

Q3FY2012 Review
 Sector: Media
 BSE Sensex : 16,752

DB CORP

 Maintain BUY
 CMP Rs184
 TP Rs244

23 January 2012

Bleak ad environment and high base lower Ad growth

DB Corp's top-line grew 13.6%YoY to Rs3.9bn, higher than our estimates (PINCe Rs3.8bn). Advertisement revenue posted single digit growth of 6.8%YoY (4% QoQ) to Rs2.9bn due to the bleak ad environment and higher base in Q3FY11. However circulation revenue saw strong sequential growth of 4.8%QoQ (16.7%YoY) to Rs630mn driven by increased circulation copies with new launches. OPM declined to 25.7% (v/s 32.9% in Q3FY11) mainly due to Rs165mn operating losses of emerging editions.

Ad growth declines; circulation continues to foster

Ad revenue posted a growth of 6.8%YoY to Rs2.9bn as a result of higher base in Q3FY11 and lower ad volumes due to slowdown in ad spends in the industry. Increased circulation copies due to new editions launched (Aurangabad, Nasik, Jalgaon and Ahmednagar) in Q2 & Q3 and increased penetration in mature markets boosted the circulation revenue growth by 16.7%YoY (4.8%QoQ) to Rs630mn. Radio business reported strong ad revenue growth of 22%YoY to Rs157mn even in a dull ad environment and contributed 4% of total revenue. Other operating income for the quarter was high at Rs166mn (v/s Rs60mn in Q2FY12) led by printing job charges, a high OPM segment (~20% margins).

New edition launches and forex losses impact Margins

OPM declined to 25.7% from 32.9% in Q3FY11, the decline is attributed to higher raw material spend which escalated 27%, and higher marketing spend on new launches. Mature editions reported strong OPM of 34%. Radio business delivered EBITDA of Rs44mn reflecting margin of 28%. Forex loss of Rs87.3mn on account of rupee depreciation resulted in PAT to de-grow 16% YoY to Rs556mn with NPM of 14%.

VALUATIONS AND RECOMMENDATION

We have revised our FY12 and FY13 EPS estimates to Rs11 (Rs12 earlier) and Rs13.6 (Rs15 earlier) factoring lower advertisement revenue, forex losses and increased newsprint prices (Rs/USD currency impact). However, attractive growth opportunities in Hindi/regional print dailies and attractive valuations (13.6x FY13E EPS) make investment case for DB Corp. We reiterate our 'BUY' recommendation on the stock with a reduced target price of Rs244 at 18x FY13E EPS (earlier TP of Rs270 at 18x FY13E EPS). We have also introduced FY14 financial estimates.

KEY FINANCIALS (CONSOLIDATED)

	(Rs mn)				
	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	10,630	12,652	14,642	16,644	18,829
YoY Gr. (%)	12.0	19.0	15.7	13.7	13.1
Op. Profit	3,429	4,031	3,600	4,267	4,848
Op. Margin (%)	32.3	31.9	24.6	25.6	25.7
Adj. Net Profit	1,828	2,585	2,024	2,484	2,930
YoY Gr. (%)	283.9	41.4	-21.7	22.7	18.0

KEY RATIOS

EPS (Rs)	10.1	14.1	11.0	13.6	16.0
ROCE (%)	30.6	32.9	27.0	29.1	30.1
ROE (%)	28.2	31.2	21.1	21.9	21.6
PER (x)	18.3	13.0	16.7	13.6	11.5
EV/Sales (x)	3.3	2.7	2.4	2.1	1.8
EV/EBDITA (x)	10.1	8.5	9.6	8.0	6.9

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Sales	3,174	3,539	3,956
YoY Gr. (%)	23.4	18.4	13.6
Op. Profits	796	771	1,018
OPM (%)	25.1	28.4	25.7
Adj. Net Profit	450	406	556
YoY Gr. (%)	22.6	(12.2)	(14.8)

