# Equity Research

**Equity Research Report** **Publishing** **Date: March 6, 2018**

# Jagran Prakashan Ltd

**Analyst Recommendation: BUY**

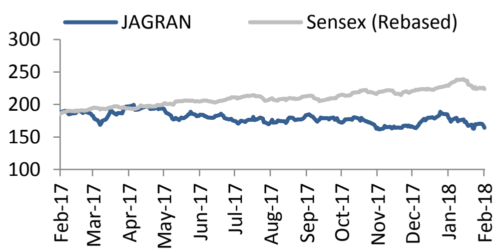
| BSE Code: | 532705 | NSE: | JAGRAN | Reuters Code: | JAGP.NS | Bloomberg Code: | JAGP:IN |
|---|---|---|---|---|---|---|---|

**CMP:** **Rs 161**

**1 Year Target -** **Rs 190**

| | |
|---|---|
| Face Value | 2.0 |
| Market Cap (Rscr) | 5,014 |
| 52 week high/low | 209/157 |
| Avg. Daily Volume (6m) | 2.3 lakh units |
| Shares O/S (Cr) | 31.1 |
| Book Value per Share (Rs) | 65.9 |
| Sensex | 33,317 |
| Nifty | 10,249 |

## 1 yr. Price Chart of Stock and BSE




## Investor's Rationale

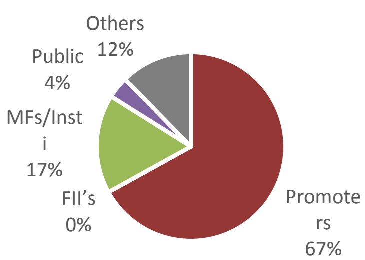
- **Stronghold in Hindi newspaper segment:** Dainik Jagran is Jagran Prakashan Ltd's (JPL) flagship print publication and has a strong presence in tier II and tier III towns across the Hindi speaking belt with leadership position in Uttar Pradesh. The newspaper enjoys the position of widely read newspaper in India and continues to be the largest read newspaper till date due to its focus on providing local content in the country's Hindi speaking regions. Thus, it stands to benefit from the fast-growing advertising spend in these cities due to strong economic growth and rising consumption, which allows it to charge premium ad rates.

- **Radio to add significant value going ahead:** In a move to consolidate its position in the growing media space, JPL forayed into the high growth Radio sector with the acquisition of Music Broadcast Pvt Ltd (MBL), which operates the popular Radio City FM station. We believe MBL will add significant value for the shareholders of the company going ahead due to its high operating margins which will boosts JPL's operating margins and profitability. Further, Radio City is looking at inorganic growth for the next phase of expansion with an aim to increase its footprint to 65% of India's population, from the current 62%. To achieve this, the company is targeting to acquire local stations in new geographies like Kolkata, Madhya Pradesh and Chhattisgarh.

- **Strong growth in advertisement revenue to continue:** JPL's overall advertisement revenue grew at a CAGR of 12.5% over FY13-17. The growth in advertising revenue was led by Dainik Jagran which rose at a CAGR of 8% over FY13-17 driven by better yields and increased volumes. We expect advertisement revenue to grow at a CAGR of 8% over FY17-20E driven by a likely improvement in economic growth, increase ad spends from the government and improvement in retail advertisement. Also, improving smartphone penetration will help to drive ad revenue growth.

**Valuation:** Looking ahead, we expect JPL's strong traction in earnings to continue owing to robust growth in advertising revenue, benign newsprint prices and healthy margins. We expect healthy ad spend by sectors such as FMCG, education, autos, and government going ahead. Further, strong footing in the radio market bodes well for the growth outlook. We estimate JPL's consolidated revenue/PAT to grow at a CAGR of 7% each over FY17-20E. We recommend 'BUY' rating on the stock with a target price of Rs.190 based on SOTP methodology. We value the core business at 13x FY20E and radio business at 25x FY20E earnings.

