

DB Corp Limited (DBCORP)

₹ 188

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 247 to ₹ 230
EPS (FY12E)	Changed from ₹ 11.2 to ₹ 10.7
EPS (FY13E)	Changed from ₹ 15.5 to ₹ 14.4
RATING	Unchanged

Results in line; outlook uncertain...

DB Corp reported its Q3FY12 numbers, which have been in line with our estimates. Revenues for Q3FY12 stood at ₹ 395.6 crore, up by 13.6% YoY led by an 8.6% growth in ad income to ₹ 305.9 crore. EBITDA for the quarter stood at ₹ 101.8 crore against our estimate of ₹ 98.9 crore. The EBITDA margin stood at 25.7% contracting by 724 bps on account of one-time expenses of ₹ 2.1 crore on the launch in Maharashtra and the impact of operating losses of new editions along with ₹ 2.8 crore of forex loss. PAT for the quarter fell 16.0% YoY to ₹ 55.4 crore against our estimate of ₹ 56.1 crore mainly due to a forex loss of ₹ 5.9 crore, which was not accounted for in EBITDA.

Highlights of the quarter

In line with the industry, DB Corp posted subdued ad growth of 8.6% YoY to ₹ 305.9 crore. The print ad revenue posted modest growth of 6.8% YoY to ₹ 287.2 crore whereas the radio business grew 21.7% YoY to ₹ 15.7 crore. The management attributed the subdued growth in print to the slowing economy causing national advertisers to cut down on their ad spends. Retail ads, however, grew ~ 11.0% YoY. Circulation revenue posted a strong growth of 16.7% YoY to ₹ 63.0 crore on the back of increased circulation and a price hike Madhya Pradesh and Haryana.

Valuation

While national advertisers have cut down their ad spends, retail ads have grown ~11%. Due to an uncertain economic outlook pressurising the ad growth in the future and menacing newsprint prices, we have cut our estimates of FY12 and FY13 EPS from ₹ 11.2 to ₹ 10.7 and from ₹ 15.5 to ₹ 14.4, respectively. At the CMP of ₹ 188, the stock is trading at 17.5x FY12 EPS and 13.0x FY13 EPS. We have valued the stock at 16x FY13 EPS to arrive at a target price of ₹ 230 implying an upside potential of 23%. We continue to rate the stock as **BUY**.

Exhibit 1: Valuation Metrics

(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	395.6	386.8	348.2	353.9	11.8	13.6
EBITDA	101.8	98.9	114.8	77.1	32.0	-11.3
EBITDA Margin (%)	25.7	25.6	33.0	21.8	394 bps	-724 bps
Depreciation	13.4	13.5	11.0	12.4	8.6	22.0
Interest	8.1	5.9	3.4	6.7	20.4	136.2
Other Income	2.5	4.3	3.0	2.0	26.9	-17.5
Reported PAT	55.4	56.1	65.9	40.3	37.5	-16.0
EPS (₹)	3.0	3.1	3.6	2.2	37.5	-16.9

Source: Company, ICICIdirect.com Research

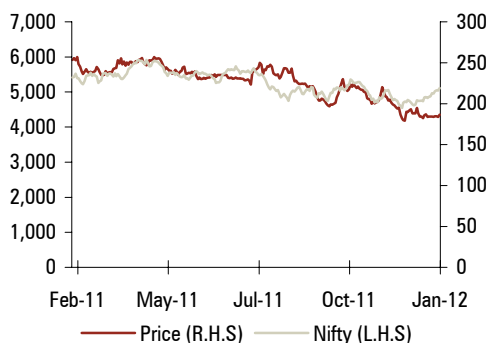
Rating matrix	
Rating	: Buy
Target	: ₹ 230
Target Period	: 12 months
Potential Upside	: 23%

Key Financials				
₹ Crore	FY10	FY11	FY12E	FY13E
Net Sales	1,051	1,250.8	1,440.1	1,609.1
EBITDA	342.9	403.1	356.5	444.6
Net Profit	182.8	258.5	196.8	263.6
EPS (₹)	10.1	14.2	10.7	14.4

Valuation summary				
	FY10	FY11	FY12E	FY13E
P/E	18.6	13.2	17.5	13.0
Target P/E	22.8	16.2	21.4	16.0
EV / EBITDA	10.3	8.6	9.3	6.9
P/BV	5.3	4.1	3.5	2.9
RoNW	28.2	31.2	20.0	21.9
RoCE	31.3	33.7	25.1	27.3