STOCK DATA

Market Cap	Rs34bn.
Book Value per share	Rs46.5
Eq Shares O/S (F.V. Rs10)	183mn.
Free Float	14%
Avg Traded Value (6 mnths)	Rs 11.4mn
52 week High/Low	Rs268/170
Bloomberg Code	DBCL IN
Reuters Code	DBCL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(2.3)	(20.0)	(23.6)
Relative	(8.1)	(24.6)	(13.2)

RELATIVE PERFORMANCE

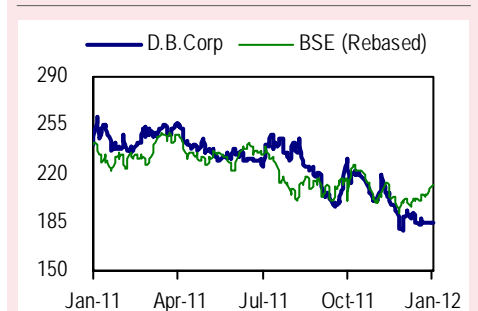


Exhibit 1: Financial performance								
Rs mn	Q3FY12	Q3FY11	YoY(%)	Q2FY12	QoQ(%)	9M FY12	9M FY11	YoY(%)
Ad	2,872	2,688	6.8	2,737	4.9	8,441	7,411	13.9
Circulation	630	540	16.7	601	4.8	1,799	1,609	11.8
Radio	157	129	22.1	127	23.6	409	334	22.6
Other / Event Mgt	67	53	25.6	60	10.9	175	148	17.7
Other Operating Inc.	166	38	342.1	21	-	187	-	-
Total Sales	3,955	3,482	13.6	3,539	11.8	11,036	9,479	16.4
Raw Material	1,350	1,065	26.9	1,245	8.5	3,779	2,797	35.1
RM/Rev. (%)	34.1	30.6	-	35.2	-	34.2	29.5	-
Total Expenditure	2,938	2,334	25.9	2,768	6.1	8,239	6,244	32.0
EBITDA	1,018	1,148	(11.3)	771	32.0	2,796	3,235	(13.6)
EBITDA Margins (%)	25.7	33.0	-	22	-	25	34	-
Other Income	24	30	(19.4)	20	23.9	80	105	(23.8)
Interest	81	34	136.2	67	20.4	174	119	46.8
Depreciation	134	110	22.0	124	8.6	375	321	16.8
PBT	827	1,034	(20.0)	604	37.0	2,327	2,901	(19.8)
Tax	271	382	(28.9)	197	37.4	753	929	(18.9)
PAT	556	652	(14.8)	406	36.8	1,573	1,995	(21.2)
EPS (Rs)	3.0	3.6	(16.6)	2.2	36.8	8.6	11.0	(21.9)

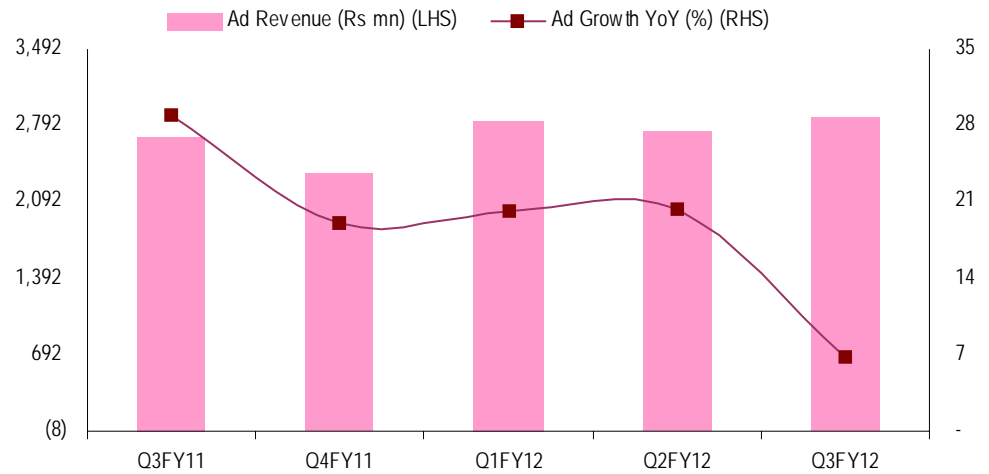
Source: Company, PINC Research

Exhibit 2: Mature Editions and Emerging Editions Performance								
Rs mn	Mature Editions			QoQ (%)	Emerging Editions			QoQ (%)
	Q3FY12	Q2FY12	Q1FY12		Q3FY12	Q2FY12	Q1FY12	
Revenue	3,381	3,086	3,183	9.6	376	302	219	24.5
EBITDA	1,141	1,002	1,181	13.9	(165)	(231)	(173)	28.6
Margin (%)	33.7	32.5	37.1		(43.9)	(76.7)	(79)	

