009-13P**
Newspapers	108	128	148	159	169	182	199	220	245	13.69	9.77
Magazines	9	10	12	14	15	16	18	19	21	15.17	8.44
Total	**117**	**139**	**160**	**173**	**184**	**198**	**216**	**239**	**266**	**13.80**	**9.67**

Source: FICCI, KPMG, Ambit Capital research

The value chain

Newspaper being a highly perishable product, distribution becomes the key to success. The newspaper supply chain consists of three main players viz. the newspaper publisher, distributor and the vendor. Once a newspaper gets published it gets despatched to various distributors across the region through private carriers/public transport/courier. The distributors appoint hawkers/ vendors/agents who deliver the newspapers at subscribers' doorsteps or sell newspapers at their stands.

The newspaper publisher pays a commission of about 30-35% of the selling price of the newspaper to the distributor. This commission is shared between the distributor and the appointed vendors, with the vendors (last link in the supply chain) getting the highest commission.

Newspaper publisher → **Distributor** → **Vendors**

Advertising spend to increase ...

The advertising industry in India is highly competitive and fragmented. Print accounts for nearly 48% of the total Indian ad revenue market. As of 2009, the ad revenue for print industry is pegged at Rs115bn and is estimated to reach Rs174bn in 2013, growing at a CAGR of 11%. Although advertisers' preference for other segments such as television, radio, outdoor and internet continue to grow at a much rapid pace, print media as a form of advertising may still remain a dominant choice by advertisers due to:

- Media penetration - fragmentation of market and growing regional markets
- Freedom to read a newspaper at any time, place and newspaper portability
- Complex and detailed ads are better presented in print media

Exhibit 8: Indian advertising industry - Breakup of ad spends by media

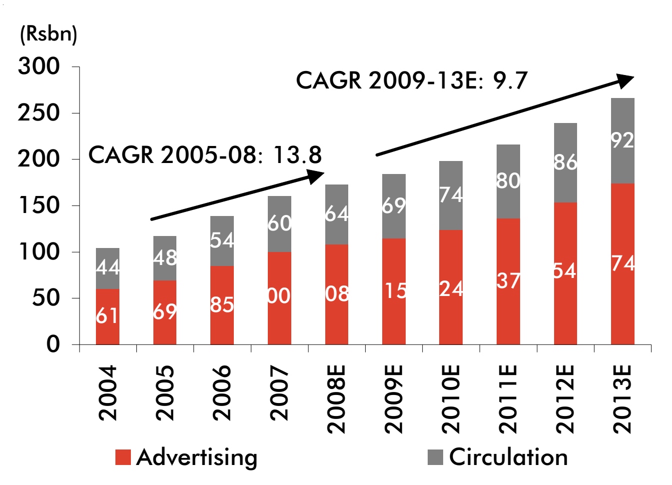
	Indian Ad Spends			Segmental Share (%)			CAGR (%)	
	2005	2009P	2013P	2005	2009P	2013P	2005-08	2009-13
Television	52	88	156	37.6	37.0	39.2	16.7	15.2
Print	69	115	174	50.2	48.2	43.9	16.0	11.0
Radio	5	9	16	3.5	3.9	4.1	19.7	15.4
Internet Advertising	2	8	21	1.4	3.5	5.4	45.8	26.3
Outdoor	10	18	29	7.2	7.4	7.4	17.2	13.4
Total	**138**	**238**	**397**	**100**	**100**	**100**	**17.0**	**13.6**

Source: FICCI, KPMG, Ambit Capital research

Of the total revenues accruing to print media companies, advertising revenues account for 60% with circulation accounting for the remaining 40% of the total revenue. However, as per industry estimates, the share of advertising revenues for English newspapers is as high as 85%, whilst that of the Hindi and vernacular newspapers stands at about 70%.

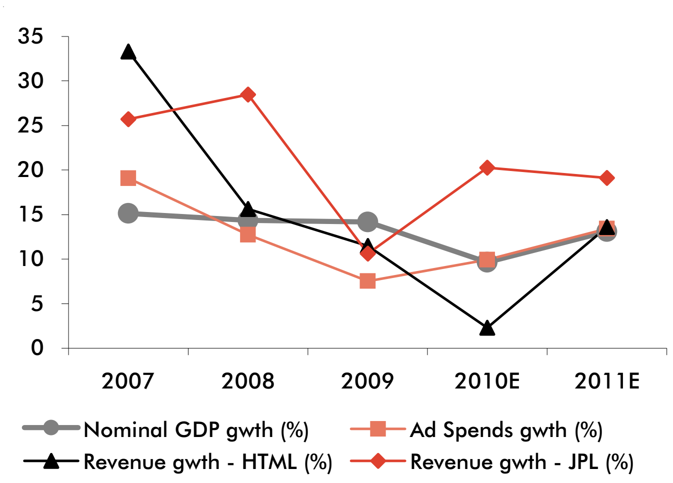
During 2013, the circulation revenues are expected to reach Rs92bn from Rs69bn in 2009E, growing at a CAGR of 7% over 2009-13E. The growth is expected to be driven by structural growth drivers like increasing media penetration, higher literacy levels and improving affordability of the newspaper.

Exhibit 9: Indian print media industry



Source: FICCI, KPMG, Ambit Capital research

Exhibit 10: Growth in GDP and ad revenue



Source: Company, RBI, Ambit Capital research

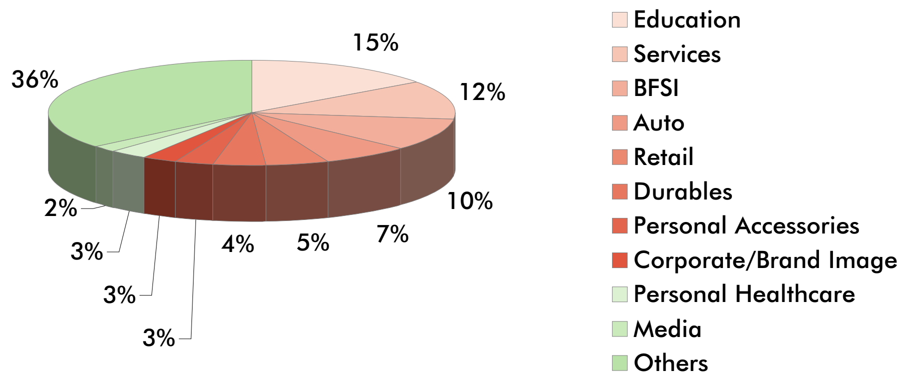
Factors impacting Ad Revenues in Print

- Greater the geographical reach, greater the price per ad a newspaper commands
- Advertisers choice of Advertising Mix
- Ad-editorial ratio
- Positioning of the newspaper or profile of the reader

Factors impacting Circulation Revenues in Print

- Price of the newspaper per copy
- Distribution strength
- Intensity of competition in a given market/region
- Brand, content

Exhibit 11: Top 10 print ad sectors by volumes in 2008

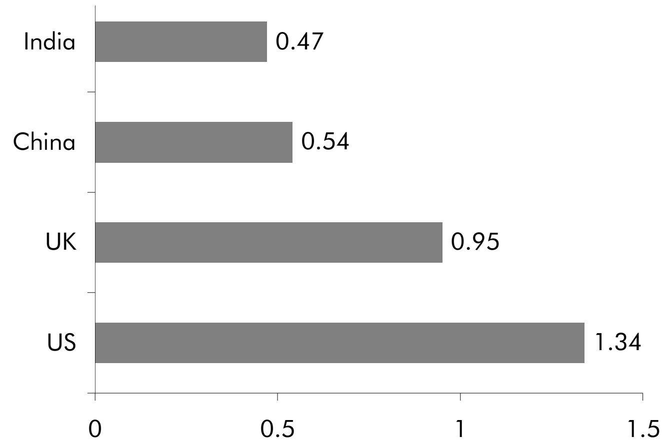


Source: FICCI, KPMG, Ambit Capital research

Low advertising to GDP ratio...gives scope for improvement

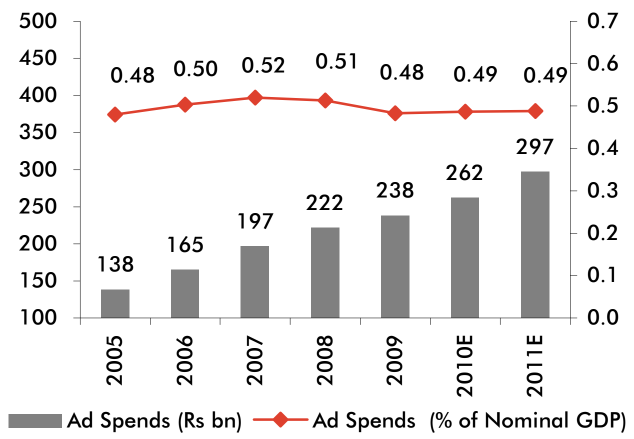
During 2009, the ad spend-GDP ratio in India stood at 0.48%, far lower than its counterparts such as China, which stood at 0.54%, and also lower versus the UK at 0.95% and the US at 1.34%. This clearly indicates the tremendous scope for growth of advertising revenues in the Indian market. This is also supported by the strong growth envisaged in the Indian economy compared to other global economies, with Indian GDP expected to grow at a rapid pace over the next few years.

Exhibit 12: Global comparisons - ad spend-GDP ratio in 2008



Source: FICCI, KPMG, Ambit Capital research

Exhibit 13: Trend of ad spend-GDP ratio in India



Source: FICCI, KPMG, Ambit Capital research

Media penetration in Tier II and Tier III cities set to increase ...

In recent years regional media has been an important growth driver for the Indian media industry with established national players expanding their regional footprint and existing players diversifying their portfolio offerings. The reason for the increased focus is the growth potential in the tier II, tier III cities and the lower socio-economic groups, which are the primary consumers of regional media. The key factors that are driving the media penetration in the tier II and tier III cities are:

- Improvement in literacy rates
- Higher purchasing power in the hands of the consumer

Following is the media penetration details of eight socio-economic classifications (SEC) in urban India based on the occupation and education of the chief wage earner of the household as per the Indian Readership Survey (IRS). The eight SECs in urban India are - A1, A2, B1, B2, C, D, E1 and E2, with A1 being the uppermost SEC, and E2, the lowest SEC. Similarly, rural India is classified into four SECs - R1, R2, R3 and R4, with R1 being the uppermost and R4 being the lowermost SEC.

As seen in the exhibit below, print media penetration in rural and urban India is higher, percentage wise, among people in the upper SEC categories versus those in the lower SECs. However, in absolute terms the number of people falling in the lower SECs, in urban and rural India, outnumbers those in the upper SECs. This clearly indicates the readership growth potential available in lower SECs, both in rural and urban India.

