

Jagran Prakashan

BUY
Maintained

Leading the print pack

Rs106

Reason for report: Q4FY10 results review

Jagran Prakashan (JPL) registered strong Q4FY10 results, with Rs2,363mn revenues that were buoyed by 20% growth in ad revenues. Q4FY10 EBITDA margin was lower at 26.8%, but in line after factoring-in one-time impact of Rs30mn paid for CSR activity. For the full year, JPL posted 15.7% growth in advertising and 30% EBITDA margin, driven by lower newsprint costs. The company has announced a dividend of Rs1.5/share for FY10, taking full-year dividend to Rs3.5, a payout of 60%. JPL recently announced acquisition of Mid-Day Multimedia for a consideration of Rs1.95bn that, we believe, is value-accretive and will help in extending the high-growth period. We maintain BUY with target price of Rs135/share. Key risks remain aggressive price-based competition in Bihar and Jharkhand post entry of DB Corp.

- **Strong ad growth at 20%** reinforces our belief in the secular growth of regional print media and management's strong execution track record. Overall FY10 ad growth stood at 15.7% compared with HT Media declining 0.1% and DB Corp. growing 11%. JPL's advertising tariffs continue to be cheap on CPT basis as against HT Media and DB Corp, enabling the company to consistently deliver growth higher than industry.
- **Events and OOH gaining scale.** JPL's new OOH business and its Events business are gaining scale, with Rs709mn revenues in FY10, a growth of 29%. Outdoor business grew 12.8% in FY10 and reported operating profit in H2FY10. Events business grew a staggering 76.7% in FY10, significantly improving the company's market position.
- **Investments in growth continued in FY10** with: i) launch of three editions of *I-next*, taking total editions to 12, ii) launch of eight new editions of *City Plus* taking total to 22, iii) acquisition of print business of Mid-Day. The Mid Day acquisition will provide further impetus to JPL's revenues by expanding its Urdu daily, *Inquilab*, to Jammu & Kashmir (J&K) and in its current markets of Uttar Pradesh and Delhi.
- **Maintain BUY** as the valuations do not price-in growth levers of recent editions of *I-next* and new businesses as well as the inorganic growth via acquisition of Mid-Day.

| | | | | | | |
|-------------------------|----------------------|-------------------------|-------------|-------------|--------------|--------------|
| Market Cap | Rs31.9bn/US\$674.9mn | Year to March | FY09 | FY10 | FY11E | FY12E |
| Reuters/Bloomberg | JAGP.BO / JAGP IN | Revenue (Rs mn) | 8,234 | 9,419 | 10,592 | 11,791 |
| Shares Outstanding (mn) | 301.2 | Rec. Net Income (Rs mn) | 916 | 1,759 | 2,031 | 2,386 |
| 52-week Range (Rs) | 142/66 | EPS (Rs) | 3.0 | 5.8 | 6.7 | 7.9 |
| Free Float (%) | 44.7 | % Chg YoY | (6.7) | 92.0 | 15.4 | 17.5 |
| FII (%) | 8.6 | P/E (x) | 34.8 | 18.1 | 15.7 | 13.4 |
| Daily Volume (US\$/000) | 1,310 | CEPS (Rs) | 24.6 | 14.1 | 12.3 | 10.5 |
| Absolute Return 3m (%) | (11.0) | EV/E (x) | 19.7 | 11.0 | 9.4 | 7.9 |
| Absolute Return 12m (%) | 49.6 | Dividend Yield (%) | 1.9 | 3.3 | 1.9 | 3.0 |
| Sensex Return 3m (%) | (2.0) | RoCE (%) | 13.4 | 23.8 | 25.0 | 24.8 |
| Sensex Return 12m (%) | 16.6 | RoE (%) | 16.7 | 29.9 | 29.6 | 29.1 |

