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Initiating Coverage
JAGRAN PRAKASHAN LTD.

Strong Contender!

27th Dec, 2016

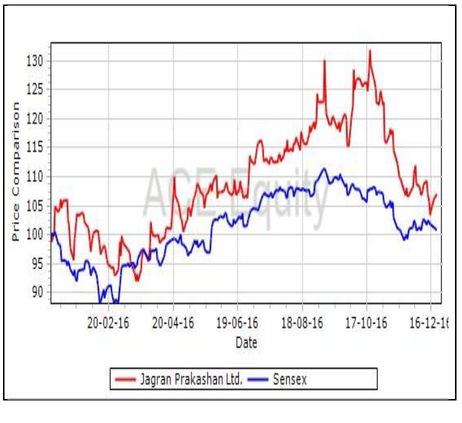
Rating	
CMP	Rs 170
Target Price	Rs 213
Recommendation	BUY

Stock Info	
BSE Group	B
BSE Code	532705
NSE Symbol	JAGRAN
Bloomberg	JAGP IN
Reuters	JAG.BO
BSE Sensex	26,208
NSE Nifty	8,034

Market Info	
Market Capital	5,506 cr
Equity Capital	65 cr
Avg. Trading Vol.	1,76,240
52 Wk High/ Low	213/144
Face Value	2

Shareholding Pattern (%)	(Sep' 16)
Promoters	60.8
Domestic Institutions	12.5
Foreign Institutions	15.7
Public & Others	11.0

Price Chart:



Company Profile

Jagran Prakashan Ltd (JPL) is India's leading media and communications group with its interests spanning across Print, OOH, Activations, Digital, covers all of India as its footprint – and is arguably amongst one of the largest media conglomerates in the country. It's newspaper operations alone with 10 newspaper titles in 5 different languages, sweeping across 15 states with over 100 editions and these include some veritable titles as the World's largest read daily, India's No.1 compact daily, India's No.1 Afternoon daily, and India's No.1 Urdu daily.

Investment Positives

- Company has preferred the inorganic route for growth over the last few years as the management likely perceives this as relatively 'low-risk'. By going for the acquisition strategy, it has been able to avoid large losses inherent in any significant green-field expansion.
- Advertising growth is expected to accelerate with an eventual recovery in the Indian economy and considering company's status as the most read Hindi newspaper in the country and its strong presence in the rapidly growing Hindi markets should boost profitability.
- Acquisition of 'Nayi Duniya' added new market (MP and Chhattisgarh) to its regional footprint and the integration of Radio City would be important factors steering the growth ahead.

Risks

- Business stays sensitive to the news print prices and any intensification in the prices coupled with exchange rate fluctuation can adversely affect the profitability.
- Company earns 75% of its revenue from advertising which is positively correlated to the economic activity. Any delay in economic recovery can harm the revenue potential of the company.

Valuations

At CMP of Rs 170 per share the stock is trading at P/E and P/BV multiple of 12.2(x) and 2.6(x) respectively. We have Buy rating for the stock.

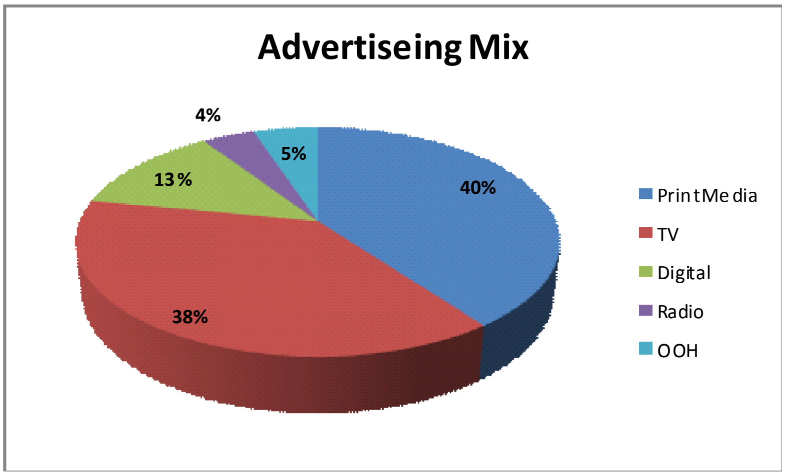
Financial Snapshot

Particulars	2015	2016	2017E	2018E
Revenue from Operations	1770	2107	2321	2633
Operating Margin	25%	28%	29%	29%
Net Profit Margin	17%	21%	17%	17%
RoE	29%	33%	23%	24%
P/E	22.1	16.4	13.9	12.0

