

## Strong numbers as expected, Upgrade to Outperform

Jagran Prakashan (JPL) reported strong growth numbers in 3QFY11 as expected. Revenues and Net profit grew 26.1% and 32.6% y-o-y. Revenue growth was led by a 31% y-o-y growth in Advertising Revenues that led to a 261bps expansion in EBITDA margins.

### Key takeaways from conference call with Management

- Advertising environment is upbeat in JPL's markets with spends on the rise across advertiser categories. Contemplating ad rate hike in April'11. Confident of a 20% growth in ad revenues in FY12 with equal contribution from volumes and yield improvement.
- Guides for increase in circulation (copies) by ~10% in FY12 over FY11 to protect readership share/ increase readership penetration that would drive ad revenues in coming years.
- Mid-Day to be consolidated from 4QFY11. Synergies especially in advertising revenues in combination with Dainik Jagran to flow from FY12. Mid-Day Mumbai circulation up ~8% since acquisition by JPL and management targets strengthening it further for Mid Day English and Gujarati.
- Newsprint prices expected to be up 7% y-o-y for FY12.

**View and Valuations:** We had an Underperform call on the stock primarily due to the lack of aggression on building significant new growth drivers and upcoming competition in Bihar/ Jharkhand markets. While these qualitative concerns remain, we have the highest comfort on JPL's earnings trajectory over the next 2 yrs as ad market in JPL's territories (Tier II/III cities in the Hindi belt) remains buoyant. Further, as upcountry readership (60% of overall readership and 20% of overall ad revenues) is incrementally showing signs of getting monetised we expect a 19% CAGR FY11-13 in ad revenues for JPL. Thus we expect an earnings CAGR of 19.1% over this period. This combined with a dividend yield of ~3% makes a good investment proposition. The stock has corrected ~6% since our initiating coverage on 3<sup>rd</sup> Jan'11. At the current market price of Rs122 it trades at a valuation of 14.7x and 12.2x its FY12E and FY13E EPS. We continue to value the stock at 17x FY12E earnings and thus a target price of Rs142 i.e. 16% upside from current levels. Given the comfort on capital appreciation potential together with dividend yield we upgrade our Recommendation on the stock to Outperform.

### Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA (x)
FY10	9,419	2,823	1,677	5.6	22.0	12.6
FY11E	12,139	3,752	2,235	7.1	17.3	10.0
FY12E	14,100	4,436	2,639	8.3	14.7	8.4
FY13E	16,282	5,216	3,173	10.0	12.2	6.8

### 3QFY11 Update

Date	Jan 31, 2011
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### Market Data

SENSEX	18328
Nifty	5506
Bloomberg	JAGP IN
Shares o/s	301mn
Market Cap	Rs37bn
52-wk High-Low	Rs.157-104
3m Avg. Daily Vol	Rs.21mn
Index member	BSE 500

### Latest shareholding (%)

Promoters	55.3
Institutions	29.1
Public	15.6

### Stock performance (%)

	1m	3m	12m
JPL	-8.0	-8.0	1.0
Sensex	-11.0	-9.0	12.0
M&E Index	-11.9	-14.4	-2.9

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# Jagran Prakashan

## Quarterly Financial Results

CMP

Rs. 122

Absolute

Add

Target

Rs. 142

Relative

Outperform

### Quarterly Financial Result

Rs. mn\Period	31-Dec-10	31-Dec-09	YoY Growth	30-Sep-10	QoQ Growth	FY11E#	FY12E#	YoY Growth
<b>Revenues</b>	<b>2,860</b>	<b>2,269</b>	<b>26.1%</b>	<b>2,769</b>	<b>3.3%</b>	<b>12,139</b>	<b>14,100</b>	<b>16.2%</b>
Raw materials	863	674	28.2%	801	7.7%	3562	4131	16.0%
Employee cost	363	304	19.5%	354	2.7%	1,722	1,996	15.9%
Other Expenditure	736	639	15.2%	705	4.4%	3,103	3,537	14.0%
Total Operating Cost	1,963	1,616	21.4%	1,860	5.5%	8,388	9,664	15.2%
<b>EBITDA</b>	<b>897</b>	<b>653</b>	<b>37.5%</b>	<b>908</b>	<b>-1.2%</b>	<b>3,752</b>	<b>4,436</b>	<b>18.2%</b>
EBITDA margins	31.4%	28.8%	262bps	32.8%	-143bps	30.9%	31.5%	56bps
Depreciation	146	119	22.9%	133	10.2%	578	679	17.5%
Other income	55	70	-20.5%	64	-13.5%	238	262	10.2%
EBIT	807	603	33.7%	840	-3.9%	3,412	4,019	17.8%
Interest	21	13	55.9%	14	49.2%	92	78	-15.1%
PBT	786	590	33.2%	826	-4.8%	3,320	3,941	18.7%
Tax	259	193	34.5%	271	-4.2%	1,084	1,302	20.1%
Effective tax rate	33.0%	32.7%		32.8%		32.7%	33.0%	
<b>PAT</b>	<b>526</b>	<b>397</b>	<b>32.6%</b>	<b>555</b>	<b>-5.2%</b>	<b>2,235</b>	<b>2,639</b>	<b>18.0%</b>
PAT margin	18.4%	17.5%	90bps	20.0%	-164bps	18.4%	18.7%	30bps
EPS (Rs. )	1.75	1.32	32.6%	1.84	-5.2%	7.07	8.34	18.0%