Media

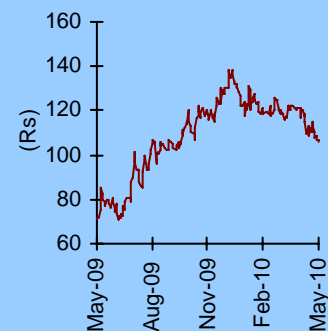
Target price Rs135

Shareholding pattern

| | Sep '09 | Dec '09 | Mar '10 |
|-------------------------|---------|---------|---------|
| Promoters | 55.3 | 55.3 | 55.3 |
| Institutional investors | 17.3 | 18.6 | 24.2 |
| MFs and UTI | 13.3 | 13.0 | 14.5 |
| Insurance Cos. | 1.1 | 1.1 | 1.1 |
| FII's | 2.9 | 4.5 | 8.6 |
| Others | 27.3 | 26.1 | 20.5 |

Source: NSE

Price chart



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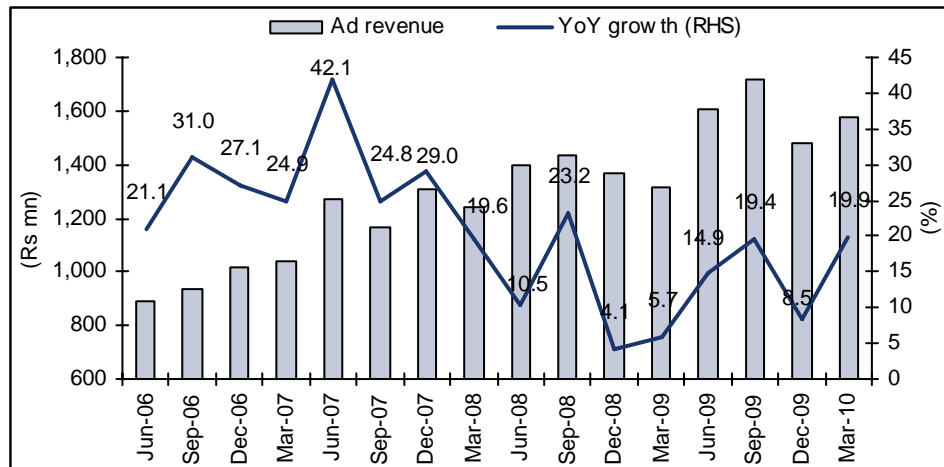
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Revenue growth strong at 17.4% YoY

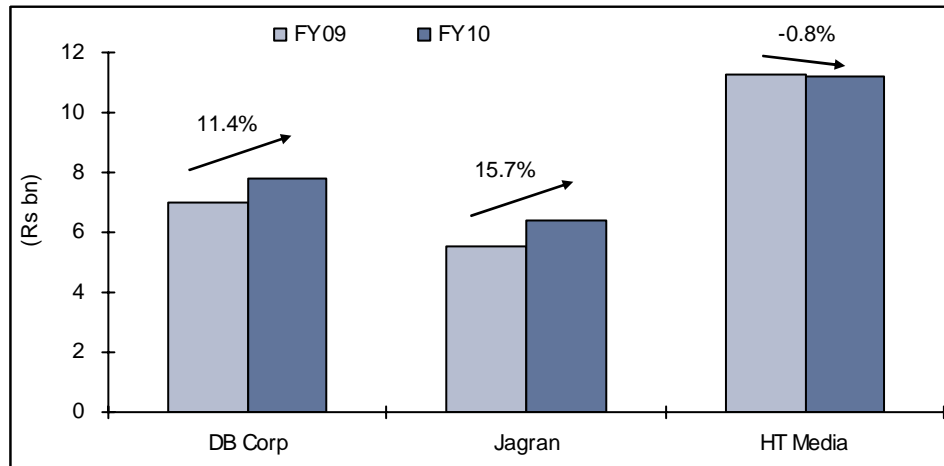
- Consolidated revenues grew 4.1% QoQ and 17.4% YoY to Rs2,363mn, driven by double-digit ad revenue growth.
- Ad revenues saw significant growth of 19.9% YoY and 6.4% QoQ to Rs1,577mn. HT Media, on the other hand, reported 7.9% YoY growth and DB Corp 11% growth in ad revenues in Q4FY10. Circulation revenues were flat QoQ, at Rs536mn.
- Other revenues (OOH, Events, SMS, job work & scraps) stood at Rs250mn, up 47% YoY.