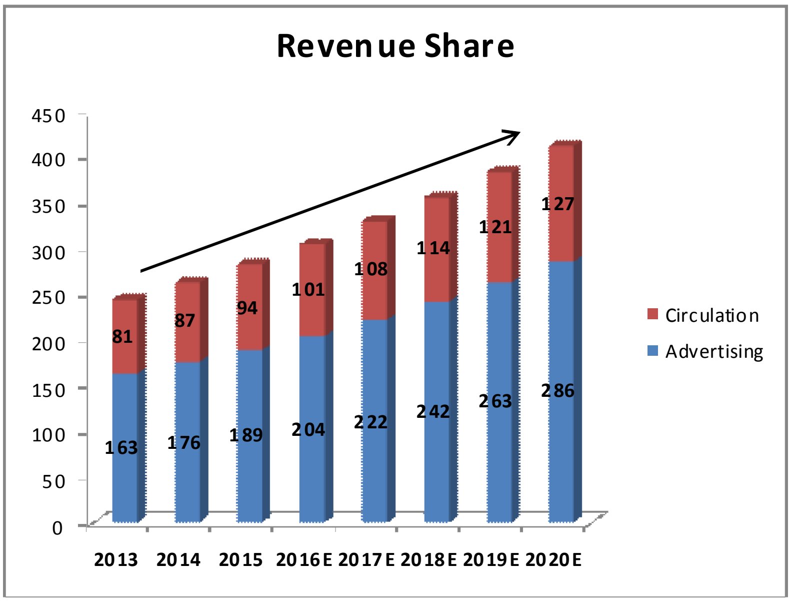
Source: Ace Equity, Arihant Research

Industry Overview

The Indian advertising industry has evolved from being a small-scaled business to a full-fledged industry. The advertising industry is projected to be the second fastest growing advertising market in Asia after China. It is estimated that by 2018, the share of ad spend in India's Gross Domestic Product (GDP) will be around 0.45 %. India's Advertising industry is expected to grow at a rate of 16.8 % year-on-year to Rs 51,365 crore (US$ 7.61 billion) in 2016, buoyed by positive industry sentiment and a strong GDP growth of 7 % and above. India's digital advertising market has grown at a fast pace of 33 % annually between 2010 and 2015, while spending as a percentage of total advertising increased to 13 % or nearly US$ 1 billion in 2015.

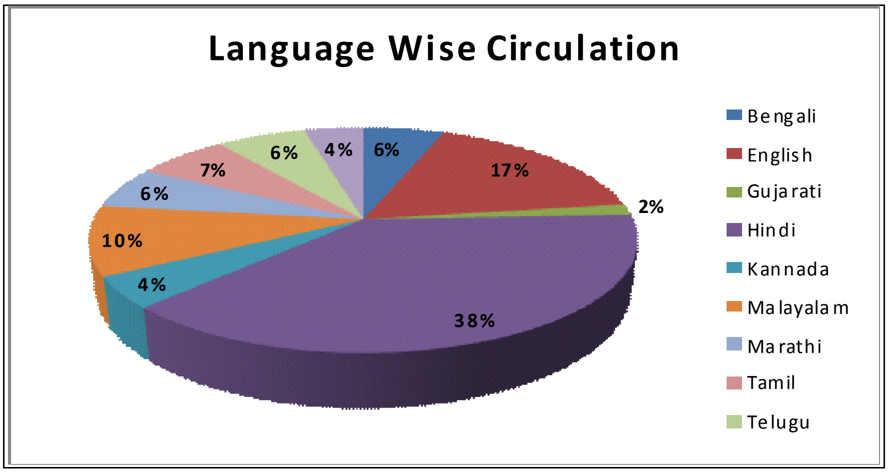


Print contributes a significant portion to the total advertising revenue, accounting for almost 40 %, whereas TV contributes 38 %, and digital contributes 13 % of the total revenue, Outdoor and Radio make up the balance 9%. The Indian Print Media model is a sustainable growing business model on basis of consistent increase in population, literacy and consumption. Indian print industry grew at a robust rate of 7.6% from Rs 263 bn in 2014 to Rs 283 bn in 2015. It is expected to grow at a CAGR of 7.8% for the period CY2015-2020. While print advertisement revenues grew at 7.3% and reached Rs 189 bn, revenues from circulation grew at 8.2% and touched Rs 94 bn.