Exhibit 14: Media penetration in urban and rural India

Media Penetration	Print-TR		TV (At least once a week)		Satellite TV (At least once a week)		Radio (At least once a week)		Cinema (At least once a week)		Internet (At least once a week)		All	
	mn	%	mn	%	mn	%	mn	%	mn	%	mn	%	mn	%
Urban India														
Sec A 1	8	94%	9	97%	8	91%	4	43%	0.11	1.3%	2.56	29%	9	100%
Sec A 2	16	89%	17	94%	16	85%	6	35%	0.15	0.8%	2.73	15%	18	100%
Sec B 1, B 2	35	79%	40	91%	35	79%	11	25%	0.31	0.7%	2.89	7%	44	100%
Sec C	36	68%	47	86%	39	72%	13	23%	0.41	0.8%	1.50	3%	54	100%
Sec D	32	51%	49	78%	38	61%	13	21%	0.53	0.8%	0.71	1%	62	100%
Sec E 1 & E 2	23	29%	52	65%	38	47%	13	16%	0.51	0.6%	0.34	0%	81	100%
All India	**325**	**38%**	**457**	**54%**	**304**	**36%**	**170**	**20%**	**3.37**	**0.4%**	**12.13**	**1%**	**852**	**100%**
Rural India														
R 1	17	69%	17	70%	11	46%	8	34%	0.10	0.4%	0.44	1.8%	25	100%
R 2	43	57%	46	62%	27	36%	18	24%	0.31	0.4%	0.43	0.6%	74	100%
R 3	86	36%	112	47%	60	25%	49	20%	0.56	0.2%	0.36	0.2%	237	100%
R 4	29	12%	69	28%	33	13%	34	14%	0.38	0.2%	0.16	0.1%	248	100%
All India	**325**	**38%**	**457**	**54%**	**304**	**36%**	**170**	**20%**	**3.37**	**0.4%**	**12.13**	**1.4%**	**852**	**100%**

Source: IRS 2009, Ambit Capital research

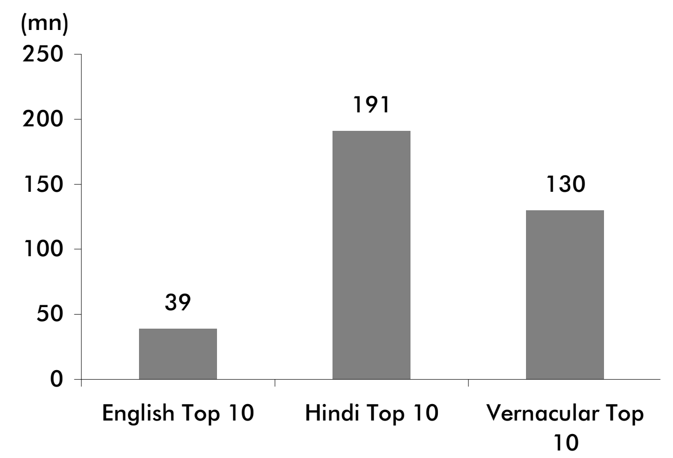
Readership of regional language newspapers higher v/s that of English newspapers

As seen from the chart below, the readership of Hindi and vernacular newspapers is much higher than that of English newspapers. The total newspaper readership in India for Hindi and vernacular newspapers stands at 190mn and 130mn respectively, much higher than that of 39mn of English newspapers.

This also gets reflected in the share of the advertising volume breakup. Hindi and vernacular newspapers account for nearly 66% of the total ad volume while Hindi alone accounts for 25% of the total ad volumes.

In value terms, English newspapers garner 54% share. This is because English newspapers command higher advertising rates compared with Hindi and other vernacular newspapers. The reason being the prevailing perception that English newspapers are read by a population that contributes higher to consumer spend.

Exhibit 15: Total newspaper readership in India, in Mn



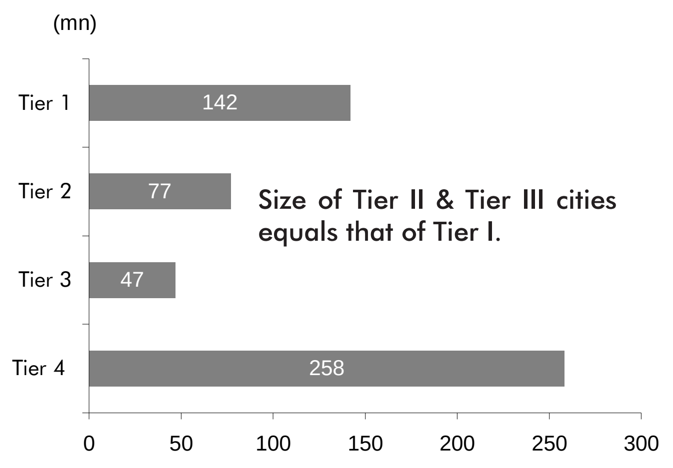
Source: FICCI, KPMG, Ambit Capital research

Exhibit 16: Advertising break-up in various newspapers as per languages - 2008

Languages	by Value (%)	by Volume (%)
English	54	34
Hindi	23	25
Tamil	7	10
Marathi	5	7
Telegu	4	7
Others	7	17
Total	**100**	**100**

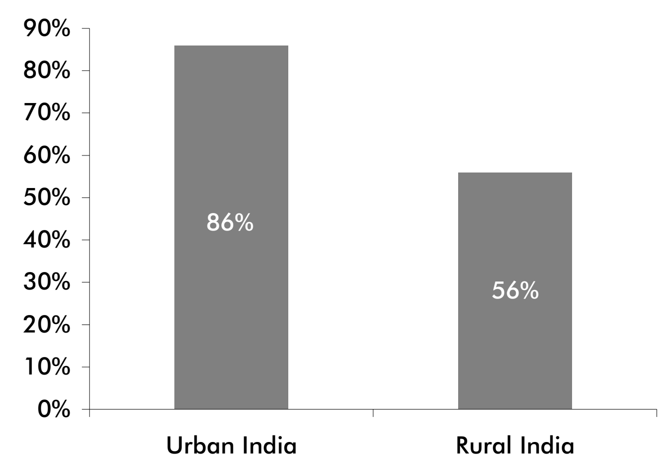
Source: Industry, Ambit Capital research

Exhibit 17: Estimated 2025 urban population



Source: FICCI, KPMG, Ambit Capital research

Exhibit 18: Media reach in urban and rural India



Source: FICCI, KPMG, IRS 2007 R2, Ambit Capital research

Challenge .... cost of newsprint

Newsprint is the main raw material for a newspaper publishing company. It is made out of pulp and wastepaper. It is a freely traded commodity in the international markets and thus susceptible to price volatility. The quality of newsprint determines its price. For an Indian print media company, newsprint/ raw material cost constitutes about 35%-50% of the total operating expenditure.

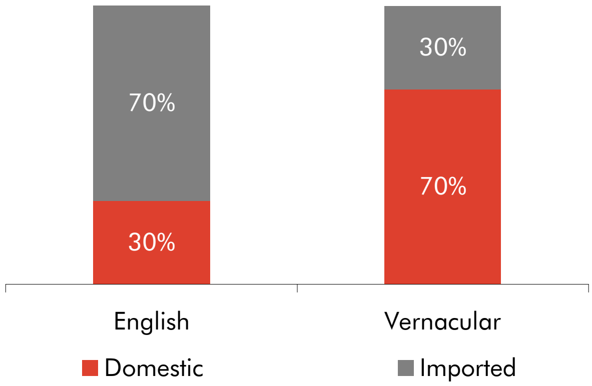
Depending on the type of the newspaper, English or Hindi/regional the mix between the imported and domestic newsprint varies. The ratio of imported to domestic newsprint for our coverage companies HT Media and Jagran Prakashan, is 70:30 and 30:70 respectively. The imported newsprint is better in quality versus domestic newsprint and hence it is widely used in English newspapers.

Exhibit 19: Newsprint as % of revenue & opex.

FY2009 (Rs mn)	JPL	HTML
Revenue	8,234	13,466
Newsprint Cost	2,898	5,051
Total Exp.	6,667	11,566
Newsprint as % of Revenue	35.2%	37.5%
Newsprint as % of Total Exp.	43.5%	43.7%

Source: Company, Ambit Capital research

Exhibit 20: Proportion of newsprint mix by Indian media houses

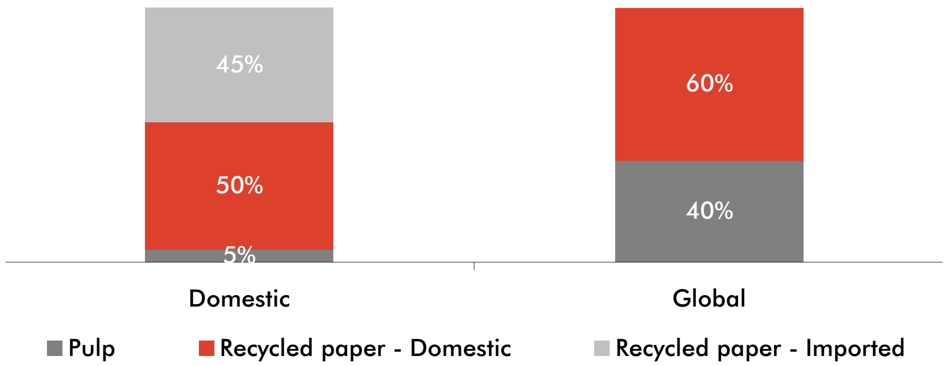


Source: Industry, Company, FICCI, KPMG, Ambit Capital research

Globally, the newsprint is made from 40% pulp and 60% domestically recycled paper. In India the raw material mix is about 50% domestic recycled paper, 45% of imported recycled paper and share of pulp is about 5%. India imports 50-55% of newsprint, as the quality of domestic newsprint is inferior versus the imported variety owing to differences in raw material and technology.

As per industry estimates, in 2010-11, domestic newsprint production will increase due to the growth in vernacular newsprint. Imports will continue to increase accounting for about 60% of the total demand (current imports 50-55%).

Exhibit 21: Raw material mix for newsprint



Source: Industry, FICCI, KPMG, Ambit Capital research

As a result, the Indian newsprint prices are affected by:

- International newsprint prices which again are impacted by the price trend of pulp and wastepaper, as they form the key raw material for the imported newsprint.
- Movement in oil prices (freight cost).
- Movement in currency prices

The above relations can also be seen in the exhibits below.

After reaching the highs of about US$950/tonne in Oct'08, newprint prices declined in Feb'09 and are again witnessing an uptrend.

Recent decline in the newsprint prices was due to global surpluses caused by:

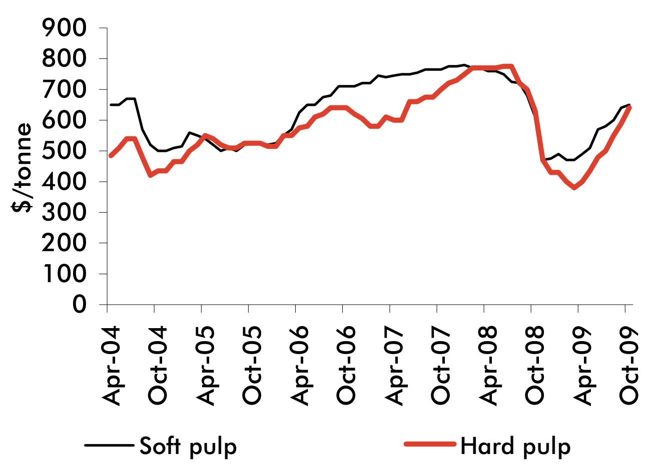
- Surplus in North America and Europe (historically, both countries are exporters to Asia) due to decline in exports coupled with decline in domestic demand.
- Addition of capacity in China and Korea.

Newsprint prices have again been on an uptrend since around Sept'09 due to:

- International pulp prices have declined since Oct'08 and thereafter since April'09 the pulp prices have been on an uptrend, due to the continued demand from Chinese traders and economic recovery,
- Consequently the prices of imported wastepaper have increased which has led to the increase in prices of newsprint in India since around Aug'09 (prices change with a lag).

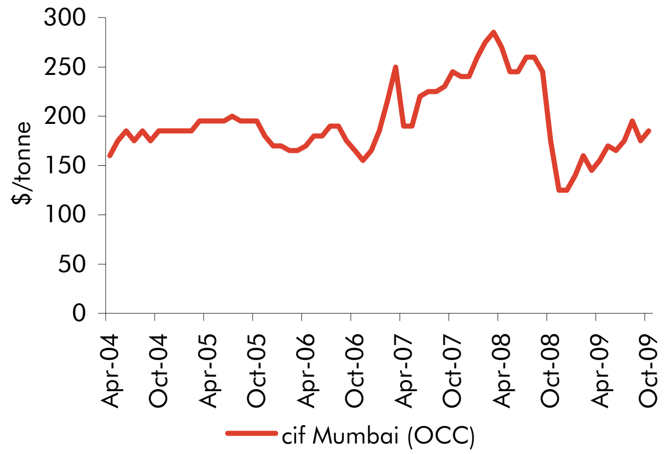
International wastepaper prices are dependent on movement in prices of pulp. With pulp prices witnessing an uptrend, international wastepaper prices mirror this trend.