## Shareholding pattern as on 31st December 2017




| | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| Revenue (Rs.Cr) | 2,283 | 2,373 | 2,561 | 2,783 |
| EBITDA (Rs. cr) | 640 | 631 | 709 | 782 |
| Adj. profit (Rs.Cr) | 347 | 334 | 380 | 428 |
| Adj. EPS (Rs.) | 10.6 | 10.7 | 12.2 | 13.7 |
| P/E (x) | 15.2 | 15.0 | 13.2 | 11.7 |
| P/BV (x) | 2.4 | 2.4 | 2.1 | 1.9 |
| EV/EBITDA (x) | 8.5 | 8.4 | 7.0 | 6.0 |
| ROE (%) | 18.3 | 15.8 | 17.2 | 17.1 |
| ROCE (%) | 22.3 | 20.3 | 22.3 | 22.7 |

## Enjoys leadership position in Hindi newspaper segment

Dainik Jagran is JPL's flagship print publication and has a strong presence in tier II and tier III towns across the Hindi speaking belt with leadership position in Uttar Pradesh. The newspaper enjoys the position of widely read newspaper in India and continues to be the largest read newspaper till date. According to the Indian Readership Survey 2017 released by Media Research Users Council, Dainik Jagran retained its leadership position as the largest read Hindi daily of the country with a total readership of 7 crore. It also showed that the company has further consolidated its existing strong position and made significant gains across major markets.

Dainik Jagran with its long-standing presence and focus on providing local content has enabled it to command a dominant position in the country's Hindi speaking regions. Thus, it stands to benefit from the fast-growing advertising spend in these cities due to strong economic growth and rising consumption, which allows it to charge premium ad rates. Further, it has managed to strengthen its market position in Bihar, Jharkhand and Punjab while maintaining its leadership position in other states especially UP.

## Radio to add significant value going ahead

In a move to consolidate its position in the growing media space, JPL forayed into the high growth Radio sector with the acquisition of Music Broadcast Pvt Ltd (MBL), which operates the popular Radio City FM station. The acquisition catapults the company to a leadership position in the radio segment of the media industry and strengthens its portfolio of leading media brands and enable the company to benefit from the rapid growth in radio advertising. MBL has reported revenue CAGR of 21% over FY14-17 supported by rate hike in the legacy stations as well as better than expected utilization in the new markets. We believe MBL will add significant value for the shareholders of the company going ahead due to its high operating margins which will boosts JPL's operating margins and profitability. Further, the company's focus on limiting cost per million listenership, targeting strategic markets, improving yield in top markets and better utilization in new markets will support growth. Radio City is looking at inorganic growth for the next phase of expansion with an aim to increase its footprint to 65% of India's population, from the current 62%. To achieve this, the company is targeting to acquire local stations in new geographies like Kolkata, Madhya Pradesh and Chhattisgarh after the three-year lock-in period under Phase 3 of radio privatization that expire on 31 March 2018 to fill up their coverage gap in key cities. Hence, we model in a revenue CAGR of 15% over FY17-20E on the back of better inventory utilization.

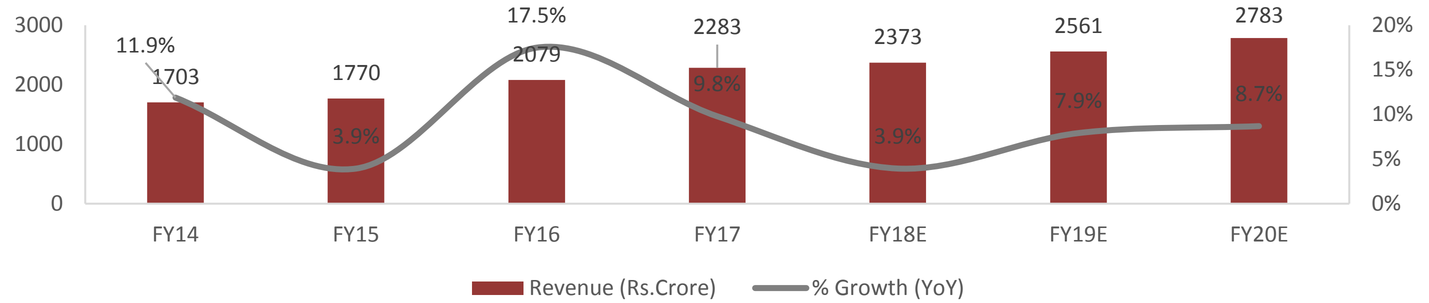
## Strong growth in advertisement revenue to continue