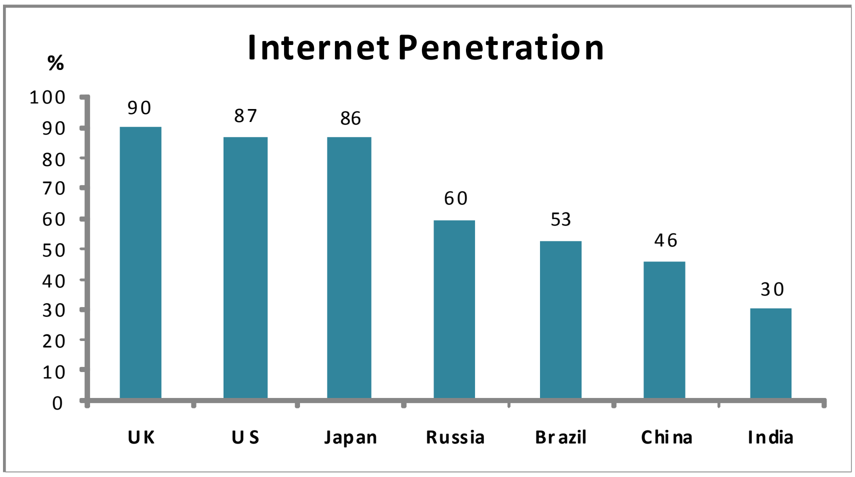


Source: Ace Equity, Arihant Research

Newspaper Classifieds is the primary advertising platform in India. If we consider newspapers alone, then total revenues grew at 8% and reached Rs 269 bn. Further, newspapers are expected to grow at a CAGR of 8.2% for the period CY2015-2020 as a major thrust towards education has led to increase in literacy rate over the past several years boosting newspaper readership in the country and the Government targets to achieve the ambitious Universal Literacy Goal by 2060. Also Newspapers in India are extremely affordable when compared to western countries and stay credible with a wide reach. India is not the only country in the world where newspaper readership is growing. China's internet penetration is about 4x higher than India's, which is what makes its affection for print all the more remarkable. Dominance of English language newspapers on advertisement budgets is reducing as a vast bulk of print readers in India; consume their content in Hindi and regional languages. Advertisers are now considering Hindi and vernacular print media segment – targeting affluent and aspiring customers in Tier-II and III cities. Hindi language dominates the print media industry and holds 38% of the circulation as on June 2016 followed by English. The major factor that has driven the growth of Hindi and vernacular print publication is the high growth rate of Hindi speaking states as against the national growth rates.

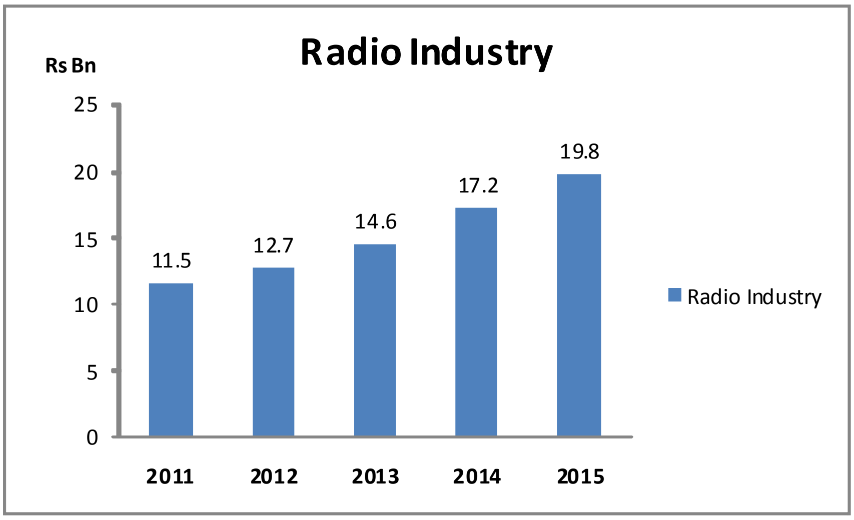


The digital advertisement spend was higher than expected in 2015, growing almost by 38.2% over 2014 to reach Rs 60 billion. It is expected to cross Rs 255 billion in 2020. Currently, in India, the digital advertising constitutes about 12.6% of the total advertising market and is expected to grow to 26% of the total advertising market by 2020. Growing mobile internet and device penetration and technology innovations should drive digital advertising growth at a CAGR of 33.5% over the next five years.



