What's New? Target Rating Estimates

Jagran Prakashan Ltd

Healthy numbers; synergies ahead

Jagran Prakashan's (JAGP) Q3FY11 results were in line with our estimates, with advertising/circulation revenues growing 31%/7.2% YoY. Despite a rise in newsprint cost, lower overheads helped the company record a 260bps expansion in EBITDA margin to 31.4% for the quarter. We maintain our positive outlook on the company primarily on the back of (a) strong growth in Hindi print ad revenues (in line with the management guidance of 20% YoY in FY12), and (b) operational synergies from the Mid Day acquisition (expanding in English, Gujarati and Urdu, through *Inquilab*), which will bolster growth in the medium term. JAGP remains our top pick in the sector; we maintain our target price of Rs 160 based on 18x one-year forward earnings.

Results in line: JAGP recorded 26% YoY growth in revenues to Rs 2.9bn, in line with our estimates for the quarter. Ad revenues increased 31% YoY, while circulation income grew by 7.2%. Outdoor and event management revenues rose ~20% YoY and 21% QoQ to Rs 252mn. Backed by a 260bps YoY expansion in EBITDA margin, JAGP recorded a 32.5% YoY rise in net profit to Rs 526mn (against our estimate of Rs 510mn) for the quarter.

Ad revenue growth at par with peers: JAGP's ad revenue growth of 31.3% YoY (flattish QoQ) to Rs 1.9bn was in line with that recorded by DB Corp and HT Media. Sectors driving the growth included retail, education, real estate (uptick witnessed in Q3) and telecom (driven by number portability). JAGP expects ad revenue growth to remain buoyant at 20% in FY12, driven by both higher volumes and yields.

Circulation revenues rise despite price cut in Jharkhand: JAGP recorded a 7.2% YoY (4% QoQ) rise in its circulation revenues, primarily driven by ~10% YoY volume growth in Q3FY11 which compensated for a price cut in Jharkhand. On the back of its focus on expansion in upcountry markets, the management expects circulation volumes to grow at 8–10% in FY12.

Newsprint prices expected to rise at inflation rate: In Q3, newsprint cost increased by 50bps YoY to 30.2% of revenues. While the management expects some stability in prices over the next few quarters (Q4 newsprint prices to be broadly at Q3 levels), it believes prices will trend up in line with inflation (7–8% YoY) over the medium term.

Mid Day expansion in English, Gujarati; Inquilab on the cards: Apart from expansion plans in Mid Day English and Gujarati in Mumbai, JAGP also plans to extend its presence in the Urdu space (through *Inquilab*) in Mumbai as well as Uttar Pradesh. Mid Day reported revenues/EBIT of Rs 778mn/Rs 130mn in 9MFY11 and is expected to be earnings accretive.

CMP	TARGET	RATING	RISK
Rs 120	Rs 160	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532705	JAGRAN	JAGP IN

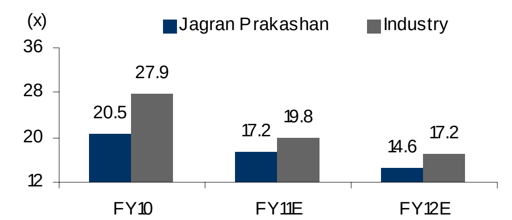
Company data

Market cap (Rs mn / US$ mn)	37,934 / 825
Outstanding equity shares (mn)	316
Free float (%)	44.7
Dividend yield (%)	2.3
52-week high/low (Rs)	157 / 104
3-month average daily volume	158,803

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Jagran	122	(7.8)	(7.9)	1.0
Sensex	18,328	(10.6)	(8.5)	2.6

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	20.5	17.2	14.6	12.2
P/E @ Target	27.4	23.0	19.4	16.3
EV/EBITDA @ CMP	13.0	10.2	8.9	7.6

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	9,419	11,743	13,418	15,367
Growth (%)	*14.4*	*24.7*	*14.3*	*14.5*
Adj net income	1,759	2,200	2,606	3,104
Growth (%)	*91.9*	*25.1*	*18.4*	*19.1*
FDEPS (Rs)	5.8	7.0	8.2	9.8
Growth (%)	*91.9*	*19.2*	*18.4*	*19.1*

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	30.0	30.6	30.9	31.5
EBIT margin	24.6	25.9	25.9	26.7
Adj PAT margin	18.7	18.7	19.4	20.2
ROE	30.0	28.9	26.6	27.5
ROIC	26.1	29.3	28.4	32.9
ROCE	25.0	26.0	25.7	27.3

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Result highlights

Results in line with expectations

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	2,860	2,735	4.6
EBITDA	897	840	6.9
EBITDA Margin (%)	31.4	30.7	68bps
Adj net income	526	510	3.3