Stock data	
Market Capitalization	₹ 3406.1 Crore
Total Debt (FY11)	₹ 237.2 Crore
Cash and Investments (FY11)	₹ 180.5 Crore
EV	₹ 3462.9 Crore
52 week H/L	257 / 179
Equity capital	₹ 181.5 Crore
Face value	₹ 10
MF Holding (%)	4.3
FII Holding (%)	5.2

Price movement



Analyst's name

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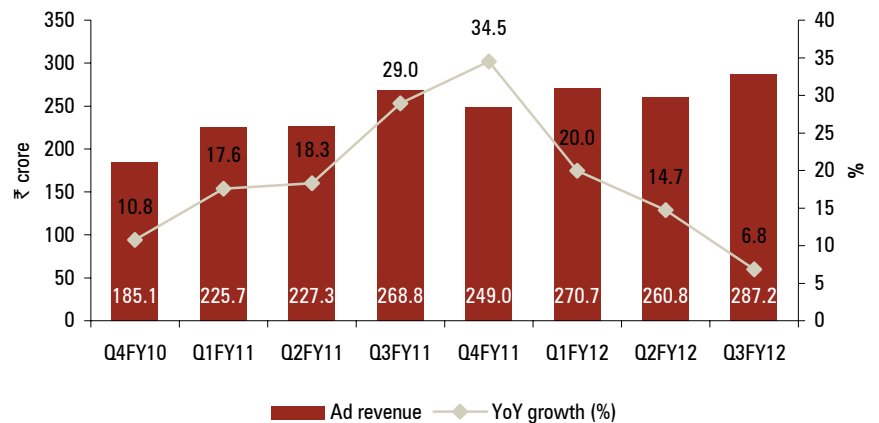
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Result analysis

Modest ad growth on higher base...

The ad revenue for the print business stood at ₹ 287.2 crore, growing by a modest 6.8% YoY albeit on a higher base as ad revenues in Q3FY11 had grown by a mammoth 29.0%. Radio ads, however, grew at a robust rate of 21.7% YoY to ₹ 15.7 crore. The quarter was marked by lower national ad growth as national advertisers chose to cut their ad spends in the wake of a slowing economy. The management has indicated that the realty sector was the worst performer in terms of ads as its contribution to overall ads for DB Corp reduced from ~ 7% to ~3% YoY. However, the retail segment posted growth of ~ 11%.

Exhibit 2: Ad revenue growth trend

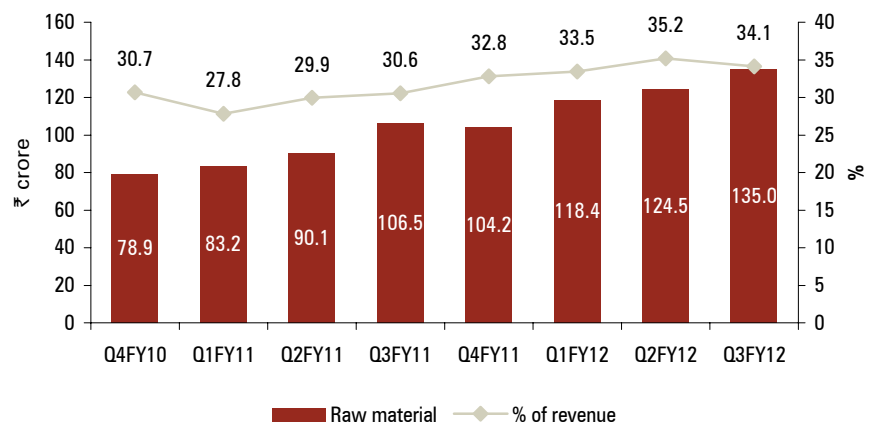


Source: Company, ICICIdirect.com Research

Newsprint cost...

The newsprint cost for DB Corp stood at ₹ 135.0 crore, at 34.1% of total revenues as against 30.6% in Q3FY11. Newsprint costs have increased by 26.9% YoY and 8.5% QoQ owing to higher circulation and increased newsprint prices. Newsprint prices have increased by 14.0% YoY in Q3FY12 and are expected to stabilise or even come down subsequently.

