

Jagran Prakashan

Results in line but fierce competition dims outlook

Jagran Prakashan's (JPL) Q3FY10 results are in line with our estimates, with net sales increasing by 9.6% YoY as both advertisement and subscription revenues improved. Margins for the quarter doubled YoY on account of a fall in newsprint prices. Adjusted PAT was marginally above our estimates, increasing by 157% YoY to Rs 397mn. In view of the increasing competitive intensity in the Hindi belt, we downgrade the stock from Buy to Hold and revise our earnings downwards by 9.1% for FY11. Our revised target price for the stock stands at Rs 131 from Rs 144 previously.

Net sales in line with estimates: JPL's Q3FY10 net sales increased by 9.6% YoY to Rs 2.3bn, as advertisement revenues rose 8.5% to Rs 1.5bn while circulation income grew 7.8% to Rs 531.9mn. The outdoor and event management businesses have also shown strong traction during the quarter, with revenues growing 28% YoY from Rs 164.3mn to Rs 210.5mn.

EBITDA margin doubles YoY: JPL's operating profit increased 117% YoY to Rs 652.8mn, accompanied by an EBITDA margin of 28.8%, up from 14.5% in Q3FY09. The operating margin improvement stemmed entirely from higher gross margins, which were boosted by a fall in newsprint prices.

Adj PAT marginally above estimates: Adjusted PAT increased by 156.9% YoY to Rs 397.3mn on account of the higher operating margins. PAT outpaced EBITDA growth on account of a 25% YoY decline in interest expenses and a 54.8% increase in other income to Rs 69.6mn.

Newsprint prices to head higher: We estimate average newsprint prices of US\$ 510–520 for JPL in FY10, which could head higher to US\$ 575 for FY11. This is likely to impact margins in FY11; the management pegs operating margins in the region of 25–30% for the fiscal.

Downgrade to Hold: JPL is currently trading at a P/E of 20.7x and 18.8x FY10E and FY11E earnings respectively. We have downgraded our earnings estimates by 9.1% for FY11 on account of the likely increase in newsprint prices. We also downgrade the stock from Buy to Hold owing to intensifying competition in the Hindi space, where players are aggressively working to undercut each other's pricing and market share. We value the stock at 20x FY11E earnings, yielding a revised target price of Rs 131 (previously Rs 144).

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 123	Rs 131	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
532705	JAGRAN	JAGP IN

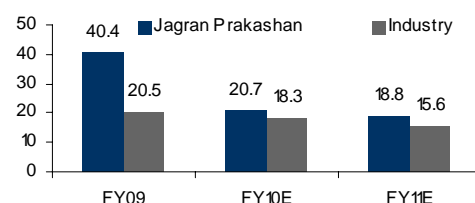
Company data

Market cap (Rs mn / US\$ mn)	30,017 / 798
Outstanding equity shares (mn)	301
Free float (%)	44.7
Dividend yield (%)	2.1
52-week high/low (Rs)	142 / 43
2-month average daily volume	302,177

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
JPL	123	(9.9)	11.5	32.0
BSE TECK	3,166	(3.4)	10.9	8.1
Sensex	16,356	(6.3)	2.9	4.4

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	40.4	20.7	18.8	16.6
P/E @ Target	43.1	22.1	20.0	17.7
EV/EBITDA @ CMP	24.0	13.2	11.8	10.3

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	8,234	9,522	10,994	12,602
Growth (%)	9.8	15.6	15.5	14.6
Adj net income	916	1,784	1,973	2,235
Growth (%)	(6.5)	94.7	10.6	13.3
FDEPS (Rs)	3.0	5.9	6.5	7.4
Growth (%)	(6.5)	94.7	10.6	13.3

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	19.0	30.0	29.1	28.9
EBIT margin	14.4	25.7	24.7	24.5
Adj PAT margin	11.1	18.7	17.9	17.7
ROE	16.7	29.5	28.1	27.4
ROIC	14.9	27.4	28.4	29.5
ROCE	14.4	24.0	23.3	23.5





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	2,269	2,360	(3.9)
EBITDA	653	673	(3.0)
Adj net income	397	371	7.1
FDEPS (Rs)	1.32	1.23	7.1

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Revenue	2,269	2,070	10	2,468	(8)
Expenditure	1,616	1,769	(9)	1,636	(1)
Operating profit	653	301	117	832	(22)
Other income	70	45	55	50	39
Interest	13	18	(25)	15	(9)
Depreciation	119	98	21	130	(8)
PBT	590	229	157	738	(20)
Tax	193	75	158	235	(18)
PAT	397	155	157	503	(21)
EBITDA margin (%)	28.8	14.5	1,425bps	33.7	(496bps)
FDEPS (Rs)	1.3	0.5	157	1.7	(21)