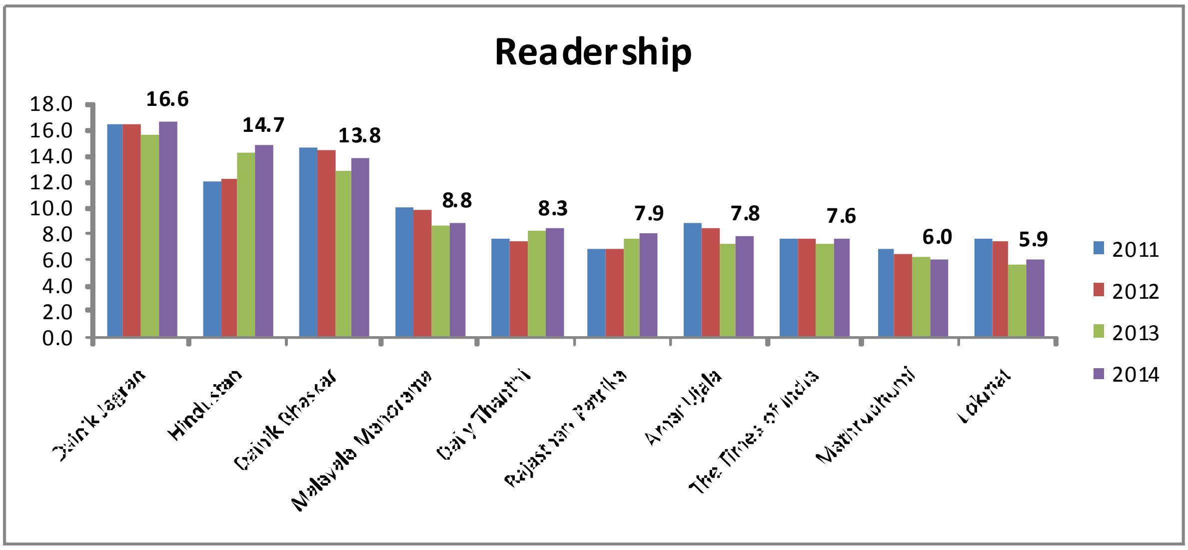
Source: *Ace Equity, Arihant Research*

Radio's share of the overall pie is estimated to continue at 4% in the short term. The radio players spent Rs 1056 crores to acquire 91 new stations and Rs 1,967 crores for migration of their existing 243 stations to Phase III in 2015. Part I of Phase III rollout along with the announcement of the hike in the foreign direct investment (FDI) cap for FM radio from 26% to 49% fortifies the government's commitment to see FM radio proliferate to more than 85% of India – reaching newer cities and audiences and its rollout was the cause of much optimism within the industry. Growth is likely to surpass the current CAGR of 14.5% and the industry can expect to reach a size of 6% of the advertising wallet in the medium term as and when Phase III is rolled out in its entirety.



Brand wise Readership

Dainik Jagran has maintained its leadership position consistently over the years. The readership base as on IRS 2014 stands at 16.6 mn followed by Hindustan with a readership base of 14.7mn. Hindustan showed strong growth in readership base growing at CAGR of 7% over 2011-14. Dainik Bhaskar saw its readership decline over the period, however it holds 3rd position in the industry.



Source: Ace Equity, Arihant Research

Peer Group Comparison

Operational Metrics

	Revenue 3 CAGR	EBITDA Margin	EPS	RoE
Jagran Prakashan	11%	28%	13.6	33%
DB Corp	9%	26%	19.8	23%
HT Media	7%	18%	6.9	11%

Valuation Metrics

	CMP	Market Cap (Rs Cr)	EV/EBITDA (x)	P/E (x)	Dividend Yield
Jagran Prakashan	170	5506	9.7	12.4	0%
DB Corp	350	6435	9.9	17.7	2%
HT Media	74	1742	5.2	10.9	1%

Background

Jagran Prakashan (JPL), incorporated in 1975, has business interests in area of newspapers, outdoor, internet, magazines, below the line marketing solutions, and mobile value added services. The company publishes Dainik Jagran, a Hindi daily newspaper. Dainik Jagran launched its first edition in 1942 in Jhansi and is brainchild of late Puran Chand Gupta.