Exhibit 22: Wood pulp (international) prices- decline since Oct'08, uptrend since Apr'09



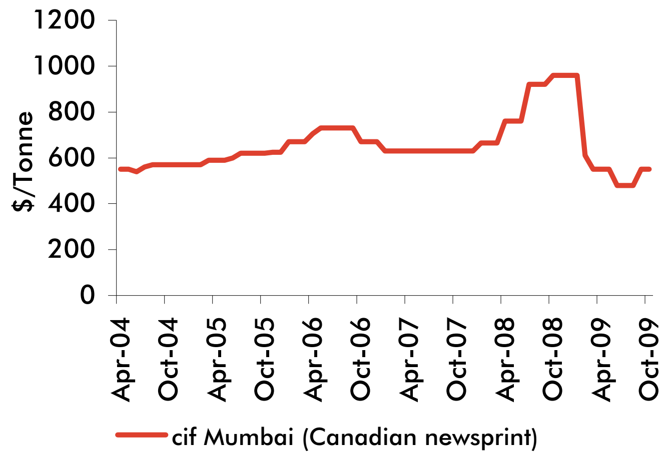
Source: *Industry, Ambit Capital research*

Exhibit 23: Wastepaper (International) prices- decline since Oct'08, uptrend since Feb'09



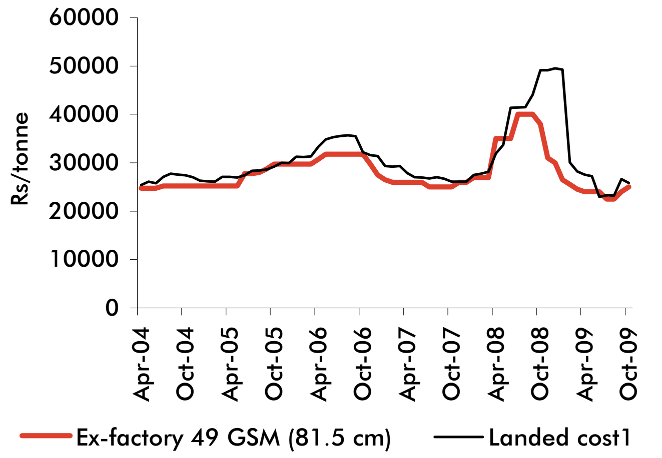
Source: *Industry, Ambit Capital research*

Exhibit 24: International newsprint prices - decline since Feb'09, uptrend since Aug'09



Source: Industry, Ambit Capital research

Exhibit 25: Newsprint prices domestic & landed cost- decline since Feb'09, uptrend since Sep'09



Source: Industry, Ambit Capital research

Market Share & Competition

The Indian newspaper publication market is highly fragmented. As per IRS Total Readership survey, *Dainik Jagran* is the most read newspaper all over India, followed by *Dainik Bhaskar, Amar Ujala* and *Hindustan*. All the 4 dailies have maintained their leadership position since the last 6 surveys.

Exhibit 26: Top 4 Dailies of India

	2007 R1	2007 R2	2008 R1	2008 R2	2009 R1	2009 R2
Total Readership in Mn						
Dainik Jagran	53.3	53.6	56.6	55.7	54.6	54.8
Dainik Bhaskar	29.9	30.6	31.9	33.8	33.5	33
Amar Ujala	28.7	28.2	29.6	29.4	28.7	29.1
Hindustan	23	23.5	25.2	26.6	26.8	27.9
Sequential Growth (%)						
Dainik Jagran		0.7	5.5	-1.4	-2.1	0.4
Dainik Bhaskar		2.2	4.4	5.9	-0.8	-1.8
Amar Ujala		-1.5	4.9	-0.8	-2.4	1.4
Hindustan		2.2	6.9	5.8	0.5	4.4

Source: IRS 2009 R2, Ambit Capital research

Competition

Dainik Jagran has a readership of 55mn and is most widely read newspaper in UP. *Hindustan* has a readership of 28mn and is widely read in states of Bihar and UP, Jharkhand. These two dailies compete with each other in states of UP, Bihar, and Jharkhand. Nearly 80% of the readership of *Amar Ujala* is in UP. *Dainik Bhaskar* has created a niche for itself in the states of MP, Rajasthan and Chhattisgarh.

Exhibit 27: IRS - 2009 R2 - Total Readership

State wise - Market Share (%)	HH	DJ	AU	DB
UP	29%	56%	81%	2%
Uttaranchal	1%	4%	9%	0%
Bihar	47%	18%	0%	0%
Jharkhand	14%	5%	0%	0%
Punjab	0%	3%	1%	4%
Chandigarh	0%	0%	1%	1%
Haryana	1%	5%	3%	13%
HP	0%	0%	4%	1%
J&K	0%	0%	1%	0%
Delhi	7%	3%	1%	0%
MP	0%	3%	0%	27%
Chhattisgarh	0%	0%	0%	10%
Rajasthan	0%	0%	0%	38%
Other States	1%	1%	0%	4%
Total	**99%**	**99%**	**100%**	**96%**

Source: IRS 2009 R2, Ambit Capital research

Jagran Prakashan

BUY

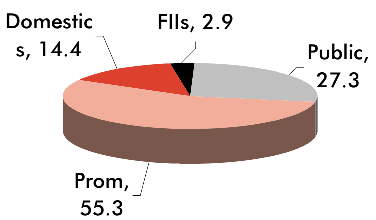
Price	Rs137
Target Price	**%Upside**
Rs165	20↑
Market Capitalisation	
Rs41,305mn	(US$887mn)
52 week range H/L (Rs)	138/43
Shares o/s (mn)	**Daily vol (mn)**
301.17	0.37
Reuters	**Bloomberg**
JAGP.BO	JAGP IN

Perfm(%)	1M	3M	12M	YTD
Absolute	11.9	24.1	139.2	120.9
Relative	10.3	18.8	31.2	22.2

BSE Sensex	Nifty
17,465	5,201

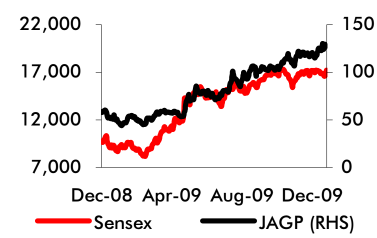
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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AMBIT
Acumen at work

Bigger Is Better

Dominance in higher growth markets

Dainik Jagran, the flagship brand of Jagran Prakashan Ltd. (JPL) is the largest read newspaper in the country with a combined readership of over 55mn and daily circulation of 2.8mn. The company commands a leadership position in the state of Uttar Pradesh (UP). Its bilingual compact daily *I-Next* is gaining traction among the youth and has generated readership of 1.9mn. Presence in outdoor media and event management is expected to provide further fillip to the growth prospects of JPL.

Market leadership and buoyancy in the economy to drive growth

The buoyancy in the economy is expected to result in higher GDP growth, leading to an increase in ad spend. JPL is expected to benefit the most due to, a) share of ad spend on an upswing in tier II and tier III cities, b) higher dependence of about 63% on local advertising and c) rising share of colour ads . As a result, based on the company's market leadership in major Hindi markets and increase in the ad spend, we expect JPL's ad revenue to grow at a CAGR of 19.4% over FY09-12E.

Dependence on domestic newsprint to benefit

Higher consumption of domestic newsprint and better management of newsprint cost is expected to improve margins. Domestic newsprint, which costs 25% lower than imported newsprint, accounts for 70% of total newsprint consumption versus 30% in the case of HT Media. This coupled with higher revenue growth is expected to result in higher margins for the company.

Valuation and recommendation

Over FY09-FY12E, we expect JPL's earnings to grow at 40% CAGR. The stock has been trading in the PE band of 10-40x historically, with an average of ~22x. Based on the company's earnings growth potential, we are valuing the company at 20x FY12 EPS and initiate coverage with a **BUY** rating and March 2011 PE-based TP of Rs165 (20% upside).

Key risks

(1) Slower-than-expected ad revenue growth; (2) higher-than-anticipated increase in newsprint prices; and (3) increase in competitive intensity in the Hindi belt.

Exhibit 28: Key Financials

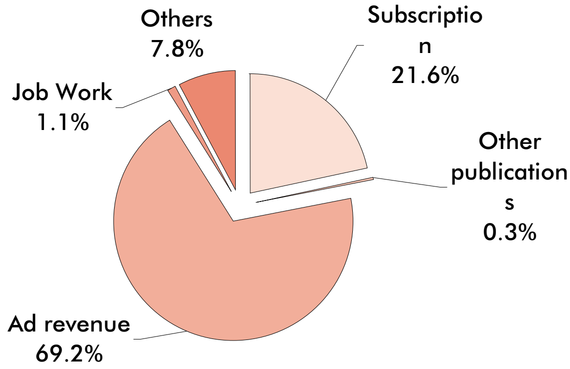
(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	7,496	8,234	9,458	10,918	12,908
EBITDA	1,638	1,567	2,778	3,320	3,996
EBITDA mgn (%)	21.9	19.0	29.4	30.4	31.0
PAT	981	916	1,709	2,053	2,483
PAT mgn (%)	13.1	11.1	18.1	18.8	19.2
EPS (Rs)	3.3	3.0	5.7	6.8	8.2
P/E (x)	42.1	45.0	24.1	20.1	16.6
EV/EBITDA (x)	24.3	25.7	14.2	11.7	9.4
EV/Sales (x)	5.3	4.9	4.2	3.6	2.9

Source: Company, Ambit Capital research

Company financial snapshot

Profit and loss (Rsmn)	FY10E	FY11E	FY12E
Net Sales	9,458	10,918	12,908
Operating Exp	6,680	7,598	8,911
EBITDA	**2,778**	**3,320**	**3,996**
Depreciation	522	565	618
Interest Exp	57	53	47
PBT	2,513	3,019	3,651
Tax	804	966	1,168
PAT	**1,709**	**2,053**	**2,483**
Profit and loss ratios			
EBITDA Margins (%)	29.4	30.4	31.0
PAT Margins (%)	18.1	18.8	19.2
P/E (X)	24.1	20.1	16.6
EV/ EBITDA (X)	14.2	11.7	9.4
Dividend Yield (%)	1.5	1.5	1.5

Revenue breakup

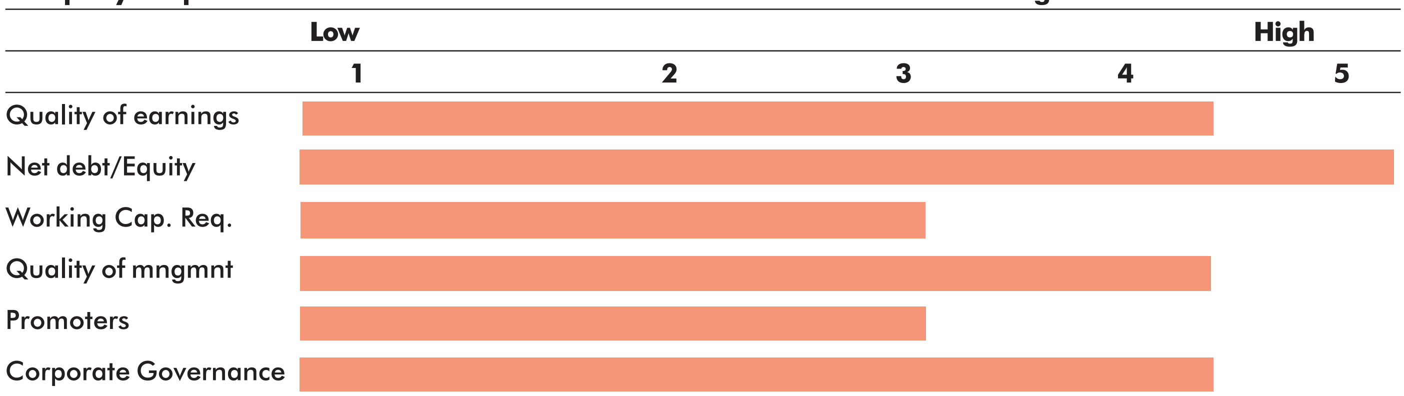


Source: Company, Ambit Capital research

Balance sheet (Rsmn)	FY10E	FY11E	FY12E
Total Assets	**8,538**	**9,686**	**11,364**
Fixed Assets	3,960	4,380	4,206
Current Assets	4,426	5,243	7,226
Other Assets	236	273	323
Total Liabilities	**8,538**	**9,686**	**11,364**
Total Net Worth	6,603	7,951	9,729
Total Debt	1,415	1,215	1,115
Current Liabilities	1,652	1,778	1,958
Balance sheet ratios (%)			
RoE	25.9	25.8	25.5
RoCE	32.0	33.7	35.1
Net Debt/ Equity	(0.0)	(0.1)	(0.2)
Total Debt/ Equity	0.2	0.2	0.1
P/BV (X)	6.2	5.2	4.2

