Company under consideration is **DB Corp. (Dainik Bhaskar)**

Part 1 – Long Pitch

Company Description – DB Corp is one of the largest media conglomerates in India with presence in Print, Radio and Digital media mainly focusing on tier-2 and tier-3 cities. It publishes 6 newspapers and is present across 12 states in central and north India with a leadership position in many of the places in which it operates. Its radio channel is available in 30 cities. It enjoys 67% of the Indian language media space through its 9 online portals.

Industry Attractiveness

For the purpose of this analysis, we considered the non-English print media industry in India which comprises the following players – Jagran Prakashan, Dainik Bhaskar, HT Media.
Growth – The industry has shown secular growth in revenues at 10yr CAGR of 10% and 5 Yr CAGR of 6% driven by increasing literacy levels and rising disposable income. The industry is expected to grow at a rate of 7% till 2020.
Margin Stability – The 5 Yr average EBIT margin is 18% whereas the 10 Yr average EBIT margin is 17% with a coefficient of variation of 0.2. The margins exhibit a cyclical pattern across the years where periods of low margin last for a year or two
ROTCE – The 5-year ROTCE of the industry is 23% whereas the 10-year ROTCE is 24% which is higher than the WACC of 12%. Thus, the industry has been able to consistently deliver returns above its WACC.
Cash Conversion – The 10-year average OCF/EBIT is 99% indicating strong cash conversion in the industry.

Porter's Five Forces

Supplier Power (Low) – Sensitive to input costs of paper which is imported from other countries. Low supplier power as suppliers of paper are not consolidated
Buyer Power (High) – Customers have low switching costs and can easily subscribe other newspapers.
Threat of New Entrants (Low) – Barriers to entry include setting up a national distribution network and assembling a team that produces quality, local content in tier-2 and tier-3 cities
Threat of Substitutes (High) – Print media is under threat from digital media
Industry Rivalry (High) – The inter-firm rivalry is high in terms of price competition and content imitation

Business – DB Corp

ROTCE – The 5 Yr and 10Yr ROTCE of DB Corp is at 32% which is much higher than the WACC of 12% and the industry ROTCE at 23%. DB's quality journalism and ability to provide relevant content for tier-2 and tier-3 cities in local languages has made it the market leader in many cities. This helps it maintain high ROTCE through higher margins on newspapers and greater advertisement revenue. This is likely to continue in the future.

Margin Stability – The 5 Yr and 10Yr EBIT Margins of DB Corp are 23%. The 10 Yr coefficient of variation is found to be 0.21. The margins exhibit some cyclicality where margins compress in downturns for a year or two

Defensibility – DB Corp has built a very strong brand and reputation by delivering quality journalistic content in tier-2 and tier-3 cities. It provides hyper-local content in local languages to captivate consumers. It has also developed a strong distribution network. Due to its presence across cities and across print, radio and digital media, it enjoys network effects of consumers recommending the service to other consumers and interacting with the content through various media. This strong reputation for quality journalism, effective distribution network and network effects associated with it form a concrete Moat for DB Corp and make it a defensible business. This is also reflected in its ROTCE over the past decade.

Growth – DB Corp has grown at a 5 Yr CAGR of 8% and a 10 Yr CAGR of 10%. The print media industry is expected to grow at 7% till 2020 and local language print media is expected to grow at 8%-9%. Advertising revenues have grown at 7% and circulation has grown at 8% in the past two years. The radio industry is expected to grow at 9% and the digital media industry is expected to grow at 23.5%. DB Digital has 67% of the Indian language media space and is slated to enjoy this growth. Thus, DB Corp's presence across print, radio and digital media ensures that it would grow tremendously over the next few years.

Cyclicality – DB Corp is cyclical in nature due to its high input costs associated with paper. For production of newspapers, paper is imported from other countries. In the past few years, paper prices have increased substantially thus depressing margins. A major component of the revenues is advertising which is linked to business cycle and performance of the economy as a whole. This also contributes to the cyclical nature of the industry. Circulation revenue helps reduce this cyclicality.

Cash Generation – The 5 Yr and 10 Yr average OCF/EBIT of DB Corp is 72% and 76% respectively. Thus, it shows strong cash flow conversion.

Management

Integrity – Mr. Sudhir Agarwal is the CEO and Mr. Pawan Agarwal is the deputy MD of DB Corp. They have been observed to be honest and frank in their analyst earnings calls.
Scuttlebutt - Mr. Girish Agarwal is a non-Executive director and I had interacted with him when he was on campus for a guest lecture. His intellectual honesty and ability to describe the business strategy lucidly makes me believe strongly about the integrity of the management.
Competence – The firm has delivered super-normal returns for the past decade and has grown to a position of strength across multiple states. This shows the competence of the management.
Capital Allocation – The firm has efficiently deployed capital for the past decade by growing into new states and entering the radio and digital business.
Shareholder Alignment – The management is headed by promoters and hence there is a strong alignment between the shareholders and the management. The promoters are also known to treat minority investors well and there is alignment between the promoters and the minority investors.

Valuation

DCF – A scenario based DCF valuation of DB corp is given below. It yields a price of current valuation of Rs 276.46 per share and a valuation of Rs 346.80 per share in two years.

	ROTCE	EBIT Margin	Growth	Price
Worst	28%	20%	5%	198.18
Current	32%	23%	6%	264.46
Best	32%	23%	8%	366.75
			Average	276.46

A multiple based valuation of DB Corp using the current multiples of Jagran Prakashan and historical multiples of DB corp is given below. The current multiples of the industry are depressed and hence the value suggested by JP multiples is on the lower side. The multiples approach yields an average value of 255.27 per share which would translate to Rs 320.21 per share in two years.

	JP Mult	Value	Historical Mult	Value
P/E	11.3	198.65	17.26	303.43
EV/EBIT	7.87	202.10	12.34	316.89

Recommendation

We recommend a long position in DB Corp with a horizon of two years. We expect the industry to recover from the shock of high input prices of paper and exhibit strong growth. The target price for DB Corp in two years would be Rs 333.5 per share. With the current market price of Rs 168.90 this translates to a return of 41% per year.

Risks

It might take longer than anticipated for the shock of high input prices to fade away. The print media industry might be unable to exhibit the expected growth due to rise of digital media.