The newspaper was launched in order to reflect the free voice of the people. Later in the year 1947, the second edition was launched in Kanpur. In 1953-56 it established its third and fourth edition in Rewa and Bhopal. In coming years the company expanded its edition network.

Today, company operates through 37 editions from Agra, Aligarh, Bareilly, Moradabad, Dehradun, Haldwani, Dharamshala, Bhopal, Gorakhpur, Hisar, Jammu, Jhansi, Kanpur, Lucknow, New Delhi, Panipat, Allahabad, Varanasi, Bhagalpur, Muzaffarpur, Patnar, Siliguri, Dhanbad, Jamshedpur, Ranchi and Meerut. It has presence in 11 states namely Uttar Pradesh, Uttarakhand, Punjab, Haryana, Bihar, Jharkhand, Himachal Pradesh, Madhya Pradesh, Delhi, West Bengal and Jammu & Kashmir.

Business Area

Its publication covers wide range of subjects such as economics, sports, spirituality, health, literature, kids and supplements, which cover film, travel, entertainment, education and career. The company prints Sakhi, targeted at women readers; Jagran Varshiki, an annual general knowledge digest; Junior Jagran is an example of such a product created by children; I Next is India's first bilingual Hindi daily targeted at the youth and various national and state statistical compilations. The company also publishes City Plus, weekly English tabloid targeted for urban readers.

Jagran Pehel is an initiative focused on creating awareness and advocating of social issues. Being a social marketing arm of JPL, the company has partnered with USAID PSP-One, The World Bank, Breakthrough, UNDP-TAHA, UNFPA and Helpage India, etc.

Source: Ace Equity, Arihant Research

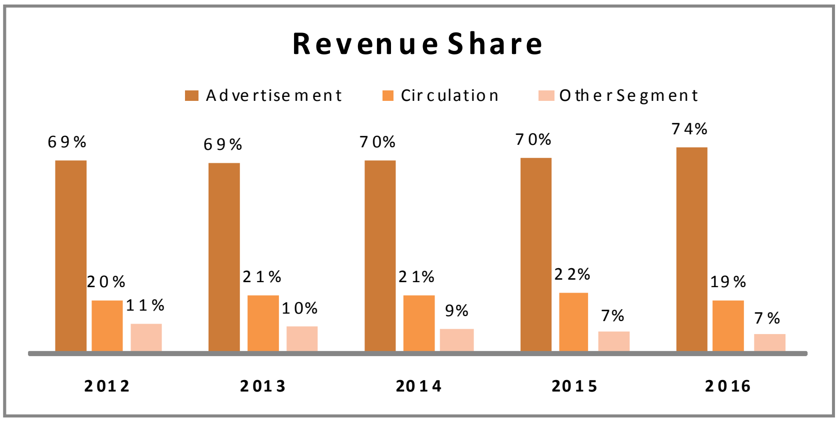
J9 Ventures, a business division of JPL is engaged in the business of Web, WAP and text-based value-added services, products, platforms and solutions for consumers and corporate customers.

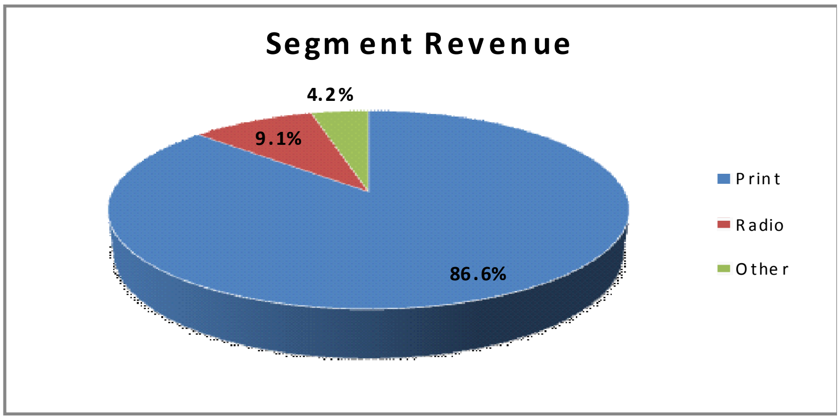
The company also has business interest in research. Its Jagran Research Centre has been part of various projects such as accruing vital market data, organizing strategic planning process for improving customer satisfaction and enhancing competitive advantage.

The company also offers outdoor advertising and promotional marketing and event management services through its division Jagran Solutions. Jagran Engage, a newly established division that offers specialized Out of Home advertising services with a Pan-India footprint.