JPL has maintained growth in advertisement revenue over the last few years supported by increased volumes coupled with balanced approach on yield strategy and a boost from the fast-growing Radio business. JPL's overall advertisement revenue grew at a CAGR of 12.5% over FY13-17. The growth in advertising revenue was led by Dainik Jagran which rose at a CAGR of 8% over FY13-17 driven by better yields and increased volumes. We expect advertisement revenue to grow at a CAGR of 8% over FY17-20E driven by a likely improvement in economic growth, increase ad spends from the government, benefits from the national elections in 2019 and improvement in retail advertisement with increasing number of advertisers especially from e-commerce and the food and beverages segment. Also, improving smartphone penetration will help to drive ad revenue growth as it provides advertisers critical mass, reach and scale of audiences.

## Revenue to grow at 7% CAGR over FY17-20E

JPL recorded 11% net sales CAGR during FY13-17 driven by 12.5%/8.2% CAGR in advertising and circulation revenue. Advertisement revenue accounts for 74% of the total revenue while circulation accounts for 19% as of FY17. Advertisement revenue grew due to higher ad revenue from Print and Radio business. The growth in circulation revenue was mainly due to planned increase in circulation of all three major brands viz. Dainik Jagran, Naidunia and Dainik Jagran-I next with Dainik Jagran leading the growth due to increased volumes and improvement in per copy realization. Further, hike in cover prices, improved realization/copy across the publications also supported the revenue growth. We believe the company's strategy of a) strengthening of circulation in untapped or under-tapped markets b) focus on hyper-localisation (leading to multi-edition newspapers) c) expansion of content diversity with the help of supplements will be key growth drivers. With wider geographical presence in Hindi Heartland markets and large cities like Mumbai & expansion of offerings in various Indian languages, we expect circulation revenue to grow at a CAGR of 5% over FY17-20E. Further, increased revenue from the Radio business would support revenue growth. With improvement in the Indian economic growth and benefits from the national elections in 2019, we model overall revenue CAGR of 7% over FY17-20E.

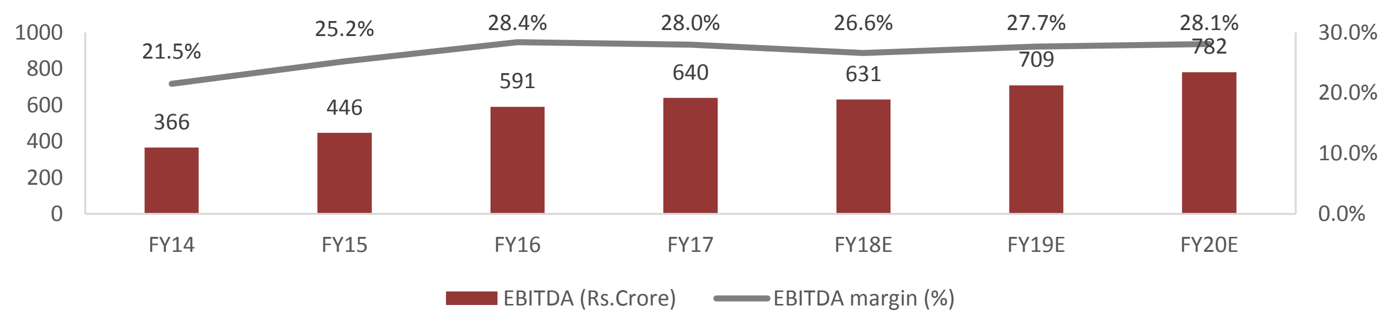
## Revenue to grow by 7% CAGR over FY17-20E