Cash flow (Rsmn)	FY10E	FY11E	FY12E
EBIT	2,256	2,755	3,378
Other income (expenditure)	313	317	319
Depreciation	522	565	618
Interest	57	53	47
Tax	804	966	1,168
Incr (decr) in net working capital	294	343	459
CF from operating activities	**1,936**	**2,275**	**2,642**
Incr (decr) in capital expenditure	493	985	443
CF from investing activities	**(493)**	**(985)**	**(443)**
Incr (decr) in borrowings	-	(200)	(100)
Dividend paid	(705)	(705)	(705)
CF from financing activities	**(705)**	**(905)**	**(805)**
Net change in cash	739	385	1,394
Closing cash balance	**1,566**	**1,952**	**3,346**

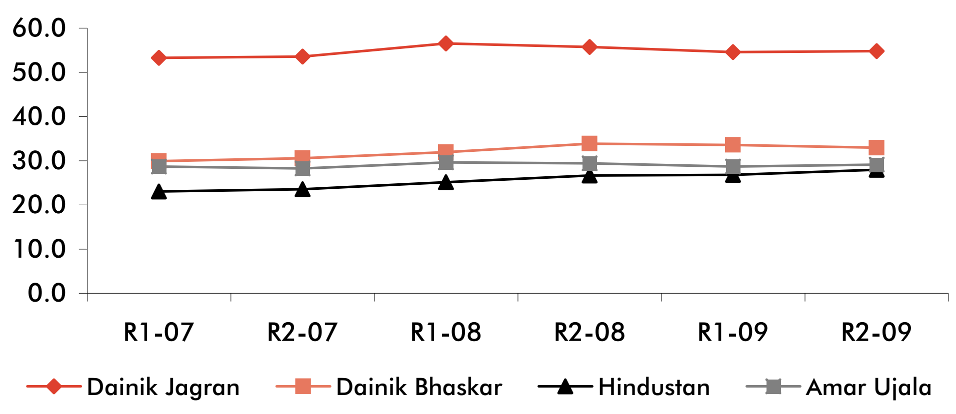
Company snapshot **Ratings**



Maintained strong position in Hindi regions

Dainik Jagran is the flagship brand of Jagran Prakashan. It is the largest read newspaper in the country for the last consecutive 13 rounds of the Indian Readership Survey (IRS) with a combined readership of over 55mn. The company enjoys leadership position in most of the northern states. With metro markets reaching near saturation in terms of growth, industry dynamics is favouring semi-urban and rural areas. The share of Hindi and vernacular print mediums is increasing in the overall ad pie, indicating the growing market for Hindi/ vernacular newspapers.

Exhibit 29: *Dainik Jagran* is present in 11 key Hindi-speaking markets with 32 editions and 260 sub-editions

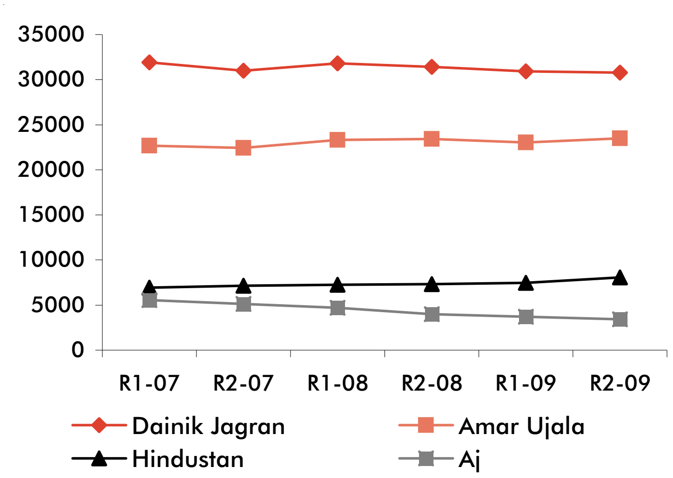


Source: IRS 2009 R2, Ambit Capital research

Monopoly in UP market

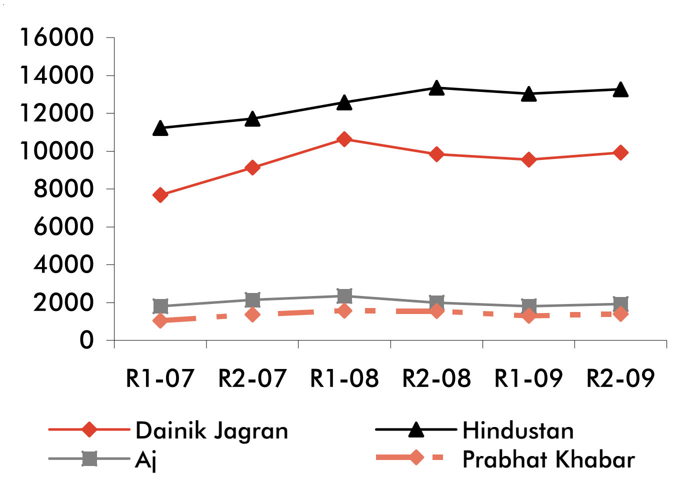
Dainik Jagran enjoys monopoly in the UP market, which is the most populous state in the country. Its readership is higher than that of the next two players in the state.

Exhibit 30: UP readership - TR (in '000)



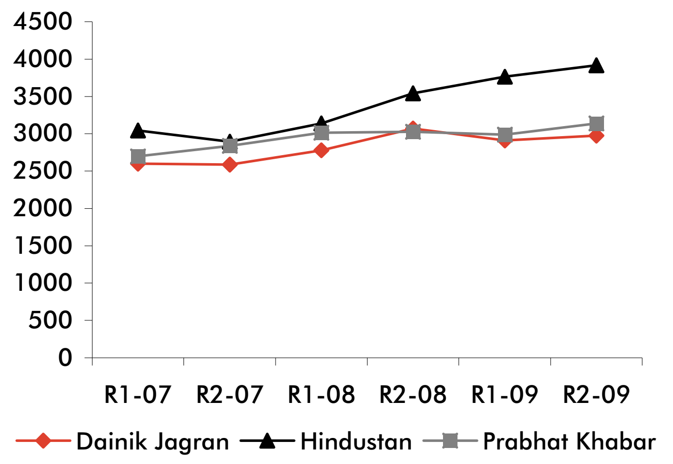
Source: IRS 2009 R2, Ambit Capital research

Exhibit 31: Bihar readership - TR (in '000)



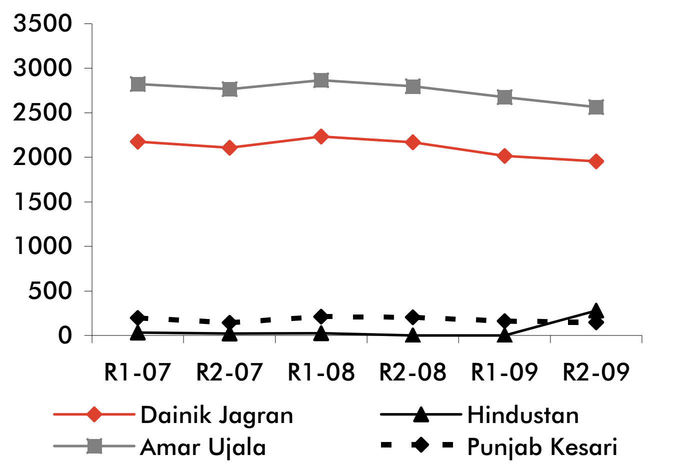
Source: IRS 2009 R2, Ambit Capital research

Exhibit 32: Jharkhand readership - TR (in '000)



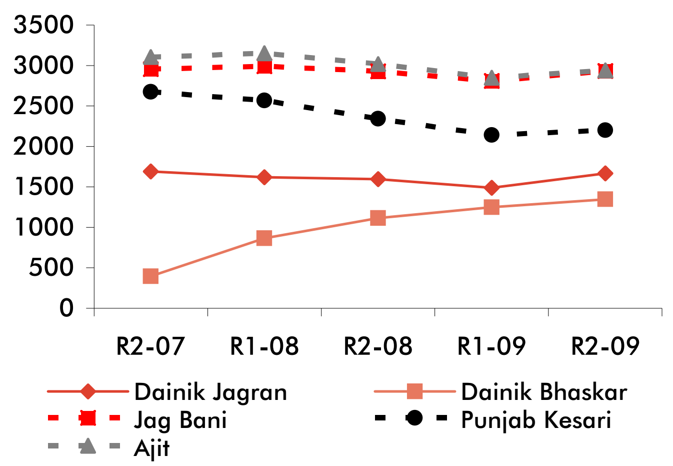
Source: IRS 2009 R2, Ambit Capital research

Exhibit 33: Uttaranchal Readership - TR (in '000)



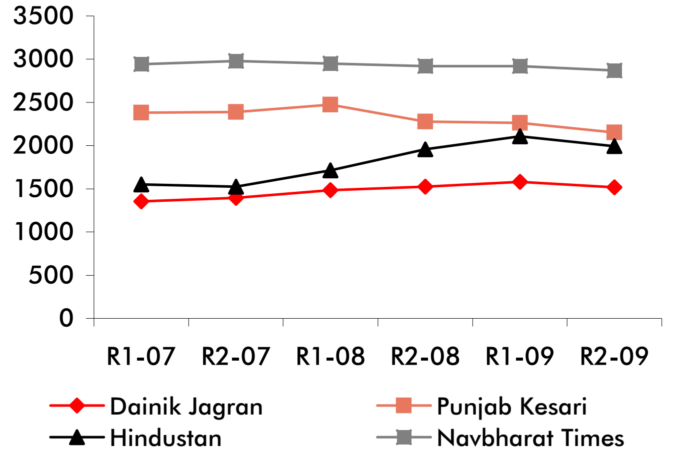
Source: IRS 2009 R2, Ambit Capital research

Exhibit 34: Punjab Readership - TR (in '000)



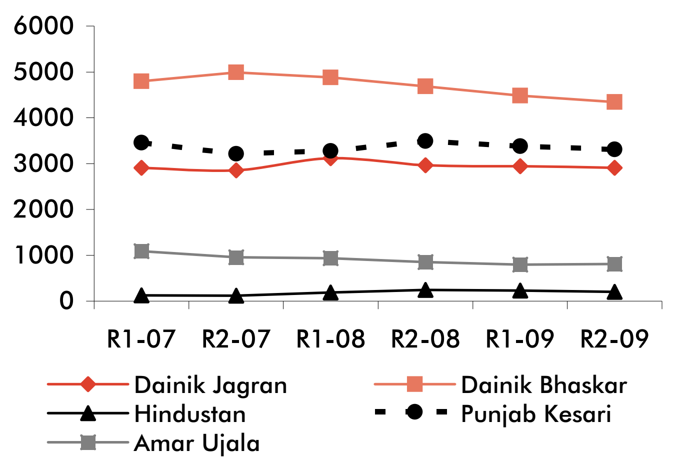
Source: IRS 2009 R2, Ambit Capital research

Exhibit 35: Delhi readership - TR (in '000)



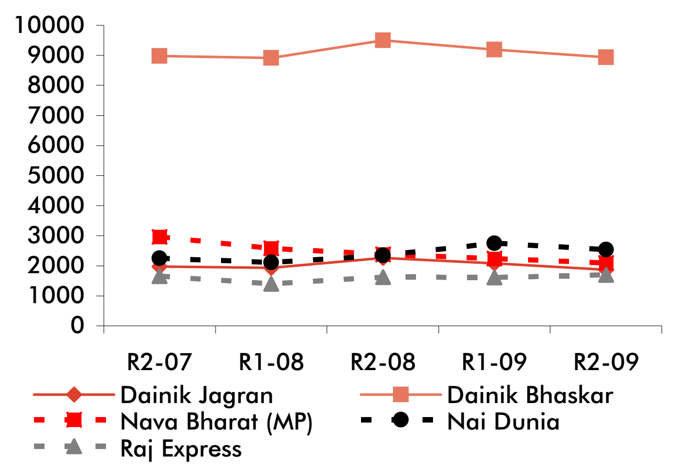
Source: IRS 2009 R2, Ambit Capital research

Exhibit 36: Haryana readership - TR (in '000)



Source: IRS 2009 R2, Ambit Capital research

Exhibit 37: MP Readership - TR (in '000)



Source: IRS 2009 R2, Ambit Capital research

Plans to expand *I-Next* with more editions

To attract young audiences Jagran started India's first bilingual compact daily *I-Next*. It is circulated in four states covering nine cities. According to the company, *I-Next* is getting significant traction and has been able to generate readership of 1.9mn (IRS 2009R2 survey) whereas currently, circulation stands at 0.3mn.