Revenue Model

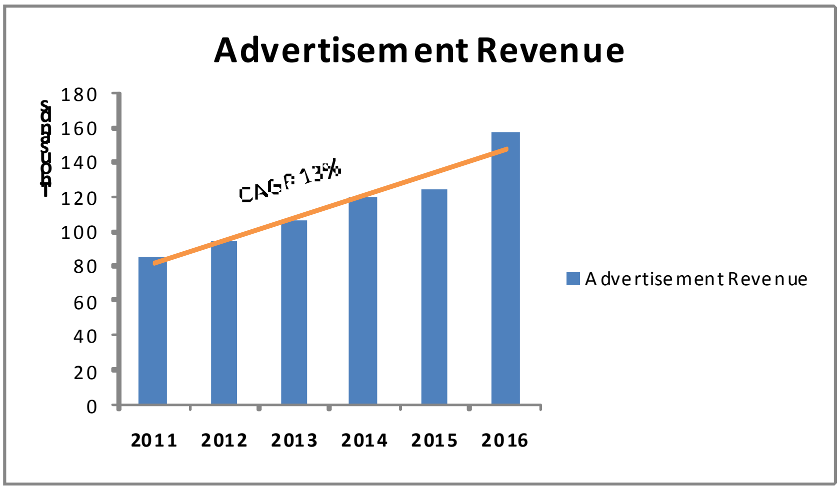
Advertisement revenue constitutes major share of the revenue pie of the company. As on FY 16, the share stood at 74% rising from 69% reported in FY 12. Share of circulation revenue on the other hand increased to 22% in FY 15 against 19.6% in FY 12. For FY 16 however the share dropped to 19.4% owing to poor trend witnessed in magazines. Share of other revenue segment of the company comprising of Outdoor Activities, Event Management Services and others has dropped to 6.5% of total pie as on FY 16, from 11.2% reported in FY 12. Company explores exiting this segment and invest the released capital in higher growing radio and digital business. Division wise print business along with digital business constitutes 86.6% of the revenue of the company as on FY 16 while Radio business holds 9% of the revenue pie.



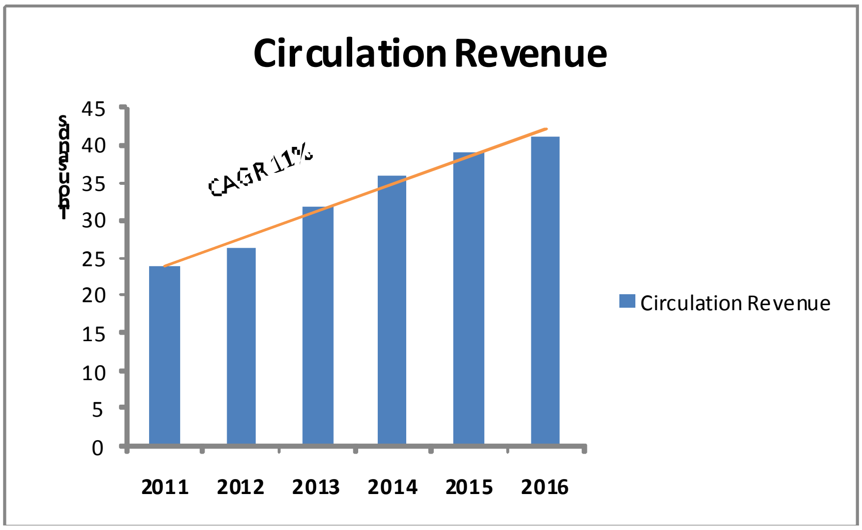


Source: *Ace Equity, Arihant Research*

Advertisement revenue growth for the company has outperformed the industry with CAGR of 13% over FY 11-16. For FY 16, all publications grew their advertisement revenues in double digit. Punjabi Jagran and I-Next did exceptionally well by registering a growth of 39% and 18.5% YoY. Digital stepped up its growth to 48.8% YoY. Digital grew by selling more inventories and improving its e-CPM rate which has further scope of expansion. In case of print business, the group outperformed the industry registering 10% growth rate in advertisement revenue. The growth was achieved through mix of more efficient utilization of advertisement inventory, increase in space and improvement in yield in some cases.