Source: Company, PINC Research

Exhibit 3: Ad revenue trend

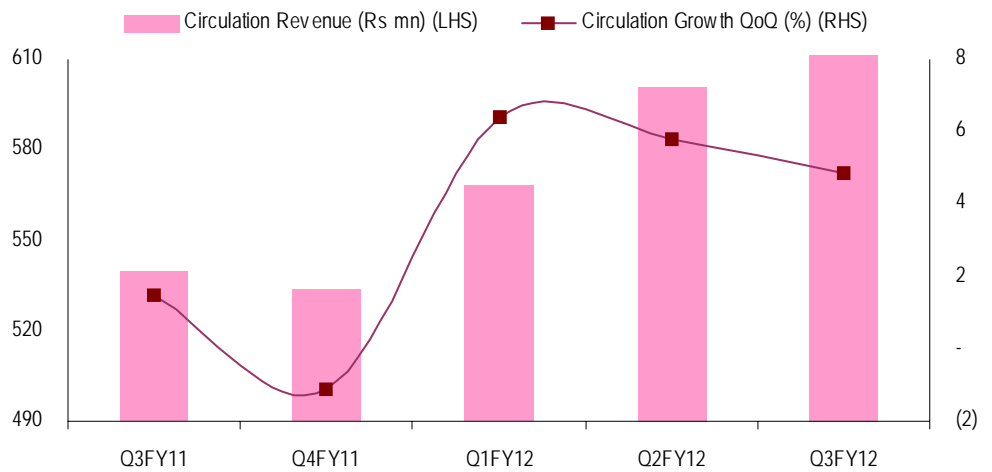
Ad growth declined to 6.8% YoY due to higher base and dull ad environment...



Source: Company, PINC Research

Exhibit 4: Circulation revenue trend

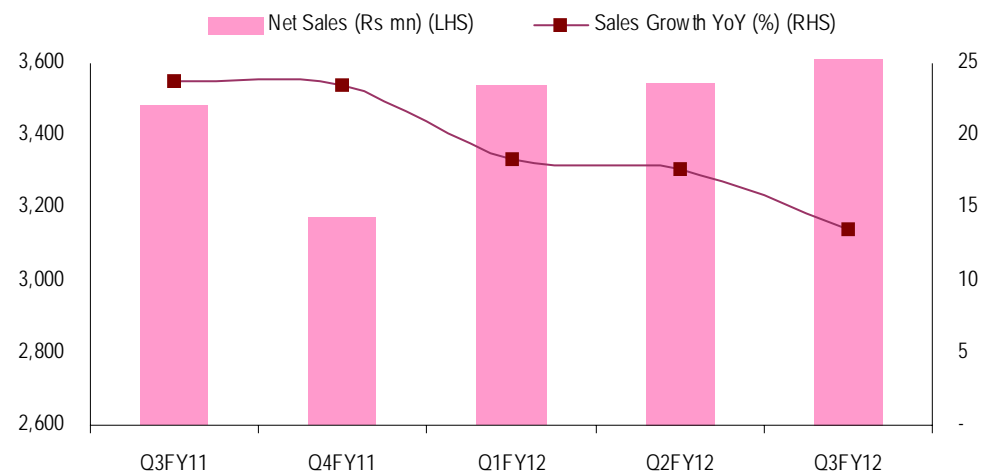
Robust circulation revenue growth of 4.8%QoQ led by new launches...