## EBITDA margin to expand to 28.4% by FY20E

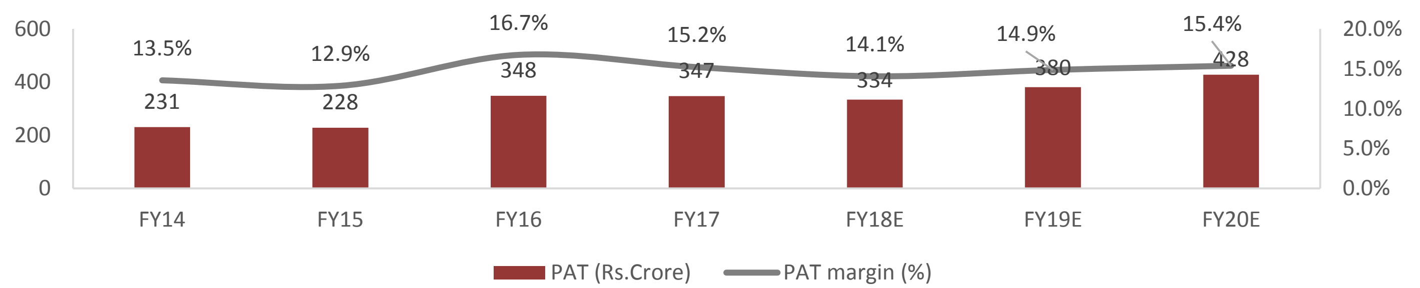
EBITDA grew at a CAGR of 22% over FY13-17 while EBITDA margin expanded by 920 bps to 28% in FY17. The growth was primarily driven by lower newsprint cost, better operating performance of Dainik Jagran and improvement in operating performance of other publications. Dainik Jagran registered a strong expansion in operating profit margin from 30.6% in FY13 to 34.6% in FY17, (up by ~400 bps). Also, significant operating margin expansion in Radio business supported the overall margins. Going ahead, with strong ad revenue growth, we expect overall margins to improve by 10bps to 28.1% by FY20E.

## EBITDA to grow at 7% CAGR over FY17-20E




*Source: Company, In-house research*

## PAT to grow at 7% CAGR over FY17-20E




## Healthy balance sheet

JPL's D/E ratio has reduced sharply to 0.1x in FY17 from 0.5x in FY13 and it is expected to reduce further to 0.1x by FY20E on account of strong free cash flow generation to the tune of Rs1149 crore over FY17-20E. JPL has been generating strong operating cash flows (OCF) over the years. During FY13-17, OCF has grown at a CAGR of ~24%. Working capital days remained stable at 76 in FY17 (77 in FY13) with receivable days at 82 in FY17 while inventory days declined from 31 in FY13 to 26 in FY17. Debtors days improved marginally to 33 from 31. ROCE is projected to increase from 22.3% in FY17 to 22.7% in FY20E.