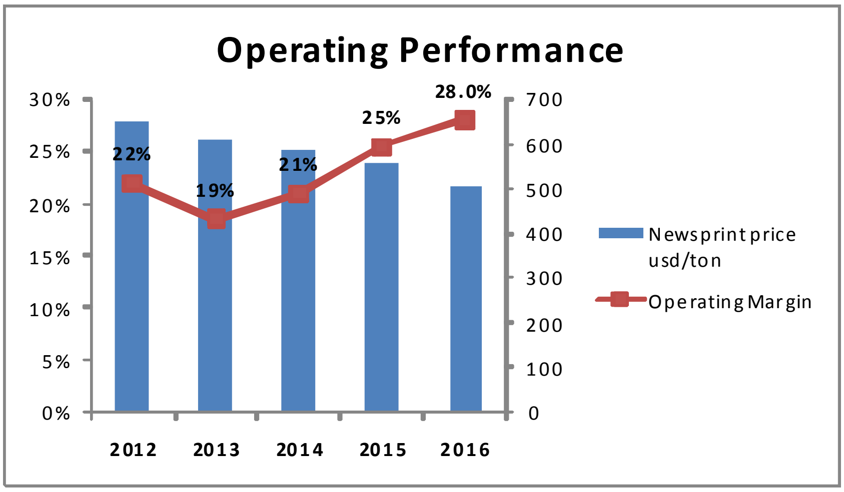
Circulation revenue for the company has shown consistent performance growing at a CAGR of 11% over FY 11-16. For the year FY16, circulation revenue increased on expected lines. However, in case of 'Nayi Duniya' growth in circulation was deferred due to the market conditions. Overall circulation revenue stands lower than peers. Company cover prices are higher than peers however further room to increase prices stays limited due to lower prices of competitors. Company believes prices to be low in India when compared globally and expects to increase the prices whenever the opportunity arises.



Source: Ace Equity, Arihant Research

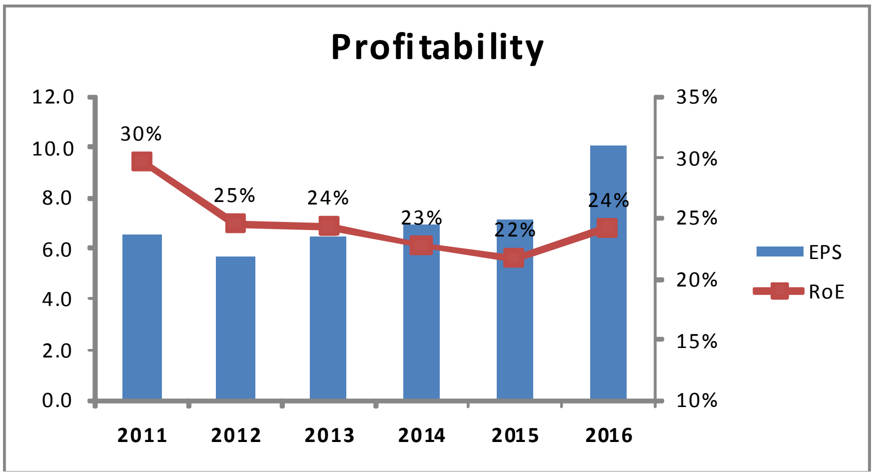
Operating Performance

Over FY 11-16 company has reported a CAGR of 11% in operating profit. Operating margin for the company stood at 28% for the year FY 16. Raw material cost comprises a major portion of the gross expenditure. As on FY 16, the cost of raw material as a percentage of revenue stood at 30% down from 35% reported in FY 15. This was majorly due to the lower news print prices. News print comprises about 91% of the raw material cost. For FY 16, operating margin for the radio business stood at 28% while that for print business stood at 25%.