# include Mid Day financials

# Jagran Prakashan

## Business Overview

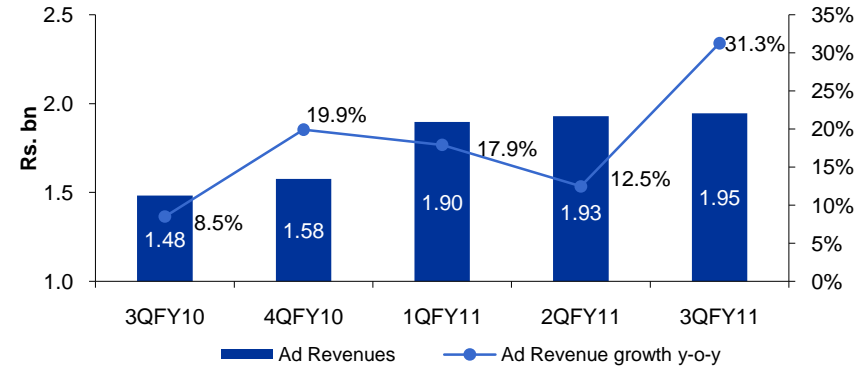
<b>CMP</b>	<b>Rs. 122</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 142</b>	<b>Relative</b>	<b>Outperform</b>

### Key estimate revision

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	12,029	12,139	0.9%	14,037	14,100	0.4%
EBITDA	3,799	3,752	-1%	4,497	4,436	-1.4%
Margin (%)	31.6%	30.9%	-67bps	32.0%	31.5%	-58bps
PAT	2,257	2,235	-1%	2,682	2,639	-1.6%
PAT Margin	18.8%	18.4%	-34bps	19.1%	18.7%	-39bps
EPS	7.1	7.1	-0.9%	8.5	8.3	-1.6%

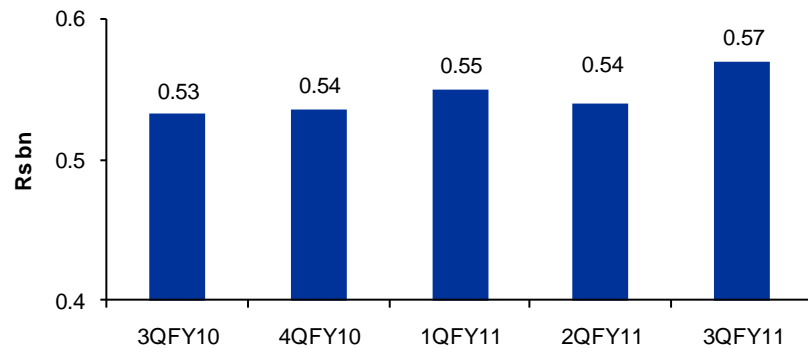
All figures in Rs. mn, except EPS, which is in Rs.