Source: RCML Research

Cost of revenues higher due to rise in newsprint prices

Lower overheads aid EBITDA margin expansion

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Revenue	**2,860**	**2,269**	**26.1**	**2,769**	**3.3**
Cost of Revenues	863	674	28.2	801	7.7
Employee Cost	363	304	19.5	354	2.7
Other Overheads	736	639	15.2	705	4.4
EBITDA	**897**	**653**	**37.5**	**908**	**(1.2)**
Depreciation	146	119	22.9	133	10.2
Interest	21	13	55.5	14	49.2
Other income	55	70	(20.5)	64	(13.5)
PBT	786	590	33.2	826	(4.8)
Tax	259	193	34.6	271	(4.2)
PAT	**526**	**397**	**32.5**	**555**	**(5.2)**
FDEPS (Rs)	1.7	1.3	32.5	1.8	(5.2)
EBITDA margin (%)	31.4	28.8	261bps	32.8	(144bps)
Net Profit margin (%)	18.4	17.5	90bps	20.0	(164bps)

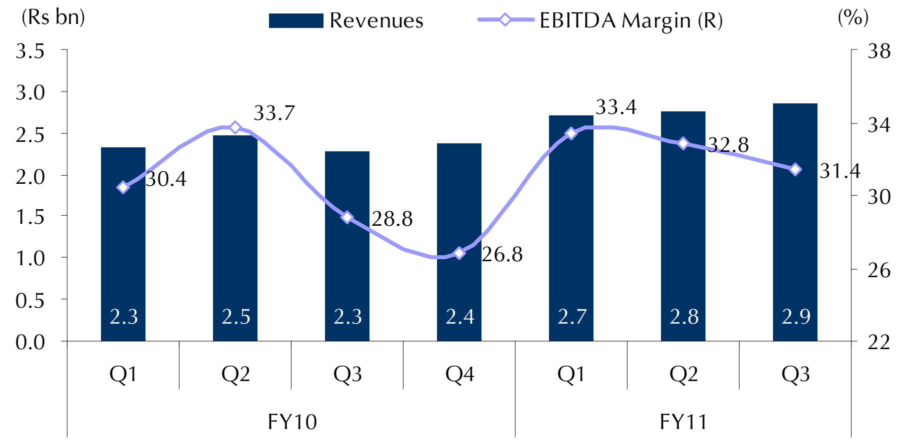
Source: Company, RCML Research

Other key highlights

- Retail ad revenues remained buoyant during Q3; the company also witnessed an uptick in the real estate and telecom (backed by number portability) sectors during the quarter.
- The Cricket World Cup is expected to add advertising revenues of Rs 400mn–500mn.
- The company has 11–12 loss-making editions at present (inclusive of the Jharkhand edition).
- The management has guided for Mid Day consolidation in its financials in Q4FY11.
- Mid Day Mumbai has recorded circulation of 100,000 copies per week, while circulation of both Mid Day Gujarati and Inquilab stand at ~50,000 copies per week.
- The management expects to consolidate further properties in its outdoor business and aims to double revenues over the next three years.