Exhibit 3: Newsprint cost trend

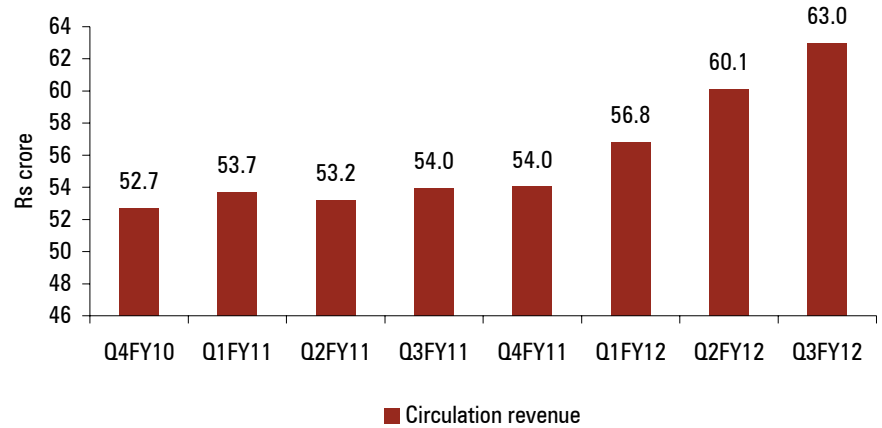


Source: Company, ICICIdirect.com Research

Circulation revenue increases...

Circulation revenues came as a pleasant surprise in Q3FY12 and stood at ₹ 63.0 crore, up from ₹ 54.0 crore in Q3FY11 and ₹ 60.1 crore in Q2FY12. The management attributed the rise in circulation revenue to four new launches made in Maharashtra and two in Jharkhand along with a price hike taken in Madhya Pradesh and Haryana.

Exhibit 4: Circulation revenue trend



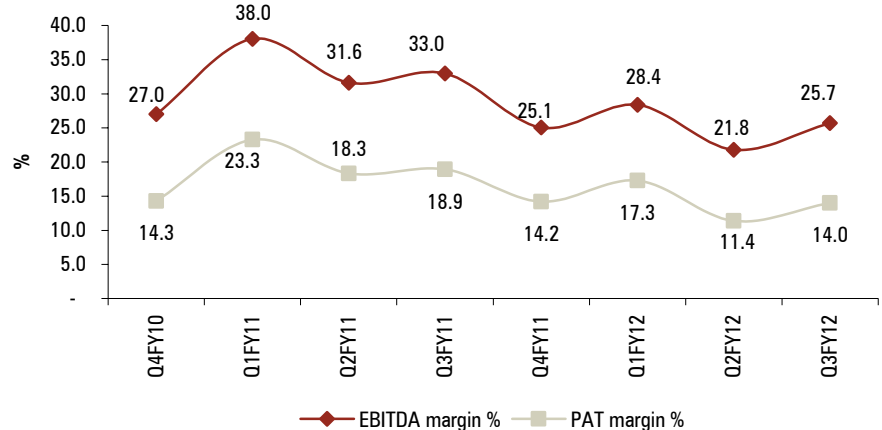
Source: Company, ICICIdirect.com Research

Profitability affected by new launches...

The EBITDA margin for the quarter stood at 25.7% contracting by 724 bps YoY due to increased raw material costs, which grew at a higher proportion than revenue. Raw material expenses grew 26.9% YoY from ₹ 106.5 crore to ₹ 135.0 crore. A one-time expense of ₹ 2.1 crore, on account of the launch in Maharashtra, and the impact of operating losses of new editions along with ₹ 2.8 crore of forex loss also contributed to the slump in EBITDA margins.

PAT margins for the quarter stood at 14.0%, down from 18.9% in Q3FY11 primarily due to a decline in EBITDA margin and forex losses of ~₹ 5.9 crore, which was not accounted for in EBITDA.

Exhibit 5: EBITDA and PAT margin trend



Source: Company, ICICIdirect.com Research

Outlook & valuation

The management has indicated that the response to the new editions in Maharashtra and Jharkhand have been encouraging. The company continued to strengthen its position in its existing markets as reflected by the IRS Q3 readership survey. The management also clarified that the Bihar launch will not happen in the next two quarters.

National advertisers have cut down their ad spends due to a slowing economy. However, with the RBI cutting CRR rates and reversing the monetary stance, national advertisers are expected to start spending on ads again in the coming quarters. The local ads, which form ~ 60% of the total ads for DB Corp, however, are insulated from the economy and are expected to post good growth. We expect ad revenues for the company to grow by 12.8% and 12.4% in FY12 and FY13, respectively.

Due to an uncertain economic outlook pressurising the ad growth in the future and menacing newsprint prices, we have cut our estimates of FY12 and FY13 EPS from ₹ 11.2 to ₹ 10.7 and from ₹ 15.5 to ₹ 14.4, respectively.