During 2QFY10 *I-Next* turned positive at the PAT level, however, the company does not expect profits from this segment to expand rapidly as it plans to extend its operations to more cities. The company plans to generate revenue of Rs400mn from *I-Next* in FY10.

Continued growth momentum in OOH

Increased buoyancy in the ad market has revived the performance of outdoor advertising as well. The company provides Out of the Home (OOH) services through its arm, Jagran Engage and covers more than 900 towns spread across 370 districts in 27 states. Engage offers comprehensive OOH solutions to customers through its bouquet of offerings of Hoardings & Billboards, Unique Street Furniture, Transit & Mobile Media etc. At present Jagran Engage has properties spread across the country with focus on tier II and tier III towns wherein the parent Jagran has a strong foothold. To expand its reach, Jagran is in discussion with various vendors to acquire their sites. It has also started the construction of bus shelters at Goa, and recently, has acquired the rights for Varanasi railway station. The company also added a few hundred sites during 1HFY10.

Last year, owing to the slowdown in economy and the shrinking ad market for OOH advertising, Jagran opted to rationalise its sites. The results of the improving ad market and business restructuring became visible with Jagran Engage turning positive at the operating level at end-2QFY10. To increase profitability, the company is also considering a judicious mix of owned and leased sites.

Event management: Small but growing

The company provides below-the-line marketing solutions via its arm, Jagran Solutions. Jagran Solutions organises corporate events, conventions, product launches, meetings, conferences, exhibitions and contests. The business, currently, is very small and accounts for less than 3% of revenue. Management, however, is optimistic about the venture and expects business to pick up. Solutions has been a profitable business for the company.

Internet portal, high viewership but less monetisation

Jagran has tied up with yahoo.com to provide online news services. Its online portal www.jagran.yahoo.com has been recorded as the most viewed Hindi website in the world. The portal is estimated to have close to 40mn viewers with more than 0.8mn unique users. However, revenue generated from the portal is currently insignificant but the company expects monetisation to improve over time with proliferation of internet services and the internet becoming a prominent source of news. Investment in this venture is also estimated to be minimal presently.

Dependence on local advertising to benefit

JPL derives 63% of its revenue from local advertising compared to 45% three years ago. Dependence on local revenue helped the company to achieve 10.6% growth in ad revenue in FY09 despite a gloomy economic scenario. With advertisers' focus shifting in favor of tier II and tier III cities, we expect JPL to benefit the most.

Increasing usage of colour ads is also expected to improve revenue and profitability for the company. The share of colour ads has risen from 19% of total revenue in FY05 to 40% in FY09. Going forward, the company expects to increase the proportion of colour ads further.

Circulation revenue to provide further fillip to growth

Over the last three years (FY06-FY09 period) JPL has reported a CAGR of 7% in circulation revenue. Going forward, we expect JPL to register annual growth of 7%, driven mainly by higher circulation of existing newspapers and launch of new editions. JPL's higher dependence on circulation revenue (24% of total revenue) would also provide support during an economic slowdown, thus compensating for lower ad revenue growth.

Key risks

Newsprint costs

Newsprint constitutes the key raw material for print companies and accounts for more than 80% of the raw material cost. Newsprint accounts for ~32-34% of the total revenue and any change in its price would directly impact margins of the company. After reaching its new high of US$950/tonne in FY09, newsprint prices have corrected sharply over the last two quarters. For 2QFY10, average newsprint prices in the international market stood at US$525/tonne. We expect newsprint prices to firm up in 2HFY10. According to the company the average price for 1H10, is estimated to be Rs26,000/tonne and we expect the average for the year to be Rs28,000/tonne. For FY11, we have factored in an increase of 10% in the prices. Any further increase in the newsprint prices could significantly impact margins and earnings for the company.

JPL relies greatly on domestic newsprint, which accounts for more than 70% of its total newsprint consumption. Domestic newsprint being 25% cheaper than the imported variety, leads to lower newsprint cost for the company.

Competitive intensity

Jagran enjoys market leadership in most of the areas it operates. Rapidly growing Hindi ad spend market has resulted in competitors becoming aggressive in those areas. Players like Hindustan and Amar Ujala are competing intensely in the UP market, which is one of the largest markets and in which Dainik Jagran enjoys market leadership. Though, Jagran is leading and is ahead of its competitors in most areas, we do not rule out any loss in market share owing to competition. Further increase in competition could lead to a price war resulting in lowering of, a) cover charges, b) ad rates and c) increase in promotional subscription schemes and other offers. In this case, the revenue and profitability of the company may take a hit.

Financials

Strong ad revenue growth

Revenue is expected to grow at a CAGR of 16.2% over the next three years (FY09-12E). On the back of strong market leadership in key states and an improving economic scenario, we expect ad revenue for Jagran to grow at 19.4% CAGR over FY09-FY12E. Subscription revenue is also expected to clock 7% growth annually over the next three years.

Margin outlook

During FY09, operating margins were subdued due to significantly higher newsprint prices. The newsprint prices had reached US$950/tonne during the period, which led to higher raw material costs. A gloomy macroeconomic scenario also kept ad revenue under check; as a result margins took a beating.

In 1HFY10, the company reported significant growth in margins on the back of lower newsprint prices and higher revenue growth. During the second quarter, newsprint prices fell to as low as US$450/tonne. EBITDA margins for 1HFY10 stood at 32% compared with 22.3% in 1HFY09. We expect newsprint prices to firm up in 2HFY10 and forecast EBITDA margin to be 29.4% for FY10 and 30.4% for FY11.

Valuation

Historically the company has traded in the P/E band of 20-30x 1-yr forward earnings. We are valuing the company at the lower end of the historical band. We value Jagran Prakashan at a target P/E multiple of 20x of FY12 EPS. It is also derived using a premium of 10% over our target multiple for HT Media. We are valuing HT Media at a 1-yr forward P/E multiple of 18x. Due to its dominant positioning in the Hindi belt, we initiate coverage on JPL with a Buy rating and a PE-based 15-month TP of Rs165 (upside 20%).

Company background

Jagran Prakashan Ltd. (JPL) is India's leading media and communications group, with main interests in newspapers, outdoor, internet, magazines, below-the-line marketing solutions, and mobile value-added services. Its flagship daily is Dainik Jagran, India's largest selling newspaper in terms of readership of 55mn. Dainik Jagran is published in 37+ editions across 12 north Indian states. The company also publishes a bilingual daily I-Next and a women's magazine, Sakhi. The company also provides outdoor and event management services through its arms, Jagran Engage and Jagran Solutions. It has also tied up with Yahoo to provide online news services.

Exhibit 38: Balance sheet

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
Assets						
Cash & Equivalents	1,013	367	828	1,566	1,952	3,346
Debtors	1,140	1,585	1,586	1,814	2,094	2,475
Inventory	328	347	318	289	324	372
Loans & Advances	589	605	655	757	873	1,033
Investments	1,446	1,833	1,568	1,568	1,568	1,568
Fixed Assets	2,645	3,046	3,990	3,960	4,380	4,206
Other Assets	51	169	214	236	273	323
Total Assets	**6,562**	**6,709**	**7,535**	**8,538**	**9,686**	**11,364**
Current Liabilities & Provisions	652	1,244	1,624	1,652	1,778	1,958
Debt	1,067	791	1,415	1,415	1,215	1,115
Deferred Tax Liability	384	531	521	521	521	521
Total Liabilities	**2,104**	**2,566**	**3,559**	**3,588**	**3,513**	**3,593**
Shareholders Equity	602	602	602	602	602	602
Reserves & Surpluses	4,509	4,785	4,997	6,000	7,348	9,127
Total Networth	**5,111**	**5,388**	**5,599**	**6,603**	**7,951**	**9,729**
Net Working Capital	2,469	1,829	1,977	3,010	3,738	5,591
Net Debt (Cash)	54	424	587	(152)	(737)	(2,231)
Total Liabilities & Equities	**6,562**	**6,709**	**7,535**	**8,538**	**9,686**	**11,364**

Exhibit 39: Income statement

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
Operating income	5,982	7,496	8,234	9,458	10,918	12,908
% growth		25.3	9.8	14.9	15.4	18.2
Operating expenditure	4,783	5,858	6,667	6,680	7,598	8,911
EBITDA	**1,198**	**1,638**	**1,567**	**2,778**	**3,320**	**3,996**
% growth		36.7	(4.3)	77.3	19.5	20.4
Depreciation	237	336	383	522	565	618
EBIT	961	1,302	1,184	2,256	2,755	3,378
Interest expenditure	85	60	59	57	53	47
Non-operational income / Exceptional items	221	215	227	313	317	319
PBT	**1,152**	**1,457**	**1,352**	**2,513**	**3,019**	**3,651**
Tax	389	476	436	804	966	1,168
PAT / Net profit	**762**	**981**	**916**	**1,709**	**2,053**	**2,483**
% growth		28.7	(6.6)	86.5	20.1	20.9

Source: Company, Ambit Capital research

Exhibit 40: Cash flow statement

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EBIT	961	1,302	1,184	2,256	2,755	3,378
Other income (expenditure)	248	215	227	313	317	319
Depreciation	237	336	383	522	565	618
Interest	85	60	59	57	53	47
Tax	389	476	436	804	966	1,168
Incr (decr) in deferred tax liability	16	147	(10)	-	-	-
Incr (decr) in net working capital	160	6	(313)	294	343	459
Cash flow from operating activities	**751**	**1,458**	**1,603**	**1,936**	**2,275**	**2,642**
Incr (decr) in capital expenditure	1,285	737	1,327	493	985	443
Inc/(Dec) in Intangible	-	-	-	-	-	-
Incr (decr) in investments	(314)	387	(265)	-	-	-
Inc/(Dec) in Goodwill	-	-	-	-	-	-
Cash flow from investing activities	**(971)**	**(1,124)**	**(1,062)**	**(493)**	**(985)**	**(443)**
Incr (decr) in borrowings	(98)	(277)	624	-	(200)	(100)
Issuance of equity	100	-	-	-	-	-
Dividend paid	(515)	(705)	(705)	(705)	(705)	(705)
Others						
Cash flow from financing activities	**(512)**	**(981)**	**(81)**	**(705)**	**(905)**	**(805)**
Net change in cash	(732)	(647)	461	739	385	1,394
Closing cash balance	**1,013**	**367**	**828**	**1,566**	**1,952**	**3,346**

Exhibit 41: Ratio analysis

Year to March (%)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EBITDA margin	20.0	21.9	19.0	29.4	30.4	31.0
EBIT margin	16.1	17.4	14.4	23.9	25.2	26.2
Net profit margin	12.7	13.1	11.1	18.1	18.8	19.2
Return on capital employed	18.8	22.9	19.8	32.0	33.7	35.1
Return on equity	14.9	18.2	16.4	25.9	25.8	25.5
Dividend payout ratio	59.3	61.4	65.7	35.3	29.3	24.3
Current ratio (x)	4.8	2.5	2.2	2.8	3.1	3.9

Exhibit 42: Valuation parameters

Year to March	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EPS (Rs)	2.5	3.3	3.0	5.7	6.8	8.2
Diluted EPS (Rs)	2.5	3.3	3.0	5.7	6.8	8.2
Book value per share (Rs)	17.0	17.9	18.6	21.9	26.4	32.3
P/E (x)	54.1	42.1	45.0	24.1	20.1	16.6
P/BV (x)	8.1	7.7	7.4	6.2	5.2	4.2
EV/EBITDA (x)	33.3	24.3	25.7	14.2	11.7	9.4
EV/Sales (x)	6.7	5.3	4.9	4.2	3.6	2.9

Source: Company, Ambit Capital research

Technical Analysis - Jagran

Exhibit 43: Weekly Chart

- On the weekly exhibit of JAGRAN, the momentum indicator KST is turning into BUY.
- The stock is also trading in the upward channel.
- The stock has taken strong support at 10WMA on every correction and then rallied to higher levels.
- We expect the stock would witness buying near Rs130 and could target Rs155 in medium term.