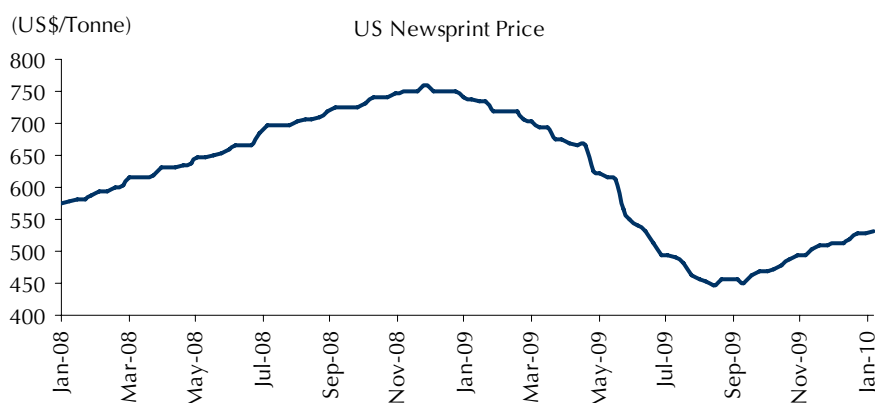
Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	9,522	9,522	-	10,994	10,994	-
EBITDA	2,858	2,858	-	3,490	3,195	(8)
EBITDA margin (%)	30.0	30.0	-	31.7	29.1	(268)
Net profit	1,784	1,784	-	2,169	1,973	(9)
FDEPS (Rs)	5.9	5.9	-	4.6	6.5	43

Source: RHH

Fig 4 - Newsprint prices on an uptick



Source: Company, RHH

Results largely in line with estimates

Healthy revenue traction across business segments

Lower newsprint prices pushed up gross and hence operating margins

Expectations of newsprint price inflation led to downward revision of FY11 numbers



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	8,234	9,522	10,994	12,602
Growth (%)	9.8	15.6	15.5	14.6
EBITDA	1,568	2,858	3,195	3,647
Growth (%)	(4.3)	82.3	11.8	14.1
Depreciation & amortisation	383	408	484	557
EBIT	1,184	2,451	2,711	3,090
Growth (%)	(9.0)	106.9	10.6	14.0
Interest	59	80	94	88
Other income	227	309	345	354
EBT	1,352	2,679	2,962	3,355
Income taxes	436	895	989	1,121
Effective tax rate (%)	32.2	33.4	33.4	33.4
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	916	1,784	1,973	2,235
Adjustments	-	-	-	-
Adjusted net income	916	1,784	1,973	2,235
Growth (%)	(6.5)	94.7	10.6	13.3
Shares outstanding (mn)	301.2	301.2	301.2	301.2
FDEPS (Rs) (adj)	3.0	5.9	6.5	7.4
Growth (%)	(6.5)	94.7	10.6	13.3
DPS (Rs)	2.0	2.5	2.6	3.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	1,347	2,192	2,457	2,792
Non-cash adjustments	(75)	1	-	-
Changes in working capital	(125)	(626)	(172)	(426)
Cash flow from operations	1,147	1,567	2,285	2,366
Capital expenditure	(1,319)	(488)	(718)	(793)
Change in investments	405	(298)	(100)	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(914)	(786)	(818)	(793)
Issue of equity	-	-	-	-
Issue/repay debt	-	-	-	-
Dividends paid	(352)	(877)	(923)	(1,046)
Other financing cash flow	580	389	(200)	-
Change in cash & cash eq	461	293	344	527
Closing cash & cash eq	827	1,121	1,465	1,992

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	12.2	12.8	12.8	12.8
ROIC (%)	14.9	27.4	28.4	29.5
Invested capital (Rs mn)	5,803	6,098	6,605	7,326
EVA (Rs mn)	155	894	1,034	1,228
EVA spread (%)	2.7	14.7	15.6	16.8

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	828	1,121	1,465	1,992
Accounts receivable	1,585	1,774	1,958	2,279
Inventories	318	299	371	433
Other current assets	869	1,066	1,297	1,512
Investments	1,568	1,866	1,966	1,966
Gross fixed assets	4,795	5,290	6,108	7,001
Net fixed assets	3,282	3,370	3,703	4,039
CWIP	707	700	600	500
Intangible assets	-	-	-	-
Deferred tax assets, net	(521)	(521)	(521)	(521)
Other assets	-	-	-	-
Total assets	8,637	9,675	10,840	12,200
Accounts payable	578	655	794	867
Other current liabilities	308	389	471	514
Provisions	737	322	415	470
Debt funds	1,415	1,803	1,603	1,603
Other liabilities	-	-	-	-
Equity capital	602	602	602	602
Reserves & surplus	4,997	5,904	6,954	8,143
Shareholder's funds	5,599	6,507	7,556	8,745
Total liabilities	8,637	9,675	10,840	12,200
BVPS (Rs)	18.6	21.6	25.1	29.0