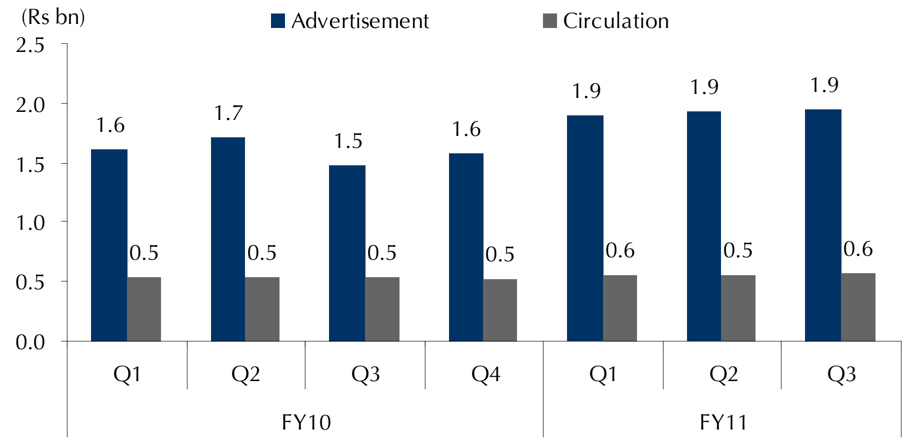
Operational snapshot

Fig 3 - EBITDA Margin expansion continues in Q3 as well



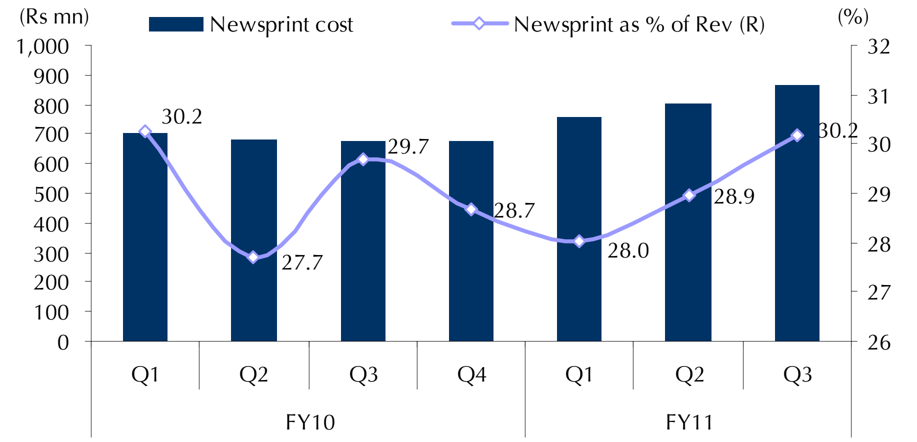
Source: RCML Research, Company

Fig 4 - Ad revenues lead the growth; while circulation revenues stable



Source: RCML Research, Company

Fig 5 - Newsprint as % of revenues rises due to higher newsprint prices



Source: RCML Research, Company

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	**9,419**	**11,743**	**13,418**	**15,367**
Growth (%)	*14.4*	*24.7*	*14.3*	*14.5*
EBITDA	**2,823**	**3,593**	**4,142**	**4,835**
Growth (%)	*80.1*	*27.3*	*15.3*	*16.7*
Depreciation & amortisation	507	555	666	734
EBIT	2,315	3,038	3,476	4,101
Growth (%)	*95.5*	*31.2*	*14.4*	*18.0*
Interest	66	48	37	9
Other income	343	295	283	343
EBT	2,592	3,284	3,723	4,435
Income taxes	833	1,084	1,117	1,330
Effective tax rate (%)	*32.1*	*33.0*	*30.0*	*30.0*
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,759	2,200	2,606	3,104
Adjustments	-	-	-	-
Adjusted net income	**1,759**	**2,200**	**2,606**	**3,104**
Growth (%)	*91.9*	*25.1*	*18.4*	*19.1*
Shares outstanding (mn)	301.2	316.1	316.1	316.1
FDEPS (Rs) (adj)	**5.8**	**7.0**	**8.2**	**9.8**
Growth (%)	*91.9*	*19.2*	*18.4*	*19.1*
DPS (Rs)	2.5	2.8	3.3	3.9

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,267	2,756	3,272	3,838
Non-cash adjustments	(384)	-	-	-
Changes in working capital	(312)	(360)	(415)	(220)
Cash flow from operations	1,571	2,396	2,857	3,618
Capital expenditure	(383)	(1,799)	(800)	(800)
Change in investments	(98)	(100)	(100)	(100)
Other investing cash flow	-	-	-	-
Cash flow from investing	(481)	(1,899)	(900)	(900)
Issue of equity	-	1,790	-	-
Issue/repay debt	-	-	-	-
Dividends paid	(864)	(1,030)	(1,220)	(1,453)
Other financing cash flow	(201)	(500)	(500)	(200)
Change in cash & cash eq	24	756	237	1,065
Closing cash & cash eq	852	1,608	1,845	2,910

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	12.0	12.0	12.0	12.0
ROIC (%)	26.1	29.3	28.4	32.9
Invested capital (Rs mn)	5,998	7,823	8,481	8,946
EVA (Rs mn)	851	1,349	1,388	1,871
EVA spread (%)	14.2	17.2	16.4	20.9

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	852	1,608	1,845	2,910
Accounts receivable	1,812	2,290	2,684	3,073
Inventories	533	646	711	784
Other current assets	976	1,198	1,342	1,506
Investments	1,666	1,766	1,866	1,966
Gross fixed assets	5,635	7,435	8,235	9,035
Net fixed assets	3,690	4,935	5,069	5,135
CWIP	251	250	250	250
Intangible assets	-	-	-	-
Deferred tax assets, net	(580)	(580)	(580)	(580)
Other assets	-	-	-	-
Total assets	**9,200**	**12,112**	**13,186**	**15,044**
Accounts payable	944	1,057	1,073	1,229
Other current liabilities	351	434	496	569
Provisions	566	821	931	1,109
Debt funds	1,214	714	214	14
Other liabilities	-	-	-	-
Equity capital	602	632	632	632
Reserves & surplus	5,523	8,454	9,840	11,492
Shareholder's funds	6,126	9,086	10,472	12,124
Total liabilities	**9,200**	**12,112**	**13,186**	**15,044**
BVPS (Rs)	20.3	28.7	33.1	38.4