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INITIATING COVERAGE

HT Media

HOLD

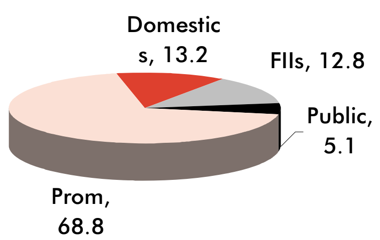
Price	Rs145
Target Price	**%Upside**
Rs157	8.5↑
Market Capitalisation	
Rs34,078mn	(US$732mn)
52 week range H/L (Rs)	154/36
Shares o/s (mn)	**Daily vol (mn)**
235.02	0.21
Reuters	**Bloomberg**
HTML.BO	HTML IN

Perfm(%)	1M	3M	12M	YTD
Absolute	3.8	9.5	102.1	102.1
Relative	0.6	7.4	11.6	11.6

BSE Sensex	**Nifty**
17,465	5,201

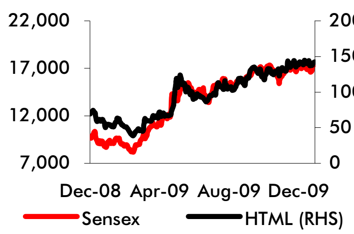
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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AMBIT
Acumen at work

Diversified Play

HT Media Ltd. (HTML) is a diversified play with significant presence in *Hindustan Times* (#2 English daily), *Hindustan* (#3 Hindi daily) and *Mint* (#2 business daily). The company also owns a radio business in four key cities. Besides, the company has a presence in web portals. HTML has a significant presence in the English newspaper segment which accounts for ~50% of the total print ad market. Ad revival in the urban markets is expected to benefit the company as it is a leading player in Delhi. Lowering of losses in Mumbai and in *Mint* is also expected to benefit the company, going forward.

Hindustan to fuel the growth

HTML's *Hindustan* is the third largest Hindi newspaper in the country. It enjoys market leadership in Bihar and Jharkhand states. Increasing ad spend in tier II and tier III cities is expected to result in higher ad revenue for the company. Higher proportion of subscription revenue versus English newspapers would provide a further fillip to revenue growth. With demerger of the Hindi business in place, its separate listing would unlock value. This could provide an upside to HTML.

Radio to turn positive, internet to suffer losses

On the back of strong ad revenue growth due to improved business performance, the radio business is expected to turn EBITDA positive during FY10. The internet business however is at a nascent stage and is expected to report losses of Rs350mn for FY10.

Valuation and recommendation

A diversified business model and expected turnaround in most operations is expected to result in higher earnings growth for the company. We, however, believe that the stock is fairly valued at its CMP and hence initiate coverage with a **HOLD** rating with a TP of Rs157 (8.5% upside). We are valuing the company at 18x FY12E EPS.

Key risks

1) Slower-than-expected ad revenue growth; 2) more-than-anticipated increase in newsprint prices; and 3) increase in competitive intensity; leading to more time to turnaround operations.

Exhibit 44: Key financials

(Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Operating income	12,033	13,466	14,390	16,247	18,590
EBITDA	1,699	879	2,559	3,087	3,743
EBITDA mgn (%)	14.1	6.5	17.8	19.0	20.1
PAT	1,013	199	1,237	1,641	2,053
PAT mgn (%)	8.4	1.5	8.6	10.1	11.0
EPS (Rs)	4.3	0.8	5.3	7.0	8.7
P/E (x)	33.5	171.7	27.5	20.8	16.6
EV/EBITDA (x)	19.3	38.7	12.9	10.2	7.8
EV/Sales (x)	2.7	2.5	2.3	1.9	1.6

Source: Company, Ambit Capital research

Company financial snapshot

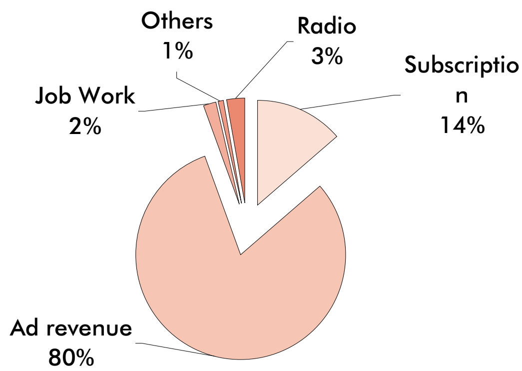
Profit and loss (Rsmn)

	FY10E	FY11E	FY12E
Net Sales	14,390	16,247	18,590
Operating Exp	11,832	13,160	14,847
EBITDA	**2,559**	**3,087**	**3,743**
Depreciation	744	781	822
Interest Exp	319	288	257
PBT	1,718	2,311	3,019
Tax	481	670	966
PAT	**1,237**	**1,641**	**2,053**

Profit and loss ratios

EBITDA Margins (%)	17.8	19.0	20.1
PAT Margins (%)	8.6	10.1	11.0
P/E (X)	27.5	20.8	16.6
EV/ EBITDA (X)	12.9	10.2	7.8
Dividend Yield (%)	0.2	0.2	0.2

Revenue breakup



Source: Company, Ambit Capital research

Balance sheet (Rsmn)

	FY10E	FY11E	FY12E
Total Assets	**13,193**	**14,462**	**16,142**
Fixed Assets	5,551	5,150	4,708
Current Assets	7,151	9,348	12,141
Other Assets	144	162	186
Total Liabilities	**13,193**	**14,462**	**16,142**
Total Net Worth	9,640	11,198	13,169
Total Debt	3,416	3,126	2,836
Current Liabilities	5,034	5,580	6,274
Minority Interest	(69)	(69)	(69)

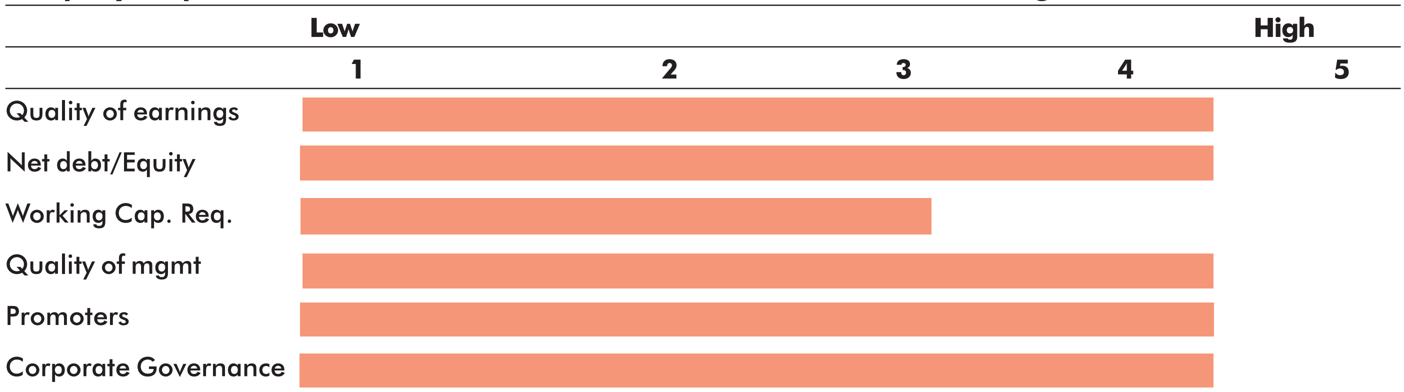
Balance sheet ratios (%)

RoE	12.8	14.7	15.6
RoCE	16.0	18.8	21.4
Net Debt/ Equity	0.2	0.1	(0.1)
Total Debt/ Equity	0.4	0.3	0.2
P/BV (X)	3.5	3.0	2.6

Cash flow (Rsmn)

	FY10E	FY11E	FY12E
EBIT	1,815	2,306	2,921
Other income (expenditure)	-	-	-
Depreciation	744	781	822
Interest	319	288	257
Tax	481	670	966
Incr (decr) in deferred tax liability	-	-	-
Incr (decr) in net working capital	377	246	263
Cash flow from operating activities	**1,604**	**2,176**	**2,612**
Incr (decr) in capital expenditure	525	380	380
Cash flow from investing activities	**(925)**	**(380)**	**(380)**
Incr (decr) in borrowings	(290)	(290)	(290)
Dividend paid	(82)	(82)	(82)
Cash flow from financing activities	**(372)**	**(372)**	**(372)**
Net change in cash	307	1,423	1,859
Closing cash balance	**1,013**	**2,436**	**4,295**

Company snapshot **Ratings**



Second largest English daily in India

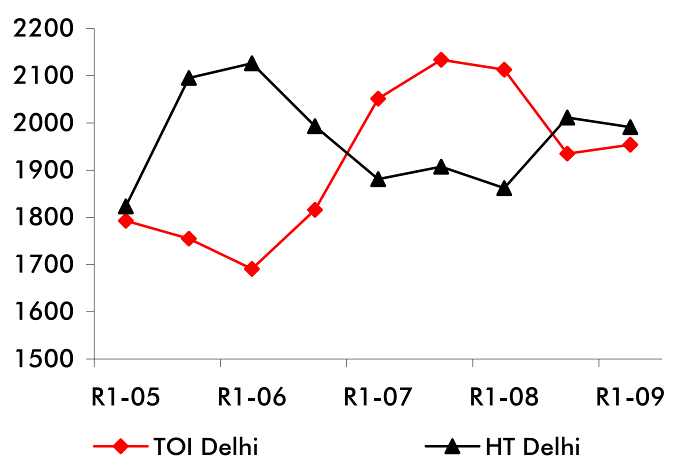
HT is India's second largest English daily after *ToI*. HT currently operates at nine centres including Bhopal, Chandigarh, Delhi, Mumbai, Jaipur, Kolkata, Lucknow, Patna and Ranchi. As per the IRS R22009, *HT* recorded average readership of 3.3mn, next to *ToI*, which had a readership of 6.8mn.

Near leadership in Delhi market

Delhi and Mumbai constitute key areas from an advertising perspective and account for ~50% of ad spend in English dailies. HTML publishes its flagship English daily, *Hindustan Times* in both markets. The company also generates more than 50% of its revenue from these two markets, the largest share arising from the Delhi edition of *HT*.

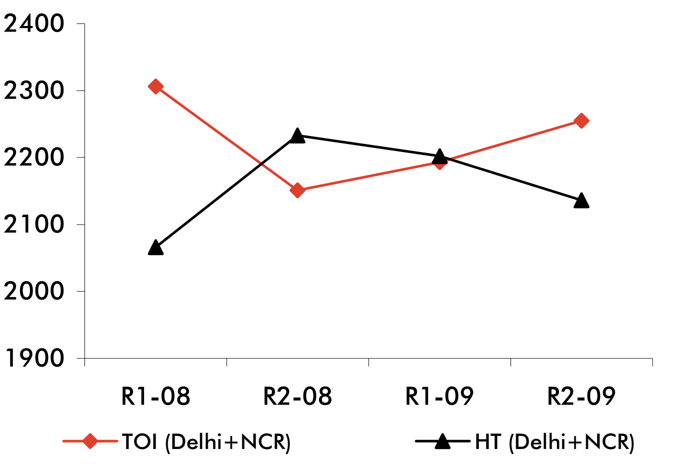
Over the last couple of years HT has been competing with *The Times of India* for the top slot. After ruling second in 2007 and in 1H of 2008 surveys, *HT* managed to command a leadership position in 1H2009, due to marginally higher readership versus *ToI*. However, in the second round, *ToI* took over again with a readership of 2.2mn compared to *HT*'s 2.1mn readership in Delhi.