At the CMP of ₹ 188, the stock is trading at 17.5x FY12 EPS and 13.0x FY13 EPS. We have valued the stock at 16x FY13 EPS to arrive at a target price of ₹ 230, implying an upside potential of 23%. We continue to rate the stock as **BUY**.

Exhibit 6: Valuation Table

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	1050.5		10.1		18.6	10.3	28.2	31.3
FY11	1250.8	19.1	14.2	41.4	13.2	8.6	31.2	33.7
FY12E	1440.1	15.1	10.7	-24.6	17.5	9.3	20.0	25.1
FY13E	1609.1	11.7	14.4	33.9	13.0	6.9	21.9	27.3

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	1,063.0	1,265.2	1,470.6	1,609.1
Growth (%)	10.6	19.0	16.2	9.4
Raw Material Expenses	327.9	383.9	513.6	535.1
Employee Expenses	131.8	184.6	244.4	255.3
Other Expenses	260.4	293.7	356.2	374.2
Total Operating Expenditure	720.0	862.1	1,114.1	1,164.5
EBITDA	342.9	403.1	356.5	444.6
Growth (%)	132.8	17.5	-11.6	24.7
Depreciation	37.8	43.3	50.2	51.3
Interest	35.7	15.3	24.6	11.9
Other Income	11.2	14.2	10.5	12.0
Exceptional Items	-	-	-	-
PBT	280.6	358.7	292.2	393.4
MI/PAT from associates	(7.9)	0.3	0.3	-
Total Tax	105.7	100.0	95.1	129.8
PAT	182.8	258.5	196.8	263.6
Growth (%)	NM	41.4	-23.9	33.9
EPS (₹)	10.1	14.2	10.7	14.4

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	181.5	183.3	183.3	183.3
Reserve and Surplus	467.2	645.6	799.5	1,020.2
Total Shareholders funds	648.7	828.9	982.8	1,203.5
Total Debt	320.7	237.2	237.2	237.2
Others	65.3	69.8	70.2	70.2
Total Liabilities	1,034.7	1,135.9	1,290.2	1,510.9
Assets				
Gross Block	716.5	840.8	860.8	880.8
Less: Acc Depreciation	130.5	173.8	224.0	275.3
Net Block	586.1	667.0	636.8	605.5
Capital WIP	61.4	61.4	61.4	61.4
Total Fixed Assets	647.5	728.4	698.2	666.9
Investments	20.5	16.3	16.3	16.3
Inventory	72.2	72.8	94.1	92.4
Debtors	193.4	240.1	276.4	308.8
Loans and Advances	103.2	105.8	134.8	134.0
Other Current Assets	0.0	0.0	0.0	0.0
Cash	192.6	180.5	313.0	566.2
Total Current Assets	561.4	599.2	818.3	1,101.5
Creditors	170.6	164.8	189.7	212.0
Provisions	36.7	54.1	62.3	69.6
Total Current Liabilities	207.3	218.9	252.0	281.6
Net Current Assets	354.2	380.2	566.3	819.9
Other non current assets	12.6	11.0	9.4	7.8
Application of Funds	1,034.7	1,135.9	1,290.2	1,510.9

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	182.8	258.5	196.8	263.6
Add: Depreciation	37.8	43.3	50.2	51.3
(Inc)/dec in Current Assets	-15.2	-49.9	-86.7	-29.9
Inc/(dec) in CL and Provisions	-11.7	11.7	33.1	29.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	193.8	263.5	193.5	314.6
(Inc)/dec in Investments	3.3	4.2	0.0	0.0
(Inc)/dec in Fixed Assets	-38.2	-124.2	-20.0	-20.0
Others	22.8	6.1	1.9	1.6
CF from investing activities	-12.2	-113.9	-18.1	-18.4
Issue/(Buy back) of Equity	12.7	1.8	0.0	0.0
Inc/(dec) in loan funds	-242.4	-83.5	0.0	0.0
Dividend paid & dividend tax	-42.4	-84.9	-42.9	-42.9
Inc/(dec) in Sec. premium	236.6	0.7	0.0	0.0
Others	1.3	4.2	0.0	0.0
CF from financing activities	-34.1	-161.8	-42.9	-42.9
Net Cash flow	147.4	-12.1	132.5	253.2
Opening Cash	45.2	192.6	180.5	313.0
Closing Cash	192.6	180.5	313.0	566.2