Chart 1: Ad revenue growth strong at 19.9%



Source: Company data, I-Sec Research

Chart 2: Ad growth of print players



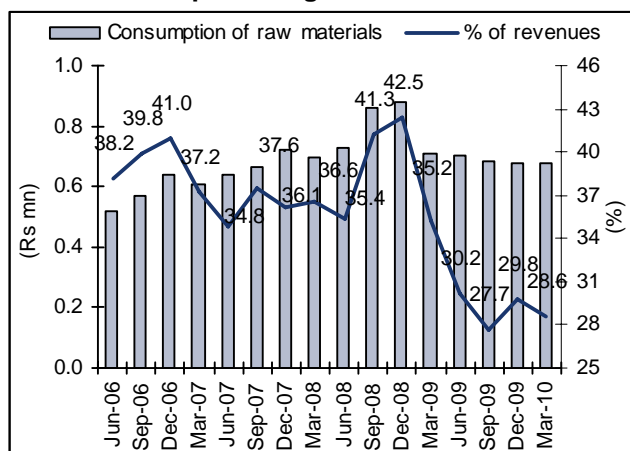
Source: Company data, I-Sec Research

EBITDA grew 62.2% YoY; PAT grows 66.8% YoY

- EBITDA grew 62.2% YoY and declined 3.1% QoQ to Rs633mn, and EBITDA margin was down 200bps QoQ to 26.8%.
- Raw material costs declined 4.6% YoY and were flat QoQ. Raw material costs, as a percentage of revenues, further declined 120bps QoQ to 28.6% from 29.8%. However, International Newsprint prices have started inching up from a low of ~US\$450/MT in September '09 to ~US\$575/MT at present.
- PAT grew 66.8% YoY and declined 8.4% QoQ to Rs364mn. The company declared final dividend of Rs1.5/share, taking full year dividend to Rs3.5.

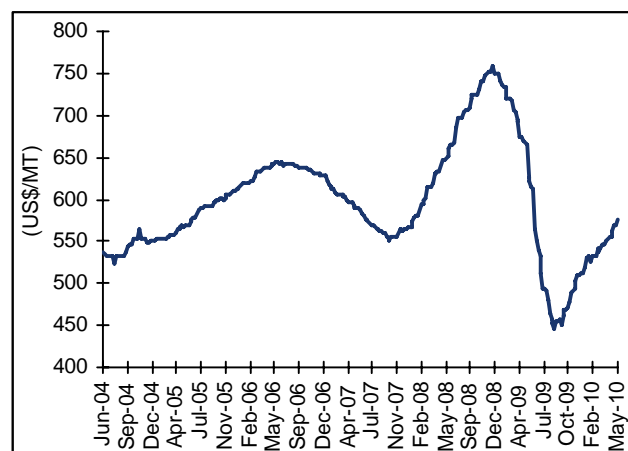
Chart 3: EBITDA margin declined 200bps to 26.8% in Q4FY10

Raw material costs dip 120bps QoQ as percentage of sales



Source: Company data, I-Sec Research

Newsprint prices on an uptrend



Source: Industry, I-Sec Research

Other highlights

- Three editions of *I-next* were launched, taking the total number of editions to 12. The total readership of *I-next* stood at ~2mn.
- Total number of *City Plus* editions increased to 22 as of March '10, after the launch of eight new editions (Pune: 4; Bangalore: 2; Mumbai: 1; Hyderabad: 1).