Exhibit 45: Delhi AIR - English Newspapers AIR (in '000)



Source: IRS 2009 R2, Ambit Capital research

Exhibit 46: Delhi + NCR AIR - English Newspapers - AIR (in '000)



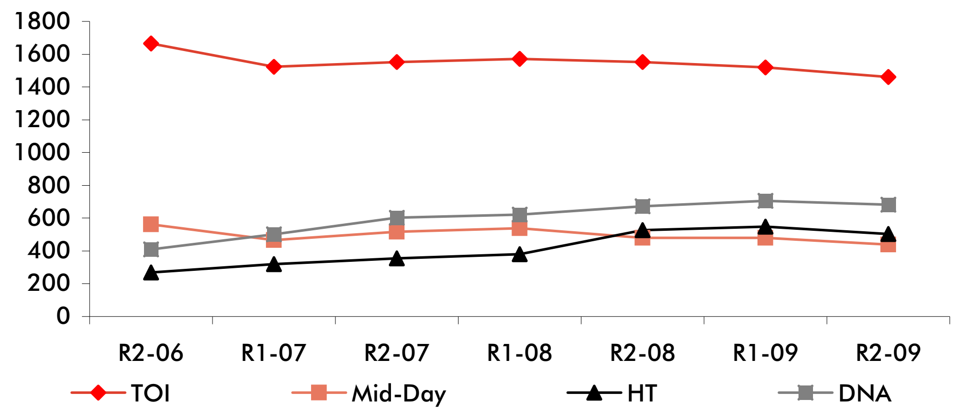
Source: IRS 2009 R2, Ambit Capital research

Stiff competition in Mumbai market

Mumbai is also a very important market from an ad revenue perspective and provides huge opportunities for print media players. The space is however dominated by *ToI*. *HT* entered the Mumbai market in July 2005 and is currently trailing in fourth position after *ToI, DNA* and *Mumbai Mirror*. According to IRS R22009, *HT* witnessed readership of 0.5mn whereas ToI remained a clear No.1 with readership of 1.46mn. According to the survey, most of the leading English dailies witnessed reduction in readership. The readership for *HT* also came down from 0.55mn in IRS R12009 to 0.5 at present.

The company is consolidating its position in the Mumbai market. The rebranding effected in first quarter of FY10 is expected to reap the benefits. We expect losses to be curtailed going forward.

Exhibit 47: Mumbai Readership - English Newspapers - AIR (in '000)



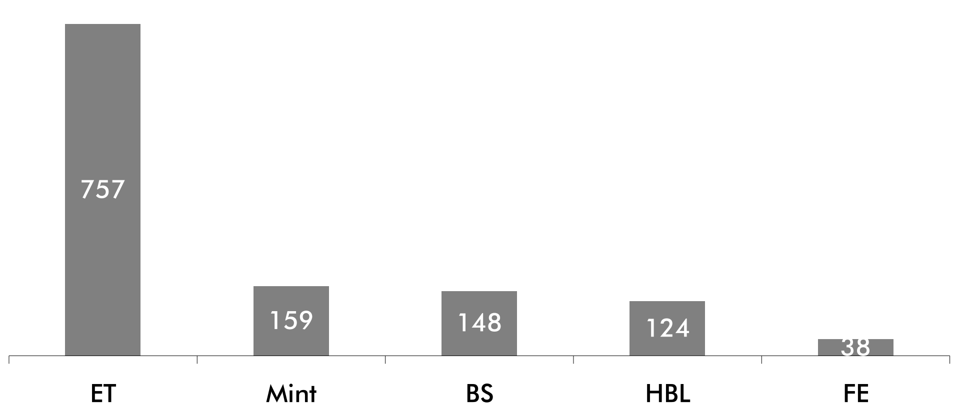
Source: IRS 2009 R2, Ambit Capital research

Mint: Making inroads in the business daily

In order to cater to the business segment during 2007, HTML launched its business daily, *Mint*. To provide international content, the company tied up with *Wall Street Journal*. Within a few months of launch, *Mint* has become the No.2 business newspaper in Mumbai and Delhi. After this, *Mint* has also been launched in Bangalore, Pune, Chandigarh and Chennai. At present, *Mint* has 0.2mn readership, next only to the *Economic Times*.

During FY09, *Mint* reported revenue of Rs350mn and incurred EBITDA losses of Rs300mn. The company expects *Mint* to register annual revenue growth of 30% and also expects to cut down losses to Rs150mn in FY10. It also expects EBITDA to break even by FY11.

Exhibit 48: Mint - All India AIR readership (in '000)



Source: IRS 2009 R2, Ambit Capital research

De-merger of *Hindustan*

Hindustan accounts for ~25% of the ad revenue and 50% of the circulation revenue for FY09. Recently HTML's board approved the demerger of 'Hindi Business Undertaking' comprising the Hindi daily, *Hindustan*, Hindi magazines, *Nandan* and *Kadambini* and the internet portals of the respective publications. The assets have been transferred to Hindustan Media Ventures Ltd. (HMVL), a subsidiary company, with effect from December 1, 2009, on book value basis for a consideration of Rs1,490mn including the net working capital of Rs240mn.

HMVL would raise debt of Rs1,490mn for purchase of assets. From the next quarter onwards, the company proposes to announce separate P&L accounts for English as well as the Hindi businesses. The company plans to separate the demerged business and list it on the exchange shortly.

Growing at a regional level

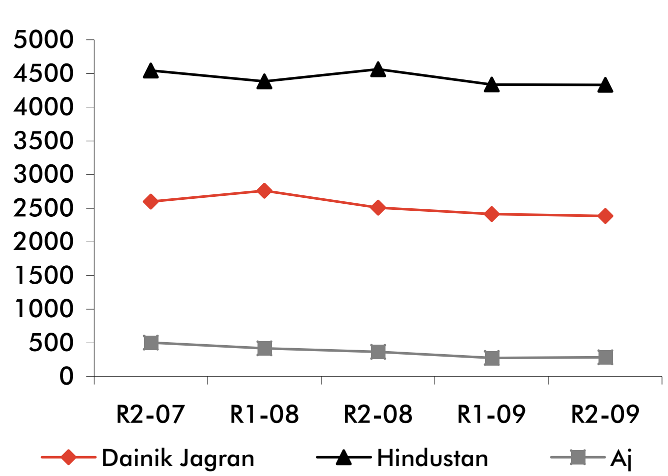
HTML's Hindi daily, *Hindustan* has 13 editions across the Hindi belt. They are spread across Delhi, Bihar, Jharkhand, Uttar Pradesh and Chandigarh. Apart from these regions, it is also available in key towns like Aligarh, Mathura and Allahabad.

The Hindi market is dominated by *Dainik Jagran, Dainik Bhaskar, Hindustan* and *Amar Ujala*. At a national level, according to IRS R22009, *Hindustan* is the third largest Hindi newspaper. As per the IRS R22009, *Hindustan* registered readership growth of 5% yoy whereas the readership for all Hindi dailies put together grew at 2% yoy, making *Hindustan* the fastest growing Hindi daily in the country.

Hindustan enjoys leadership position in Bihar and Jharkhand. It is a No.2 player in Delhi with the leader being *Navbharat Times*.

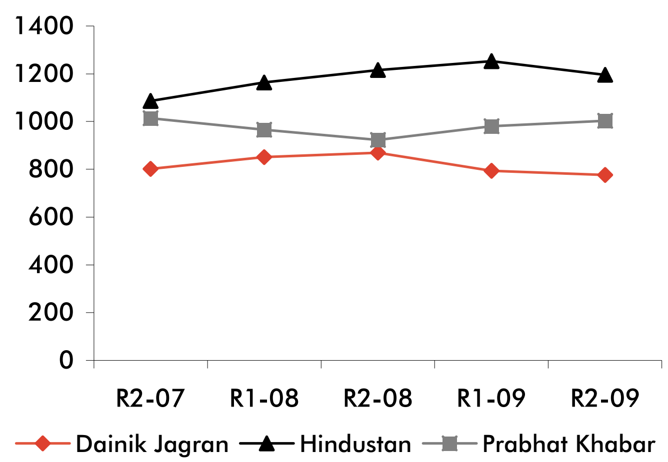
Hindustan also grew in the UP market by 10% compared with the flat industry growth during IRS R22009 over IRS R12009.

Exhibit 49: Bihar-Hindi Readership, AIR (in '000)



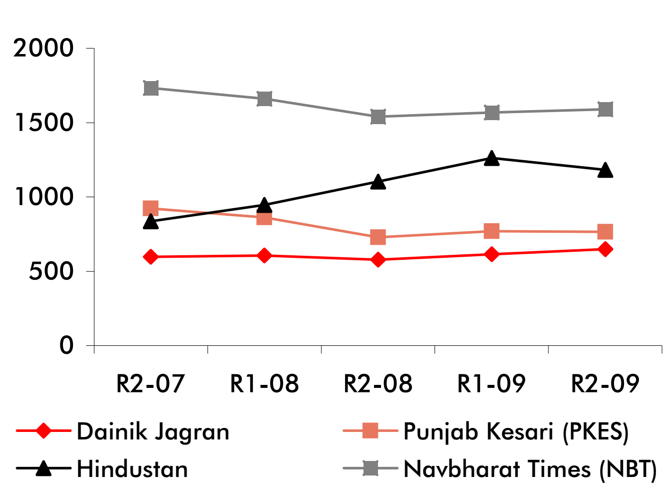
Source: IRS 2009 R2, Ambit Capital research

Exhibit 50: Jharkhand-Hindi Readership, AIR (in '000)



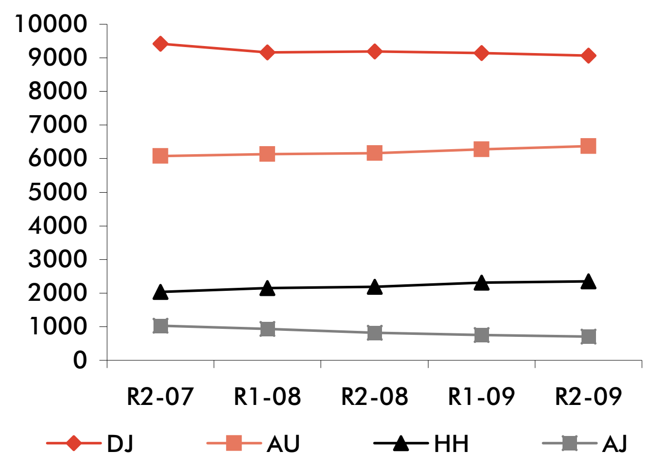
Source: IRS 2009 R2, Ambit Capital research

Exhibit 51: Delhi - Hindi Readership - AIR (in '000)



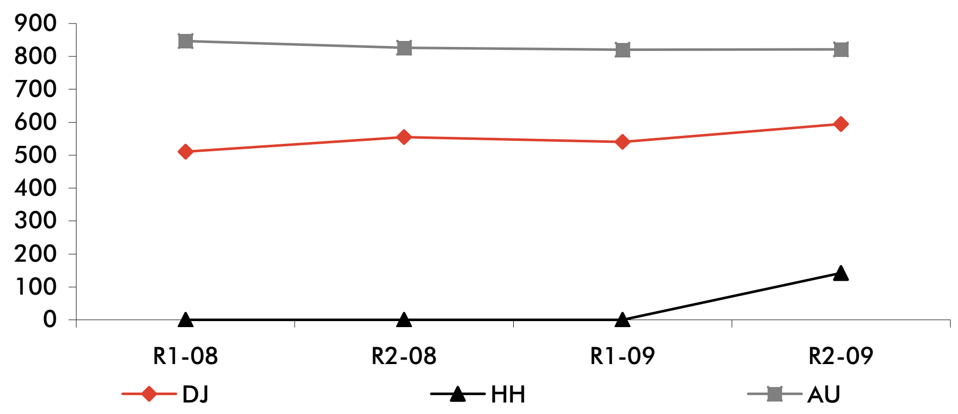
Source: IRS 2009 R2, Ambit Capital research

Exhibit 52: UP-Hindi Readership - AIR (in '000)



Source: IRS 2009 R2, Ambit Capital research

Exhibit 53: Uttaranchal - Hindi Newspapers Readership - AIR (in '000)



Source: IRS 2009 R2, Ambit Capital research

Radio: Inching up share in the metros

HTML provides FM radio services under the brand, Fever 104 FM, in collaboration with the Virgin group. The company operates in the four main cities of Delhi, Mumbai, Bengaluru and Kolkatta. Earlier, the radio operations were run by its subsidiary, HT Music and Entertainment Company. However, during 4QFY09, the company demerged the radio business from its subsidiary and merged it with itself.