### Ad Revenues up 31% y-o-y



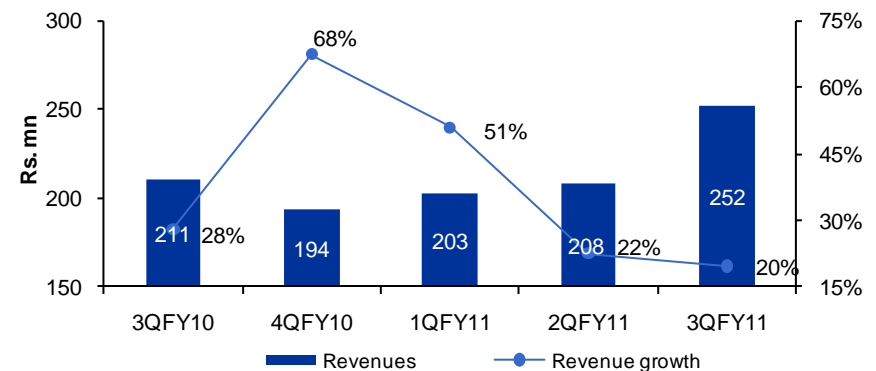
Source: Company, Spark Research

### Circulation revenues up on 10% increase in copies distributed



Source: Company, Spark Research

### Events/ OOH showing steady improvement in scale



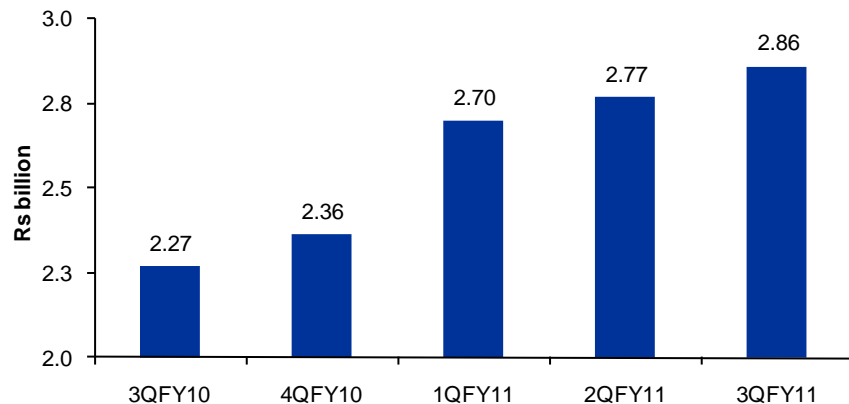
Source: Company, Spark Research

# Jagran Prakashan

## Business Overview (Contd.)

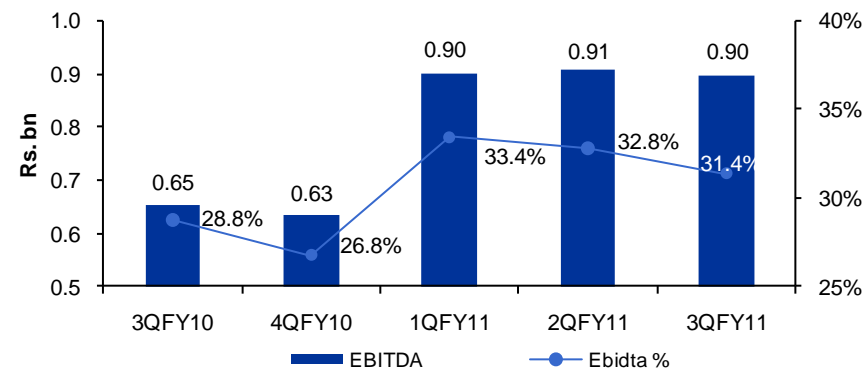
<b>CMP</b>	Rs. 122	<b>Absolute</b>	Add
<b>Target</b>	Rs. 142	<b>Relative</b>	Outperform

### Trend of sound Total Revenue growth continues



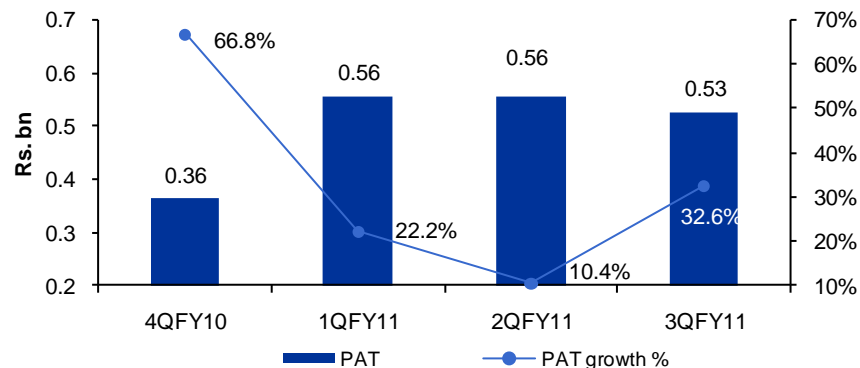
Source: Company, Spark Research

### EBITDA grows 38% as operating leverage plays out



Source: Company, Spark Research

### PAT growth though strong is a bit below estimate



Source: Company, Spark Research

### Earnings Sensitivity to Newsprint Price

	Newsprint prices (Rs/Tonne)	EPS (Rs.)
FY2011E	20564	8.0
	22564	7.5
	24564	7.1
	26564	6.6
	28564	6.1
FY2012E	22529	9.4
	24529	8.9
	26529	8.3
	28529	7.8
	30529	7.3
FY2013E	24386	11.1
	26386	10.6
	28386	10.0
	30386	9.5
	32386	8.9