Table 1: Q4FY10 results review*(Rs mn, year ending March 31)*

| | Q4FY10 | Q4FY09 | % chg (YoY) | % chg (QoQ) | FY10 | FY09 | % chg (YoY) |
|---------------------------------|--------------|--------------|----------------|----------------|--------------|--------------|----------------|
| Advertisement revenues | 1,577 | 1,315 | 19.9 | 6.4 | 4,807 | 4,202 | 14.4 |
| Subscription revenues | 536 | 528 | 1.5 | 0.8 | 1,620 | 1,443 | 12.2 |
| Others | 250 | 170 | 47.2 | (2.1) | 629 | 567 | 11.0 |
| Total revenues | 2,363 | 2,013 | 17.4 | 4.1 | 7,056 | 6,221 | 13.4 |
| Total Operating expenses | 1,730 | 1,622 | 6.6 | 7.0 | 4,866 | 5,044 | (3.5) |
| (Inc) / dec in stock in trade | 2 | (1) | (313.3) | (192.9) | (1) | 0 | |
| Raw material costs | 676 | 709 | (4.6) | 0.0 | 2,060 | 2,471 | (16.6) |
| Employee cost | 319 | 263 | 21.3 | 5.1 | 893 | 802 | 11.3 |
| Other expenditure | 733 | 651 | 12.6 | 14.8 | 1,915 | 1,771 | 8.1 |
| EBITDA | 633 | 390 | 62.2 | (3.1) | 2,190 | 1,177 | 86.1 |
| Other income | 66 | 64 | 2.3 | (5.2) | 277 | 163 | 70.0 |
| Depreciation | 135 | 113 | 19.8 | 13.3 | 373 | 271 | 37.7 |
| Finance Expenses | 24 | 20 | 20.9 | 77.8 | 42 | 39 | 6.5 |
| PBT | 540 | 322 | 67.5 | (8.5) | 2,052 | 1,030 | 99.3 |
| Exceptional item | - | - | | | - | - | |
| Less: Provision for Tax | 176 | 104 | 69.2 | (8.7) | 657 | 332 | 98.1 |
| Adjusted PAT | 364 | 218 | 66.8 | (8.4) | 1,395 | 698 | 99.9 |
| Operating margin (%) | 26.8 | 19.4 | | | 31.0 | 18.9 | |
| Gross margin (%) | 71.3 | 64.8 | | | 70.8 | 60.3 | |
| Ad sales/ Total revenues (%) | 66.7 | 65.3 | | | 68.1 | 67.5 | |
| Employee cost / Revenue (%) | 13.5 | 13.1 | | | 12.7 | 12.9 | |
| Effective tax rate (%) | 32.6 | 32.3 | | | 32.0 | 32.2 | |
| NPM (%) | 15.4 | 10.8 | | | 19.8 | 11.2 | |

Source: Company data, I-Sec Research

Leader in readership

As per the latest IRS (Q1CY10), *Dainik Jagran* has maintained its leadership position in the Hindi segment. In Uttar Pradesh, *Dainik Jagran* has maintained its market share and is way ahead of its closest competitor. In Bihar and Jharkhand, it has increased its readership significantly by ~7% and is the #2 player.

Table 2: Top Hindi dailies (average issue readership '000)

| | 2007 R1 | 2007 R2 | 2008 R1 | 2008 R2 | 2009 R1 | 2009 R2 | 2010 Q1 | Absolute change | % change |
|----------------|---------|---------|---------|---------|---------|---------|---------|--------------------|----------|
| Dainik Jagran | 17,112 | 16,502 | 16,386 | 16,289 | 16,071 | 16,095 | 16,315 | 220 | 1 |
| Dainik Bhaskar | 12,512 | 12,816 | 12,824 | 13,000 | 12,878 | 12,881 | 13,330 | 449 | 3 |
| Hindustan | 9,045 | 8,547 | 8,749 | 9,210 | 9,302 | 9,338 | 9,916 | 578 | 6 |