According to RAM, Fever 104 FM has been ranked among the top two players in the Delhi circle. It has also made significant inroads in the Bengaluru market and is ranked among the top 3 players. During 1HFY10, the radio business generated revenue of Rs186mn. The company expects the radio business to turn EBITDA positive during this year.

Exhibit 54: Fever FM 104 - Market share in Radio business (%)

Channels	May'09	Nov'09
BANGLORE		
Big FM 92.7 Bangalore	19	19
Radio Mirchi 98.3 Bangalore	15	18
Fever FM 104 Bangalore	**17**	**15**
Radio City 91.1 Bangalore	10	12
AIR FM1-Rainbow 101.3 Bangalore	13	11
Radio One 94.3 Bangalore	10	8
S FM/Red FM 93.5 Bangalore	8	8
DELHI		
Radio Mirchi 98.3 Delhi	25	24
Fever FM 104 Delhi	**15**	**19**
AIR FM2-Gold 106.4 Delhi	16	17
Red FM 93.5 Delhi	9	9
Radio City 91.1 Delhi	10	8
Big FM 92.7 Delhi	6	7
Radio One 94.3 Delhi	6	7
KOLKATA		
Radio Mirchi 98.3 Kolkata	19	20
Big FM 92.7 Kolkata	17	17
Friends FM 91.9 Kolkata	13	14
Aamar FM 106.2 Kolkata	10	10
Fever FM 104 Kolkata	**7**	**8**
Red FM 93.5 Kolkata	9	8
Meow FM 104.8 Kolkata	6	6
Radio One 94.3 Kolkata	7	6
MUMBAI		
Radio Mirchi 98.3 Mumbai	15	18
Red FM 93.5 Mumbai	15	14
AIR FM2-Gold 100.7 Mumbai	11	13
Radio City 91.1 Mumbai	11	13
Big FM 92.7 Mumbai	13	12
Fever FM 104 Mumbai	**16**	**12**

Source: RAM, Ambit Capital research

Long term strategy for internet

The company's internet foray is supported by the three Cs strategy - content, classifieds and community.

Content: To provide news content to online users, the company runs three news-based web portals - hindustantimes.com, livemint.com and hindustandainik.com

Classifieds: To cater to the need of classifieds, during 2008, the company launched an online portal for job searching, Shine.com. Shine.com is one of the fastest growing career portals with more than 3mn registered users over the last 18 months.

Going forward, the company also plans to launch web portals pertaining to real estate and matrimonial.

Community: To built a community networking platform, the company acquired desimartini.com

The classified and community portals are run through its wholly owned subsidiary Firefly e-Ventures Ltd. whereas the content websites are operated under the parent company. At present, the internet venture is loss making and company does not expect it to turn positive in near future. However, management plans to keep investing in these businesses from a long term perspective.

JV with Burda to provide potential upside

The company has tied up with German media group, Hubert Burda for printing and publishing high-end magazines and catalogues. The JV is expected to start production from January 2010. The company expects to garner revenue of Rs800mn-Rs900mn during the first year of operations. EBITDA breakeven is also estimated to take place during the first year itself. The sustainable annual revenue is estimated to be in the range of Rs2.5bn-Rs3bn. HTML plans to invest Rs400mn in the JV. This is not factored in our valuations.

Key Risks

Newsprint cost

HTML relies heavily on imported newsprint, which accounts for about 70% of its total newsprint consumption. For 2QFY10, average newsprint prices in the international market stood at US$525/tonne. We expect newsprint prices to firm up in 2HFY10. We have factored in an increase in the newsprint for FY10 by about 10% and an incremental increase of 10% in FY11. Any further increase in the newsprint prices could significantly impact margins and earnings for the company.

Financials

Higher revenue growth due to improvement in economic scenario

Revenue is expected to grow at a CAGR of 11.3% over the next three years (FY09-12). On the back of improvement in the economic scenario and stable market share, we expect ad revenue for HTML to grow at a CAGR of 14.7% over FY10E-FY12E. End of low-value annual subscription packages and other freebies would lead to higher subscription revenue growth going forward. We estimate annual subscription revenue growth of 7% over FY10E-FY12E.

Outlook on margins

During FY09, though the standalone entity reported EBITDA and PAT margins of 12.6% and 6.4% respectively, the consolidated margins took a steep beating due to losses in the radio and internet business. The consolidated entity reported EBITDA and PAT margins of 6.5% and 1.5% respectively. During 1HFY10, the company reported significant growth in margins on the back of lower newsprint prices and higher circulation revenue growth. Standalone EBITDA margins for 1HFY10 stood at 19.7% compared with 16.1% in 1HFY09. Higher revenue growth coupled with subdued newsprint prices is expected to result in higher margins. We forecast consolidated EBITDA margin of 17.8% for FY10 and 19% for FY11.

Valuation

We are valuing HTML at a target P/E multiple of 18x FY12 EPS. It is derived using a discount of 10% to our target multiple for Jagran Prakashan owing to higher competition in the Delhi market, continuing losses in *HT* Mumbai and in the business daily, *Mint*. Higher growth in earnings would be driven by turnaround in urban ad spend benefiting *HT* and lowering of losses in *HT* Mumbai and *Mint* operations. Turnaround of the radio business is also expected to help improve margins. We recommend HOLD with a 15-month PE-based TP of Rs157 (upside 8.5%).

Company background

HT Media Ltd. is one of India's leading media companies, and publishes three leading newspapers - *Hindustan Times* (#2 English daily), *Hindustan* (#3 Hindi daily) and *Mint* (#2 business daily). The company also operates four FM radio stations - Fever 104 in Delhi, Mumbai, Bengaluru and Kolkatta. The company has also launched a new job portal www.Shine.com in addition to the existing websites, livemint.com and hindustantimes.com. In addition, the company has entered into a 65:35 joint venture with Velti Plc, to provide mobile advertising solutions services in India. The company has also entered into a 51:49 JV with German media group, Hubert Burda for printing and publishing high-end magazines. HT Media also publishes two Hindi magazines: *Nandan* and *Kadambini*.

Exhibit 55: Balance sheet

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
Assets						
Cash & Equivalents	1,104	774	705	1,013	2,436	4,295
Debtors	1,485	1,983	2,199	2,366	2,671	3,056
Inventory	1,032	1,155	1,756	1,615	1,805	2,001
Loans & Advances	563	1,064	2,167	2,159	2,437	2,789
Investments	2,293	2,656	3,035	3,435	3,435	3,435
Fixed Assets	3,920	5,240	5,771	5,551	5,150	4,708
Goodwill						
Other Assets	-	223	148	144	162	186
Total Assets	**9,572**	**10,882**	**12,329**	**13,193**	**14,462**	**16,142**
Current Liabilities & Provisions	2,113	2,804	5,399	5,034	5,580	6,274
Debt	1,658	2,231	3,706	3,416	3,126	2,836
Minority Interest	0	1	(69)	(69)	(69)	(69)
Deferred Tax Liability	273	122	207	207	207	207
Other Liabilities						
Total Liabilities	**4,043**	**5,156**	**9,242**	**8,588**	**8,844**	**9,247**
Shareholders Equity	468	469	470	470	470	470
Reserves & Surpluses	7,174	8,060	8,015	9,170	10,728	12,699
Total Networth	7,642	8,529	8,485	9,640	11,198	13,169
Net Working Capital	968	1,621	871	1,248	1,495	1,758
Net Debt (Cash)	553	1,457	3,001	2,404	690	(1,459)
Total Liabilities & Equities	**9,572**	**10,882**	**12,329**	**13,193**	**14,462**	**16,142**

Exhibit 56: Income statement

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
Operating income	10,397	12,033	13,466	14,390	16,247	18,590
% growth		15.7	11.9	6.9	12.9	14.4
Operating expenditure	8,716	10,334	12,587	11,832	13,160	14,847
EBITDA	**1,680**	**1,699**	**879**	**2,559**	**3,087**	**3,743**
% growth		1.1	(48.3)	191.2	20.6	21.3
Depreciation	436	570	688	744	781	822
EBIT	1,244	1,129	191	1,815	2,306	2,921
Interest expenditure	143	178	323	319	288	257
Non-operational income / Exceptional items	367	439	330	222	294	356
PBT	**1,468**	**1,390**	**9**	**1,718**	**2,311**	**3,019**
Tax	546	377	125	481	670	966
PAT / Net profit	**970**	**1,013**	**9**	**1,237**	**1,641**	**2,053**
% growth		4.4	-	-	32.6	25.1

Source: Company, Ambit Capital research

Exhibit 57: Cash flow statement

Year to March (Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EBIT	1,244	1,129	191	1,815	2,306	2,921
Other income (expenditure)	(23)	(151)	85	-	-	-
Depreciation	436	570	688	744	781	822
Interest	143	178	323	319	288	257
Tax	546	377	125	481	670	966
Incr (decr) in deferred tax liability	(23)	(151)	85	-	-	-
Incr (decr) in net working capital	5	653	(750)	377	246	263
Cash flow from operating activities	**1,416**	**764**	**1,561**	**1,604**	**2,176**	**2,612**
Incr (decr) in capital expenditure	709	2,293	2,576	525	380	380
Inc/(Dec) in Intangible	158	(1,098)	-	-	-	-
Incr (decr) in investments	1,885	364	379	400	-	-
Inc/(Dec) in Goodwill	-	-	-	-	-	-
Cash flow from investing activities	**(2,752)**	**(1,558)**	**(2,954)**	**(925)**	**(380)**	**(380)**
Issuance of equity	(200)	0	2	-	-	-
Incr (decr) in borrowings	(38)	573	1,476	(290)	(290)	(290)
Dividend paid	(82)	(110)	(82)	(82)	(82)	(82)
Others	(46)	0	(70)	-	-	-
Cash flow from financing activities	**(366)**	**464**	**1,325**	**(372)**	**(372)**	**(372)**
Net change in cash	(1,702)	(330)	(69)	307	1,423	1,859
Closing cash balance	1,104	774	705	1,013	2,436	4,295

Exhibit 58: Ratio analysis

Year to March (%)	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EBITDA margin	16.2	14.1	6.5	17.8	19.0	20.1
EBIT margin	12.0	9.4	1.4	12.6	14.2	15.7
Net profit margin	9.3	8.4	1.5	8.6	10.1	11.0
Return on capital employed	16.8	15.3	2.9	16.0	18.8	21.4
Return on equity	12.7	11.9	2.3	12.8	14.7	15.6
Dividend payout ratio	7.2	9.2	35.5	5.7	4.3	3.4
Current ratio (x)	2.0	1.9	1.3	1.4	1.7	2.0

Exhibit 59: Valuation parameters

Year to March	2006-07	2007-08	2008-09	2009-10E	2010-11E	2011-12E
EPS (Rs)	4.1	4.3	0.8	5.3	7.0	8.7
Diluted EPS (Rs)	4.1	4.3	0.8	5.3	7.0	8.7
Book value per share (Rs)	32.6	36.4	36.1	41.0	47.6	56.0
P/E (x)	35.0	33.5	171.7	27.5	20.8	16.6
P/BV (x)	4.4	4.0	4.0	3.5	3.0	2.6
EV/EBITDA (x)	19.2	19.3	38.7	12.9	10.2	7.8
EV/Sales (x)	3.1	2.7	2.5	2.3	1.9	1.6

Source: Company, Ambit Capital research

Technical Analysis - HT Media

Exhibit 60: Daily Chart

- HT Media is trading in upward (bullish) channel.
- The momentum indicators KST and MACD are in BUY mode.
- On the weekly chart the KST is curving upward signalling downside is limited.
- The 10DMA had a bullish crossover with 20DMA and therefore any correction the stock would take support around Rs140 level.
- We recommend going long with medium term target of Rs180 and near term support at Rs140, and below that, at Rs132.

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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