Source: Company, PINC Research

Exhibit 5: Net sales trend

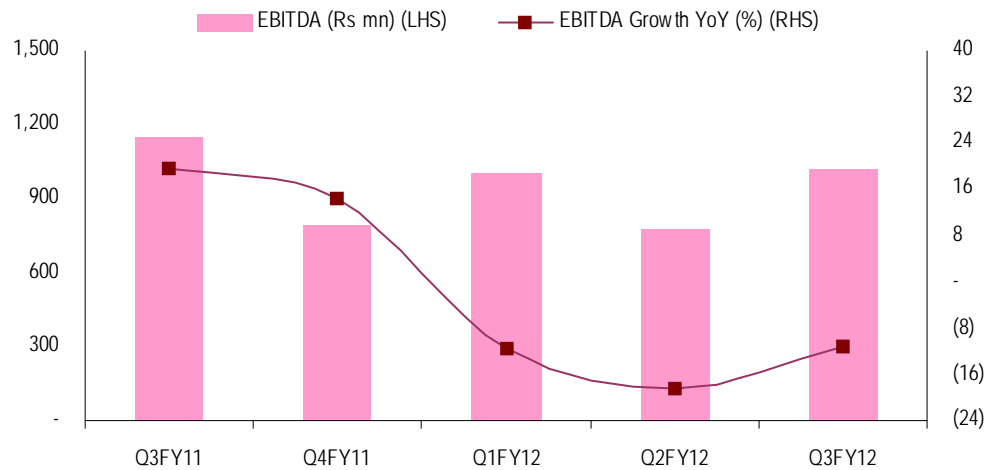
Topline grew 13.6%, above our estimates mainly due to increased revenues from other operating (printing job)...



Source: Company, PINC Research

Exhibit 6: Operating profit trend

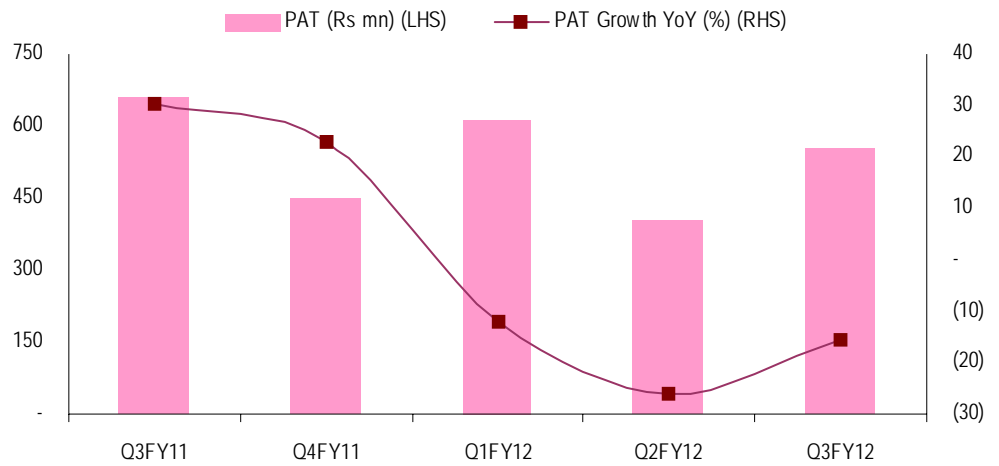
Emerging editions operating losses put pressure on overall margins...