Source: IRS

Table 3: Top five dailies in Uttar Pradesh (average issue readership '000)

| | 2007 R1 | 2007 R2 | 2008 R1 | 2008 R2 | 2009 R1 | 2009 R2 | 2010 Q1 | Absolute change | % change |
|------------------|---------|---------|---------|---------|---------|---------|---------|--------------------|----------|
| Dainik Jagran | 9,965 | 9,418 | 9,158 | 9,192 | 9,142 | 9,065 | 9,067 | 2 | 0 |
| Amar Ujala | 6,446 | 6,080 | 6,138 | 6,165 | 6,278 | 6,381 | 6,517 | 136 | 2 |
| Hindustan | 2,230 | 2,034 | 2,149 | 2,191 | 2,312 | 2,353 | 2,599 | 246 | 10 |
| Aaj | 1,139 | 1,020 | 935 | 817 | 751 | 703 | 618 | (85) | (12) |
| Rashtriya Sahara | 595 | 563 | 652 | 617 | 564 | 521 | 562 | 41 | 8 |

Source: IRS

Table 4: Top dailies in Bihar & Jharkhand (average issue readership '000)

| | 2007 R1 | 2007 R2 | 2008 R1 | 2008 R2 | 2009 R1 | 2009 R2 | 2010 Q1 | Absolute change | % change |
|----------------|---------|---------|---------|---------|---------|---------|---------|--------------------|----------|
| Hindustan | 5,974 | 5,633 | 5,548 | 5,781 | 5,589 | 5,527 | 5,828 | 301 | 5 |
| Dainik Jagran | 3,234 | 3,396 | 3,607 | 3,374 | 3,205 | 3,158 | 3,380 | 222 | 7 |
| Prabhat Khabar | 1,221 | 1,337 | 1,218 | 1,165 | 1,168 | 1,195 | 1,154 | (41) | (3) |
| Aaj | 592 | 570 | 514 | 452 | 337 | 360 | 347 | (13) | (4) |

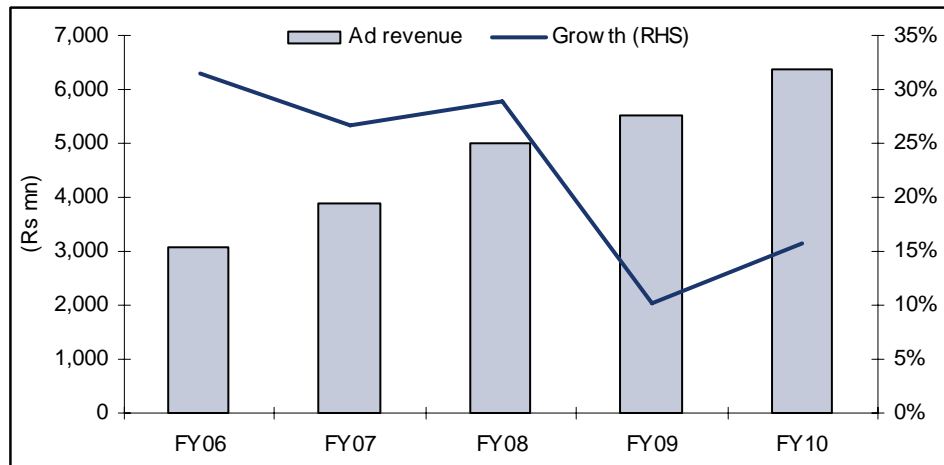
Source: IRS

FY10 results review – Consistently above-industry performance

JPL’s FY10 results signalled a revival for the sector, with revenues at Rs9.4bn as against Rs8.2bn in FY09, a 14.4% growth. Ad revenues exhibited strong growth of 15.7% in FY10 to Rs6.4bn from Rs5.5bn in FY09. Circulation revenues were at Rs2.2bn in FY10 compared with Rs2bn in FY09. In FY10, EBITDA margin witnessed expansion to 30% from 19% driven by lower newsprint prices and cost rationalisation initiatives.