Source: Company, Spark Research

# Jagran Prakashan

## Financial Summary (Consolidated)

<b>CMP</b>	<b>Rs. 122</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 142</b>	<b>Relative</b>	<b>Outperform</b>

Abridged Financial Statements *						Key metrics					
Rs. mn	FY09	FY10	FY11E	FY12E	FY13E		FY09	FY10	FY11E	FY12E	FY13E
<b>Profit &amp; Loss</b>						<b>Growth ratios (%)</b>					
Revenues	8,234	9,419	12,139	14,100	16,282	Sales	9.8%	14.4%	28.9%	16.2%	15.5%
EBITDA	1,567	2,823	3,752	4,436	5,216	EBITDA	-4.3%	80.1%	32.9%	18.2%	17.6%
Depreciation	383	507	578	679	757	Net Profit	-6.5%	92.0%	27.1%	18.0%	20.2%
EBIT	1,184	2,315	3,174	3,757	4,459	<b>Margin ratios (%)</b>					
Other Income	214	260	238	262	345	EBITDA	19.0%	30.0%	30.9%	31.5%	32.0%
Interest	59	66	92	78	65	EBIT	14.4%	24.6%	26.1%	26.6%	27.4%
PBT	1,338	2,510	3,320	3,941	4,739	Net Profit	11.1%	18.7%	18.4%	18.7%	19.5%
Net Profit	916	1,759	2,235	2,639	3,173	<b>Performance ratios</b>					
Adjusted Net Profit	903	1,677	2,235	2,639	3,173	RoE (%)	16.4	28.6	30.0	28.0	29.4
<b>Balance Sheet</b>						RoCE (%)	19.6	33.3	36.7	36.0	39.0
Shareholders Equity	5,599	6,125	8,801	10,034	11,579	Dividend Yield (%)	1.6	1.6	2.9	2.9	3.1
Deferred Tax	521	580	574	574	574	Total Assets Turnover (x)	1.2	1.2	1.3	1.3	1.3
Total debt	1,415	1,214	1,300	1,014	849	Fixed Assets Turnover (x)	2.5	2.6	2.5	2.7	3.1
<b>Total Networth &amp; Liabilities</b>	<b>7,535</b>	<b>7,919</b>	<b>10,675</b>	<b>11,622</b>	<b>13,001</b>	<b>Financial stability ratios</b>					
Net fixed assets	3,282	3,690	4,833	5,204	5,198	Net Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
CWIP	707	251	300	300	300	Debtor days	70	70	70	70	70
Goodwill	-	-	1,740	1,740	1,740	Loans and Advances	29	28	25	23	21
Investments	1,568	1,666	1,692	1,842	1,872	Other current assets	9	10	9	8	7
Current assets	3,601	4,173	4,579	5,272	7,024	Creditor days	32	52	51	50	50
Current liabilities	1,624	1,861	2,469	2,736	3,132	Other current liabilities	17	19	28	23	20
Net current assets	1,977	2,312	2,110	2,536	3,892	<b>Working capital days</b>	<b>65</b>	<b>71</b>	<b>48</b>	<b>48</b>	<b>42</b>
Misc exp not w/off	-	-	-	-	-	<b>Valuation metrics</b>					
Total Assets	<b>7,535</b>	<b>7,919</b>	<b>10,675</b>	<b>11,622</b>	<b>13,001</b>	Market Cap (Rs.mn)	36,863	36,863	38,711	38,711	38,711
<b>Cash Flows</b>						Diluted Shares (mn)	301	301	316	316	316
Cash flow s from Operations	1,308	2,181	2,667	3,134	3,650	Adjusted EPS (Rs.)	3.0	5.6	7.1	8.3	10.0
Cash flow s from Investing	(1,335)	(365)	(1,557)	(1,138)	(1,735)	P/E (x)	40.8	22.0	17.3	14.7	12.2
Cash flow s from Financing	172	(1,593)	(1,239)	(1,659)	(1,637)	EV (Rs. mn)	35,923	35,632	37,668	37,050	35,603
Free cash flow to fund	(137)	1,468	899	1,729	2,573	EV/ EBITDA (x)	22.9	12.6	10.0	8.4	6.8
Free cash flow to equity	387	1,284	893	1,365	2,342	EV/ Operating cash flow (x)	30.4	18.5	14.1	13.3	10.7

\*includes financials of Mid Day

<b>CMP</b>	<b>Rs. 122</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 142</b>	<b>Relative</b>	<b>Outperform</b>

## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
13-Jan 11	124	144	Add	U-PF
3-Jan 11	129	144	Add	U-PF

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