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	30.0	30.6	30.9	31.5
EBIT margin	24.6	25.9	25.9	26.7
Net profit margin	18.7	18.7	19.4	20.2
ROE	30.0	28.9	26.6	27.5
ROCE	25.0	26.0	25.7	27.3
Working Capital & Liquidity ratios				
Receivables (days)	66	64	68	68
Inventory (days)	53	54	55	55
Payables (days)	94	91	87	84
Current ratio (x)	3.2	3.8	4.2	4.6
Quick ratio (x)	1.4	1.5	1.7	1.7
Turnover & Leverage ratios (x)				
Gross asset turnover	1.8	1.8	1.7	1.8
Total asset turnover	1.1	1.1	1.1	1.1
Interest coverage ratio	35.3	63.1	93.7	451.3
Adjusted debt/equity	0.2	0.1	0.0	0.0
Valuation ratios (x)				
EV/Sales	3.9	3.1	2.7	2.4
EV/EBITDA	13.0	10.2	8.9	7.6
P/E	20.5	17.2	14.6	12.2
P/BV	5.9	4.2	3.6	3.1

Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	2,269	2,363	2,698	2,769	2,860
YoY growth (%)	*9.6*	*17.4*	*16.4*	*12.2*	*26.1*
QoQ growth (%)	*(8.1)*	*4.1*	*14.2*	*2.6*	*3.3*
EBITDA (Rs mn)	653	633	902	908	897
EBITDA margin (%)	*28.8*	*26.8*	*33.4*	*32.8*	*31.4*
Adj net income (Rs mn)	397	364	556	555	526
YoY growth (%)	*156.9*	*66.7*	*12.2*	*10.4*	*32.5*
QoQ growth (%)	*(21.0)*	*(8.4)*	*52.8*	*(0.2)*	*(5.2)*

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	67.8	67.9	67.0	70.0	70.0
Interest burden (PBT/EBIT)	114.2	112.0	108.1	107.1	108.2
EBIT margin (EBIT/Revenues)	14.4	24.6	25.9	25.9	26.7
Asset turnover (Revenues/Avg TA)	102.6	105.6	110.2	106.1	108.9
Leverage (Avg TA/Avg equtiy)	146.2	152.1	140.1	129.3	124.9
Return on equity	**16.7**	**30.0**	**28.9**	**26.6**	**27.5**

Company profile

Jagran Prakashan Limited's (JPL) newspaper daily, Dainik Jagran, is the largest read daily with total readership of 54mn (Q3FY10 IRS). It circulates around 3mn copies per day. The company's main markets are UP, Uttarakhand, Bihar, Jharkhand, Punjab, Haryana and Delhi. It has also diversified into other media platforms such as event management, OOH, I-Next and City Plus. The company entered the English daily market in the western region with its recent acquisition of Mid-Day's print business.

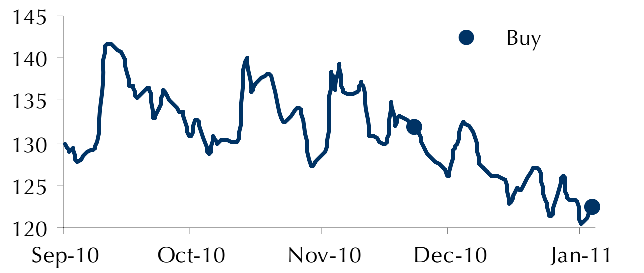
Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	55.3	55.3	55.3
FIIs	8.5	10.3	11.0
Banks & FIs	15.6	18.8	18.3
Public	20.6	15.6	15.4

Recommendation history

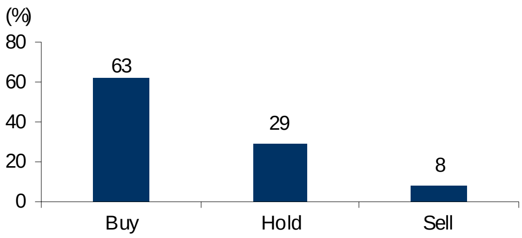
Date	Event	Reco price	Tgt price	Reco
21-Dec-10	Initiating Coverage	132	160	Buy
31-Jan-11	Results Review	120	160	Buy

Stock performance

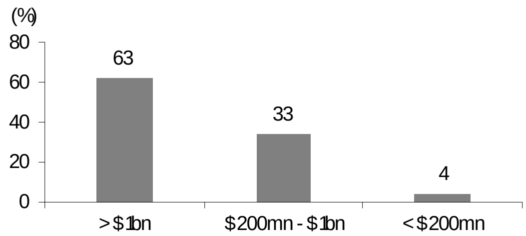


Coverage Profile

By recommendation



By market cap (US$)



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.

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