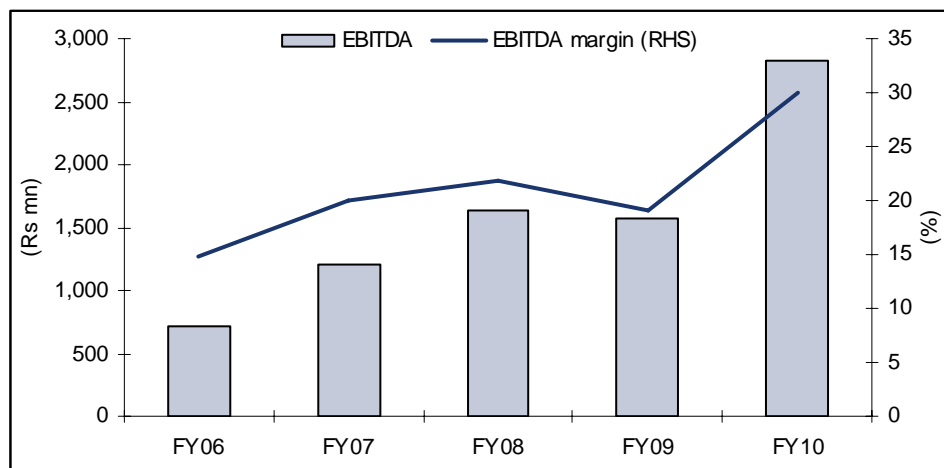
After minimum profitability erosion (outperforming peers) during the weak advertising period and record high newsprint prices witnessed in FY09, JPL has been able to report strong improvement in FY10. Net income witnessed 92% increase to Rs1,759mn from Rs916mn in FY09. Dividend-per-share has increased from Rs2/share in FY09 to Rs3.5/share in FY10, a payout of 60%.

Chart 4: Ad revenue growth strong at 15.7%



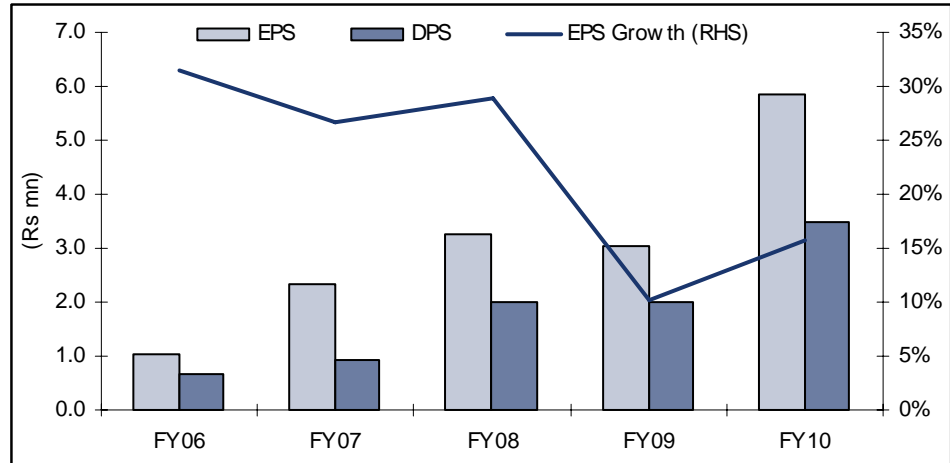
Source: Company data, I-Sec Research

Chart 5: EBITDA margin at 30%



Source: Company data, I-Sec Research

Chart 6: Dividend payout ratio of 60%



Source: Company data, I-Sec Research

Financial Summary

Table 5: Profit and Loss Statement

(Rs mn, year ending March 31)