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	10.1	14.2	10.7	14.4
Cash EPS	12.2	16.6	13.5	17.2
BV	35.7	45.7	53.6	65.7
DPS	2.0	4.0	2.0	2.0
Cash Per Share	10.6	9.9	17.1	30.9
Operating Ratios (%)				
EBITDA Margin	32.3	31.9	24.2	27.6
PBT / Total Operating income	26.7	28.7	20.3	24.5
PAT Margin	17.4	20.7	13.7	16.4
Inventory days	24.9	21.2	21.2	21.2
Debtor days	67.2	70.1	70.1	70.1
Creditor days	59.3	48.1	48.1	48.1
Return Ratios (%)				
RoE	28.2	31.2	20.0	21.9
RoCE	31.3	33.7	25.1	27.3
RoIC	22.9	27.5	21.4	28.1
Valuation Ratios (x)				
P/E	18.6	13.2	17.5	13.0
EV / EBITDA	10.3	8.6	9.3	6.9
EV / Net Sales	3.4	2.8	2.3	1.9
Market Cap / Sales	3.2	2.7	2.4	2.1
Price to Book Value	5.3	4.1	3.5	2.9
Solvency Ratios				
Debt/EBITDA	0.9	0.6	0.7	0.5
Debt / Equity	0.5	0.3	0.2	0.2
Current Ratio	2.7	2.7	3.2	3.9
Quick Ratio	1.8	1.9	2.0	1.9

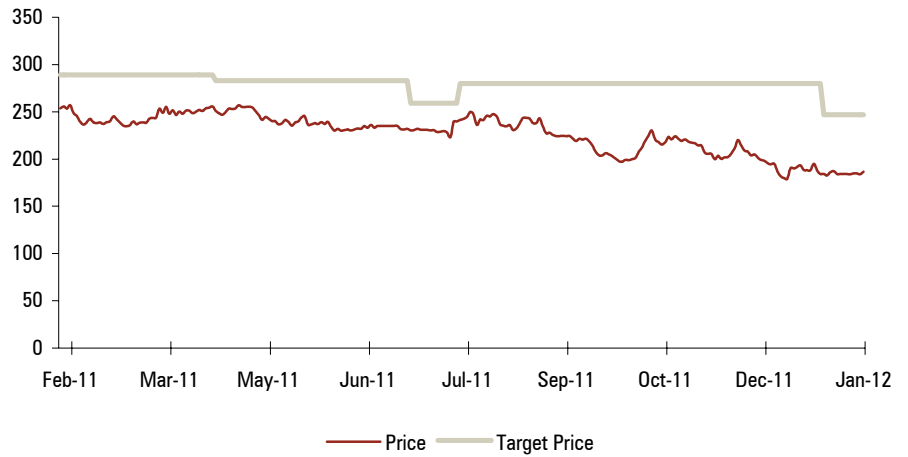
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Print media companies)

Jagran Prakashan				Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	JAGPRA			FY10	941.9	5.8	16.7	11.1	28.7	31.5
		CMP	98	FY11E	1115.2	6.5	15.0	8.9	27.6	33.0
		Target	111	FY12E	1226.6	5.8	16.8	9.4	21.5	26.0
MCap (₹ Cr)	3,091.5	% Upside	13.8%	FY13E	1354.3	7.0	14.1	7.3	22.0	28.0
DB Corp										
Idirect Code	DBCORP			FY10	1050.5	10.1	18.6	10.3	28.2	31.3
		CMP	188	FY11	1250.8	14.2	13.2	8.6	31.2	33.7
		Target	230	FY12E	1440.1	10.7	17.5	9.3	20.0	25.1
MCap (₹ Cr)	3,406.1	% Upside	22.6%	FY13E	1609.1	14.4	13.0	6.9	21.9	27.3
HT Media										
Idirect Code	HTMED			FY10	1411.7	5.8	22.0	12.5	14.0	14.1
		CMP	127	FY11	1767.4	7.7	16.5	10.1	13.9	13.4
		Target	147	FY12E	2028.1	8.0	15.9	9.0	12.7	12.7
MCap (₹ Cr)	2,990.6	% Upside	15.8%	FY13E	2189.9	9.8	13.0	6.5	13.4	15.0

Source: Company, ICICIdirect.com Research

Exhibit 7: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q4FY11 Preview	256	283	BUY
20-May-11	Q4FY11 Result Update	244	283	BUY
5-Jul-11	Q1FY12 Result Preview	232	259	BUY
26-Jul-11	Q1FY12 Result Update	242	280	BUY
5-Oct-11	Q2FY12 Result Preview	201	280	BUY
26-Jul-11	Q2FY12 Result Update	222	258	BUY
6-Jan-12	Q3FY12 Result Preview	184	247	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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