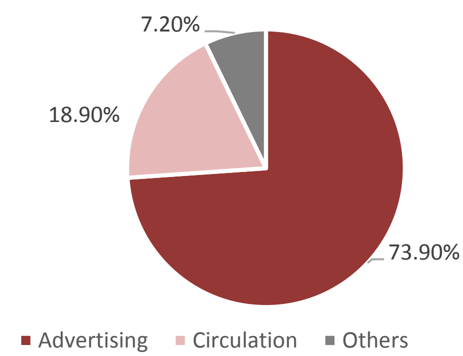
## Outlook and Valuation

With a total readership of 70 million (IRS 2017), Jagran Prakashan is the largest print media group in the country. Despite increased competitive intensity, the company has managed to consistently increase ad yields. We expect the company to maintain growth momentum driven by healthy ad spend by sectors such as FMCG, education, autos, and government. Further, strong footing in the radio market bodes well for the growth outlook. Looking ahead, we expect strong traction in earnings to continue owing to robust growth in advertising revenue, benign newsprint prices and healthy margins. We estimate JPL's consolidated revenue/PAT to grow at a CAGR of 7% each over FY17-20E. We recommend 'BUY' rating on the stock with a target price of Rs.190 based on SOTP methodology. We value the core business at 13x FY20E and radio business at 25x FY20E earnings.

## Jagran Prakashan Ltd - Company Overview

Incorporated in 1942, Jagran Prakashan Ltd (JPL) is a media house with interests spanning across printing and publication of newspapers & magazines, Radio and Digital & Outdoor Advertising. The group publishes 8 newspapers and 2 magazines from 37 different printing facilities across 13 states in 5 different languages. It's flagship brand Dainik Jagran has been the largest read and circulated newspaper in India with over 56 million readers across all languages including English. Apart from Dainik Jagran, the group's publications include Midday, Naiduniya, INext (a broadsheet daily newspaper), The Inquilab and Punjabi Jagran. Midday English a niche English daily, Inquilab the highest read Urdu daily of India and Midday Gujarati, No.2 Gujarati newspaper in Mumbai are three newspaper brands published by the company's subsidiary Midday Infomedia Limited. Besides newspapers, the company also publishes the magazines Sakhi and Khet Khaliyan apart from various other publications and coffee table books. It's radio channel Radio City in India operates from 39 stations across 13 states in India. JPL marked its entry into the radio business with the acquisition of Music Broadcast (MBPL) and Radio Mantra business. The company also offers outdoor advertising and promotional marketing and event management services through its division Jagran Solutions. Jagran Engage provides specialized 'Out of Home' advertising services with a Pan-India footprint.

## Revenue Mix




*Source: Company, In-house research*

## Key Risks

- Any increase in newsprint prices.
- Adverse currency fluctuation.
- Increasing competition in core print markets.

### Balance sheet (Consolidated)

| (Rs crore) | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Paid up capital | 65 | 62 | 62 | 62 |
| Reserves and Surplus | 2,090 | 2,012 | 2,280 | 2,596 |
| **Net worth** | 2,155 | 2,074 | 2,342 | 2,658 |
| Minority interest | 236 | 246 | 258 | 271 |
| Total Debt | 308 | 330 | 260 | 230 |
| Other non-current liabilities | 17 | 17 | 17 | 17 |
| **Total Liabilities** | **2,717** | **2,668** | **2,878** | **3,177** |
| **Assets** | | | | |
| Total fixed assets | 1,154 | 1,134 | 1,088 | 1,024 |
| Capital WIP | 76 | 60 | 50 | 50 |
| Goodwill | 338 | 338 | 338 | 338 |
| Investments | 535 | 535 | 535 | 535 |
| Net Current assets | 730 | 717 | 983 | 1,347 |
| Deferred tax asset (Net) | (170) | (170) | (170) | (170) |
| Other non-current assets | 54 | 54 | 54 | 54 |
| **Total Assets** | **2,717** | **2,668** | **2,878** | **3,177** |