| | FY09 | FY10 | FY11E | FY12E |
|---------------------------------|--------------|--------------|---------------|---------------|
| Operating Income (Sales) | 8,234 | 9,419 | 10,592 | 11,791 |
| of which advertising | 5,517 | 6,384 | 7,341 | 8,295 |
| of which circulation | 1,971 | 2,156 | 2,213 | 2,302 |
| of which others | 746 | 879 | 1,038 | 1,193 |
| Operating Expenses | 6,667 | 6,596 | 7,287 | 7,898 |
| EBITDA | 1,567 | 2,823 | 3,305 | 3,893 |
| % margins | 19.0 | 30.0 | 31.2 | 33.0 |
| Depreciation & Amortisation | 383 | 507 | 573 | 640 |
| Interest | 59 | 66 | 33 | 33 |
| Other Income | 227 | 343 | 360 | 378 |
| Recurring PBT | 1,352 | 2,592 | 3,058 | 3,597 |
| Add: Extraordinaries | - | - | - | - |
| Less: Taxes | 436 | 833 | 1,028 | 1,211 |
| - Current tax | 446 | 833 | 668 | 787 |
| - Deferred tax | (10) | - | 360 | 424 |
| Net Income (Reported) | 916 | 1,759 | 2,031 | 2,386 |
| Recurring Net Income | 916 | 1,759 | 2,031 | 2,386 |

Source: Company data, I-Sec Research

Table 6: Balance Sheet

(Rs mn, year ending March 31)

| | FY09 | FY10 | FY11E | FY12E |
|--|--------------|--------------|--------------|---------------|
| Assets | | | | |
| Total Current Assets | 3,601 | 3,792 | 5,006 | 6,755 |
| of which cash & cash eqv. | 828 | 676 | 1,513 | 2,906 |
| Total Current Liabilities & Provisions | 1,624 | 1,195 | 1,335 | 1,454 |
| Net Current Assets | 1,977 | 2,596 | 3,672 | 5,301 |
| Investments | | | | |
| of which | 1,568 | 1,568 | 1,568 | 1,568 |
| Strategic/Group | 1 | 1 | 1 | 1 |
| Other Marketable | 1,567 | 1,567 | 1,567 | 1,567 |
| Net Fixed Assets | 3,990 | 3,446 | 3,585 | 3,694 |
| Total Assets | 7,535 | 7,611 | 8,825 | 10,563 |
| Liabilities | | | | |
| Borrowings | 1,415 | 915 | 415 | 415 |
| Deferred Tax Liability | 521 | 521 | 880 | 1,304 |
| Equity Share Capital | 602 | 602 | 602 | 602 |
| Face Value per share (Rs) | 2.0 | 2.0 | 2.0 | 2.0 |
| Reserves & Surplus* | 4,997 | 5,573 | 6,927 | 8,242 |
| Net Worth | 5,599 | 6,175 | 7,530 | 8,844 |
| Total Liabilities | 7,535 | 7,611 | 8,825 | 10,563 |

Source: Company data, I-Sec Research

Table 9: Quarterly trends

(Rs mn, year ending March 31)

| | Jun-09 | Sep-09 | Dec-09 | Mar-10 |
|----------------------|------------|------------|------------|------------|
| Net sales | 2,319 | 2,468 | 2,269 | 2,363 |
| % growth (YoY) | 12 | 18 | 10 | 17 |
| EBITDA | 705 | 832 | 653 | 633 |
| Margin (%) | 30 | 34 | 29 | 27 |
| Other income | 157 | 50 | 70 | 66 |
| Add: Extraordinaries | - | - | - | - |
| Net profit | 495 | 503 | 397 | 364 |