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	19.0	30.0	29.1	28.9
EBIT margin	14.4	25.7	24.7	24.5
Net profit margin	11.1	18.7	17.9	17.7
ROE	16.7	29.5	28.1	27.4
ROCE	14.4	24.0	23.3	23.5
Working Capital & Liquidity ratios				
Receivables (days)	70	64	62	61
Inventory (days)	36	36	33	34
Payables (days)	61	72	70	71
Current ratio (x)	4.1	4.1	4.0	4.5
Quick ratio (x)	1.8	1.7	1.5	1.7
Turnover & Leverage ratios (x)				
Gross asset turnover	1.9	1.9	1.9	1.9
Total asset turnover	1.0	1.0	1.1	1.1
Interest coverage ratio	20.1	30.5	28.9	35.0
Adjusted debt/equity	0.3	0.3	0.2	0.2
Valuation ratios (x)				
EV/Sales	4.6	3.9	3.4	3.0
EV/EBITDA	24.0	13.2	11.8	10.3
P/E	40.4	20.7	18.8	16.6
P/BV	6.6	5.7	4.9	4.2



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	2,070	1,976	2,319	2,468	2,269
YoY growth (%)	4.0	6.6	12.3	20.9	9.6
QoQ growth (%)	1.4	(4.6)	17.4	6.4	(8.1)
EBITDA (Rs mn)	301	353	705	832	653
EBITDA margin (%)	14.5	17.9	30.4	33.7	28.8
Adj net income (Rs mn)	155	218	496	503	397
YoY growth (%)	(40.3)	41.1	56.5	121.5	156.9
QoQ growth (%)	(31.9)	41.1	127.1	1.5	(21.0)

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	67.3	67.8	66.6	66.6	66.6
Interest burden (PBT/EBIT)	111.9	114.2	109.3	109.3	108.6
EBIT margin (EBIT/Revenues)	17.4	14.4	25.7	24.7	24.5
Asset turnover (Revenues/Avg TA)	105.2	102.6	104.0	107.2	109.4
Leverage (Avg TA/Avg equity)	135.8	146.2	151.3	145.9	141.3
Return on equity	18.7	16.7	29.5	28.1	27.4

Company profile

Established in 1942, Jagran Prakashan (JPL) launched its first newspaper edition from Jhansi, Uttar Pradesh. Dainik Jagran, the newspaper, is now published in 37 editions across 11 states and has 275 sub-editions. It is the leader in its home market of Uttar Pradesh, with ~50% market share in terms of readership (IRS 2007 R2) and enjoys a strong position in key cities such as Kanpur and Lucknow.

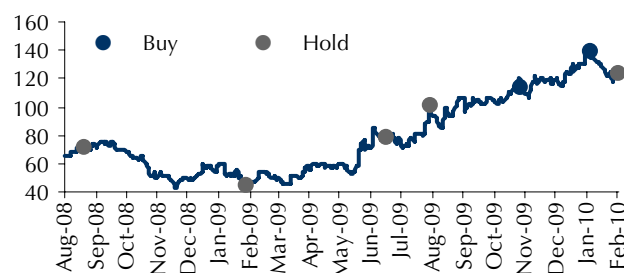
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	52.1	55.3	55.3
FIs	3.1	3.0	4.5
Banks & FIs	13.1	14.4	14.1
Public	31.7	27.3	26.1

Recommendation history

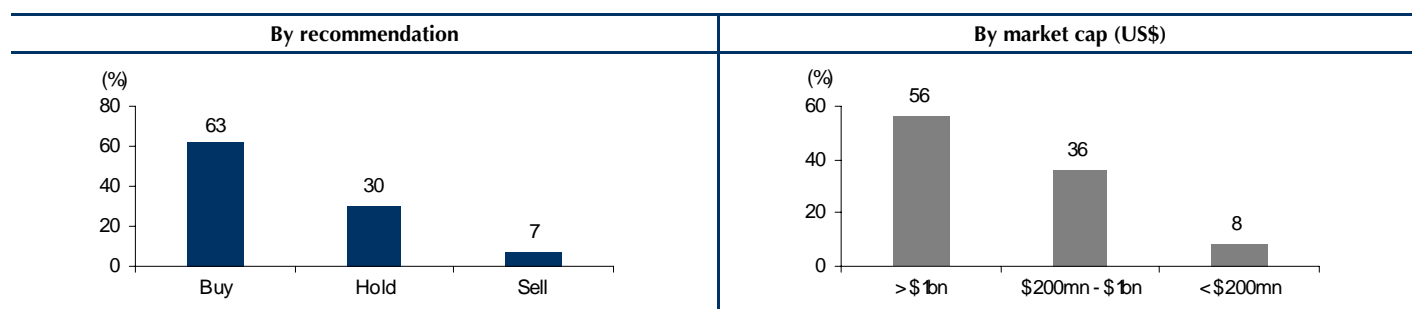
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	71	85	Hold
2-Jan-09	Quarterly Preview	60	UR	UR
29-Jan-09	Results Review	45	51	Hold
17-Jun-09	Results Review	77	74	Hold
29-Jul-09	Results Review	100	94	Hold
28-Oct-09	Results Review	113	130	Buy
6-Jan-10	Quarterly Preview	139	144	Buy
1-Feb-10	Results Review	123	131	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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