Profitability

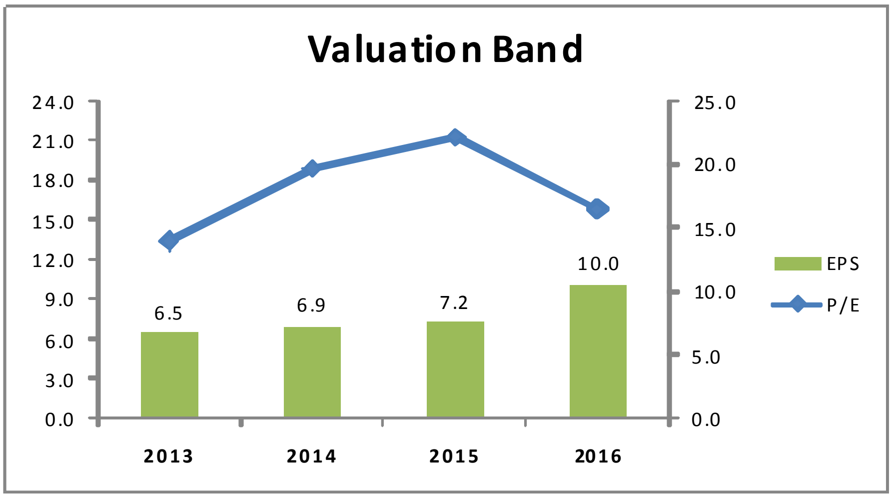
Net profit for the company has grown at a CAGR of 16% over FY 11-16. Though debt to equity ratio for the company decreased from 0.9 in FY 12 to 0.3 in FY 16, higher cost of borrowing as a result of high short term borrowings lead to rising finance costs mitigating the growth in profitability. However, improved operating margins and lower taxes helped company report strong profitability. Net Profit margin excluding extraordinary items increased from 13% in FY 12 to 16% in FY 16. As on FY 16, EPS for the company stood at Rs 10.0 while return on equity stood at 24% excluding extraordinary items.



Source: Ace Equity, Arihant Research

Valuation

Jagran Prakashan Ltd. has shown strong growth in past years growing with organic as well as inorganic growth strategies. At CMP of Rs 170 per share the stock is trading at P/E and P/BV multiple of 12.0(x) and 2.7(x) respectively. We have valued the stock at P/E multiple of 15(x) to its FY 18E and arrived at fair value of Rs 213 per share. We have Buy rating for the stock.



Source: Ace Equity, Arihant Research

Income Statement				
Particulars	2015	2016	2017E	2018E
Revenue from Operations	1770	2107	2321	2633
Cost of raw material consmed	626	629	708	816
Employee cost	263	320	348	390
Total Expenditure	1323	1521	1659	1864
Operating Profit	446	586	661	769
Depreciation	104	104	114	123
EBIT	343	481	548	646
Finance Costs	37	52	48	46
Other Income	32	38	42	42
PBT	338	467	542	641
Tax	110	139	154	192
PAT	228	328	388	449

Balance Sheet				
Particulars	2015	2016	2017E	2018E
Share Capital	63	65	63	63
Shareholders Fund	1134	1581	1732	1993
Long term borrowings	195	254	240	270
Non-current Liability	300	355	345	380
Current Liability	821	635	657	714
Total Liabilities	**2255**	**2571**	**2734**	**3087**
Net Block	773	1323	1329	1326
Non-current Investment	318	14	16	16
Total Non-current assets	1230	1580	1611	1733
Cash & Balance	493	49	59	94
Total Current Assets	1025	991	1124	1354
Total Assets	**2255**	**2571**	**2734**	**3087**

Cashflow Statement				
Particulars	2015	2016	2017E	2018E
Profit Before Tax	338	467	542	641
Non-operating activities	141	148	162	170
Op. Profit before W.C changes	479	616	703	811
Changes In working Capital	-51	-68	-76	-113
Tax Paid	-70	-146	-158	-197
Cash From Operating Activities	439	518	469	501
Capex	-51	-356	-133	-128
Other Investing Activities	-390	350	-13	-15
Cash Flow from Investing Activities	-441	-6	-146	-143
Dividend & taxes	-110	-137	-47	-189
Other financing activities	127	-417	-315	-183
Cash from Financing Activities	17	-554	-361	-371
Net Cash Inflow / Outflow	15	-42	-39	-14
Closing Cash	38	45	54	89

Ratios				
Particulars	2015	2016	2017E	2018E
Revenue Growth	4%	19%	10%	13%
Operating Margin	25%	28%	29%	29%
Net Profit Growth	1%	44%	18%	16%
Du-Pont Analysis				
Net Profit Margin	17%	21%	17%	17%
Asset Turnover	0.8	0.9	0.9	0.9
Financial Leverage	2.0	1.8	1.6	1.6
RoE	29%	33%	23%	24%
Current Ratio	1.2	1.6	1.7	1.9
D/E	0.5	0.3	0.3	0.2
Valuation				
P/E	22.1	16.4	13.9	12.0
P/B	4.4	3.4	3.1	2.7
EV/EBITDA	11.4	10.0	8.8	7.5

Source: Ace Equity, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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