Source: Company data

Table 7: Cashflow Statement

(Rs mn, year ending March 31)

| | FY09 | FY10 | FY11E | FY12E |
|--|--------------|--------------|--------------|--------------|
| Operating Cash flow | 1,176 | 1,546 | 2,645 | 3,108 |
| Working Capital Changes | (19) | (392) | (280) | (272) |
| Capital Commitments | (1,107) | 35 | (711) | (749) |
| Free Cash Flow | 49 | 1,189 | 1,653 | 2,087 |
| Cash flow from Investing Activities | 491 | 343 | 360 | 378 |
| Issue of Share Capital | 0 | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc (Dec) in Borrowings | 624 | (500) | (500) | - |
| Dividend paid | (705) | (1,183) | (676) | (1,071) |
| Extraordinary Items | - | - | - | - |
| Chg. in Cash & Bank balance | 459 | (151) | 837 | 1,393 |

Source: Company data, I-Sec Research

Table 8: Key Ratios

(Year ending March 31)

| | FY09 | FY10 | FY11E | FY12E |
|---------------------------------------|-------|------|-------|-------|
| Per Share Data (in Rs.) | | | | |
| Recurring EPS | 3.0 | 5.8 | 6.7 | 7.9 |
| Reported EPS | 3.0 | 5.8 | 6.7 | 7.9 |
| Recurring Cash EPS | 4.3 | 7.5 | 8.6 | 10.0 |
| Dividend per share (DPS) | 2.0 | 3.5 | 2.0 | 3.2 |
| Book Value per share (BV) | 18.6 | 20.5 | 25.0 | 29.4 |
| Growth Ratios (%) | | | | |
| Operating Income | 9.8 | 14.4 | 12.5 | 11.3 |
| EBITDA | (4.3) | 80.1 | 17.1 | 17.8 |
| Recurring Net Income | (6.7) | 92.0 | 15.4 | 17.5 |
| Diluted Recurring EPS | (6.7) | 92.0 | 15.4 | 17.5 |
| Diluted Recurring CEPS | (1.4) | 74.4 | 14.9 | 16.2 |
| Valuation Ratios (x) | | | | |
| P/E | 34.8 | 18.1 | 15.7 | 13.4 |
| P/CEPS | 24.6 | 14.1 | 12.3 | 10.5 |
| P/BV | 5.7 | 5.2 | 4.2 | 3.6 |
| EV / EBITDA | 19.7 | 11.0 | 9.4 | 7.9 |
| EV / Operating Income | 3.8 | 3.3 | 2.9 | 2.6 |
| EV / Operating FCF | 26.8 | 26.8 | 13.1 | 10.9 |
| Operating Ratio (%) | | | | |
| Raw Material/Sales | 41.5 | 29.0 | 30.0 | 29.2 |
| SG&A/Sales | 16.3 | 18.6 | 17.7 | 16.8 |
| Other Income / PBT | 16.8 | 13.2 | 11.8 | 10.5 |
| Effective Tax Rate | 32.2 | 32.1 | 33.6 | 33.7 |
| NWC / Total Assets | 15.3 | 25.2 | 24.5 | 22.7 |
| Inventory Turnover (days) | 21.3 | 26.2 | 29.6 | 30.3 |
| Receivables (days) | 70.3 | 65.7 | 66.1 | 66.4 |
| Payables (days) | 47.2 | 47.7 | 44.4 | 45.1 |
| D/E Ratio | 34.6 | 23.2 | 17.2 | 19.4 |
| Return/Profitability Ratio (%) | | | | |
| Recurring Net Income Margins | 10.8 | 18.0 | 18.5 | 19.6 |
| RoCE | 13.4 | 23.8 | 25.0 | 24.8 |
| RoNW | 16.7 | 29.9 | 29.6 | 29.1 |
| Dividend Payout Ratio | 65.7 | 59.9 | 29.7 | 40.0 |
| Dividend Yield | 1.9 | 3.3 | 1.9 | 3.0 |
| EBITDA Margins | 19.0 | 30.0 | 31.2 | 33.0 |

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

ANALYST CERTIFICATION

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