### Profit & Loss Account (Consolidated)

| (Rs crore) | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| **Total operating Income** | **2,283** | **2,373** | **2,561** | **2,783** |
| Raw Material cost | 652 | 712 | 740 | 793 |
| Employee cost | 374 | 389 | 419 | 456 |
| Other operating expenses | 617 | 641 | 692 | 752 |
| **EBITDA** | **640** | **631** | **709** | **782** |
| Depreciation | 129 | 136 | 146 | 155 |
| EBIT | 511 | 495 | 563 | 627 |
| Interest cost | 35 | 30 | 30 | 25 |
| Other Income | 41 | 47 | 51 | 55 |
| **Profit before tax** | **516** | **512** | **585** | **658** |
| Tax | 168 | 169 | 193 | 217 |
| **Profit after tax** | **349** | **343** | **392** | **441** |
| Minority Interests | 2 | 10 | 12 | 13 |
| P/L from Associates | 0 | 1 | 1 | 1 |
| **Adjusted PAT** | **347** | **334** | **380** | **428** |
| E/o income / (Expense) | - | - | - | - |
| **Reported PAT** | **347** | **334** | **380** | **428** |

## Cash Flow (Consolidated)

| Y.E March (Rs crore) | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| Pre tax profit | 517 | 512 | 585 | 658 |
| Depreciation | 129 | 136 | 146 | 155 |
| Chg in Working Capital | (48) | (22) | (42) | (52) |
| Others | 19 | (17) | (21) | (30) |
| Tax paid | (139) | (169) | (193) | (217) |
| **Cash flow from operating activities** | **477** | **441** | **474** | **513** |
| Capital expenditure | (118) | (100) | (90) | (90) |
| Chg in imvestments | (318) | - | - | - |
| Other investing cashflow | 17 | 47 | 51 | 55 |
| **Cash flow from investing activities** | **(419)** | **(53)** | **(39)** | **(35)** |
| Equity raised/(repaid) | 400 | (302) | - | - |
| Debt raised/(repaid) | (280) | 22 | (70) | (30) |
| Dividend paid | (0) | (112) | (112) | (112) |
| Other financing activities | (57) | (30) | (30) | (25) |
| **Cash flow from financing activities** | **63** | **(423)** | **(212)** | **(167)** |
| Net chg in cash | 121 | (35) | 224 | 311 |

## Key Ratios & Valuations (Consolidated)

| Y.E. March | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Net Sales | 9.8 | 3.9 | 7.9 | 8.7 |
| EBITDA | 8.3 | -1.3 | 12.4 | 10.3 |
| Net profit | -0.3 | -3.9 | 14.0 | 12.5 |
| **Margin (%)** | | | | |
| EBITDA | 28.0 | 26.6 | 27.7 | 28.1 |
| NPM | 15.2 | 14.1 | 14.9 | 15.4 |
| **Return Ratios (%)** | | | | |
| RoE | 18.3 | 15.8 | 17.2 | 17.1 |
| RoCE | 22.3 | 20.3 | 22.3 | 22.7 |
| **Per share data (Rs.)** | | | | |
| EPS | 10.6 | 10.7 | 12.2 | 13.7 |
| DPS | 3.0 | 3.0 | 3.0 | 3.0 |
| **Valuation(x)** | | | | |
| P/E | 15.2 | 15.0 | 13.2 | 11.7 |
| EV/EBITDA | 8.5 | 8.4 | 7.0 | 6.0 |
| EV/Net Sales | 2.4 | 2.2 | 2.0 | 1.7 |
| P/B | 2.4 | 2.4 | 2.1 | 1.9 |
| **Turnover Ratios (x)** | | | | |
| Net Sales/GFA | 1.8 | 1.6 | 1.6 | 1.7 |
| Sales/Total Assets | 0.8 | 0.7 | 0.8 | 0.8 |

| Large Cap. | Return | Mid/Small Cap. | Return |
|---|---|---|---|
| **Buy** | More than equal to 10% | **Buy** | More than equal to 15% |
| **Hold** | Upside or downside is less than 10% | **Accumulate*** | Upside between 10% & 15% |
| **Reduce** | Less than equal to -10% | **Hold** | Between 0% & 10% |
| | | **Reduce/sell** | Less than 0%. |

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*

** Jagran is a small-cap company.*

MJP

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