Source: Company, PINC Research

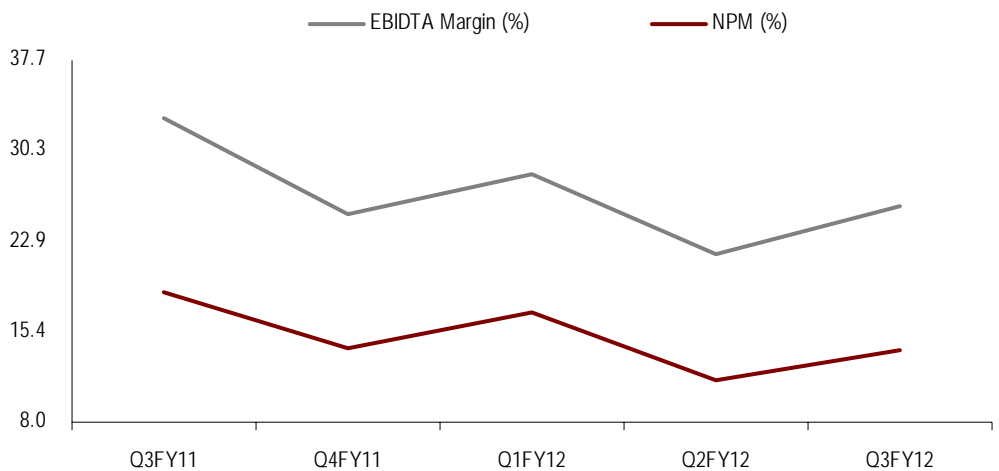
Exhibit 7: Net profit trend

Forex losses leads to de-growth in Net Profit...



Source: Company, PINC Research

Exhibit 8: Profitability trend



Source: Company, PINC Research

Consolidated Financial Statement

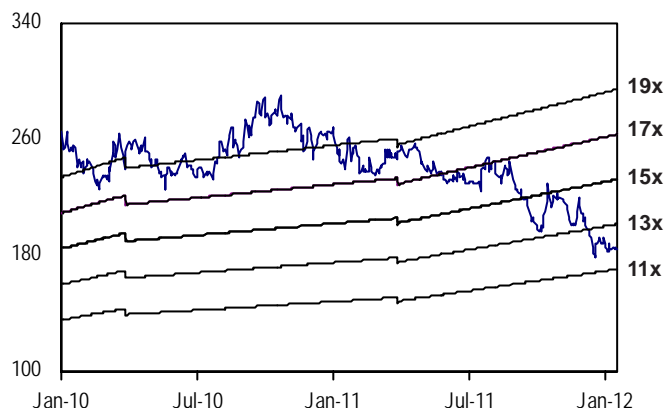
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net sales	10,630	12,652	14,642	16,644	18,829
Growth (%)	12.0	19.0	15.7	13.7	13.1
Gross profit	6,033	6,968	7,162	8,414	9,544
Other operating charges	2,604	2,937	3,561	4,147	4,696
EBITDA	3,429	4,031	3,600	4,267	4,848
Growth (%)	153.4	17.5	(10.7)	18.5	13.6
Depreciation	378	433	505	520	492
Other income	112	142	125	80	126
EBIT	3,163	3,740	3,220	3,827	4,482
Interest paid	357	153	224	120	108
PBT (before E/o items)	2,806	3,587	2,996	3,707	4,374
Tax Provision	1,057	1,000	971	1,223	1,443
Net profit	1,749	2,587	2,025	2,484	2,930
Adj.net profit (Including MI)	1,828	2,585	2,024	2,484	2,930
Growth (%)	283.9	41.4	(21.7)	22.7	18.0
Diluted EPS (Rs)	10.1	14.1	11.0	13.6	16.0
Diluted EPS Growth (%)	256.9	40.0	(21.7)	22.7	18.0

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	2,806	3,587	2,996	3,707	4,374
Depreciation	378	433	505	520	492
Total tax paid	(1,013)	(911)	(971)	(1,223)	(1,443)
Chg in working capital	(198)	(556)	(421)	(568)	(488)
Other operating activities	387	188	85	120	108
Cash flow from oper. (a)	2,360	2,741	2,195	2,556	3,043
Capital expenditure	(596)	(1,423)	(1,400)	(1,400)	(1,400)
Chg in investments	(1,273)	(3)	13	-	-
Other investing activities	(1)	845	-	-	-
Cash flow from inv. (b)	(1,871)	(581)	(1,387)	(1,400)	(1,400)
Free cash flow (a+b)	489	2,160	807	1,156	1,643
Equity raised/(repaid)	2,535	4	-	-	-
Debt raised/(repaid)	(2,268)	(835)	(500)	(500)	(500)
Dividend (incl. tax)	(258)	(688)	(723)	(723)	(723)
Other financing activities	(396)	(134)	(224)	(120)	(108)
Cash flow from fin. (c)	(388)	(1,652)	(1,447)	(1,343)	(1,331)
Net chg in cash (a+b+c)	1,498	(219)	(640)	(187)	312

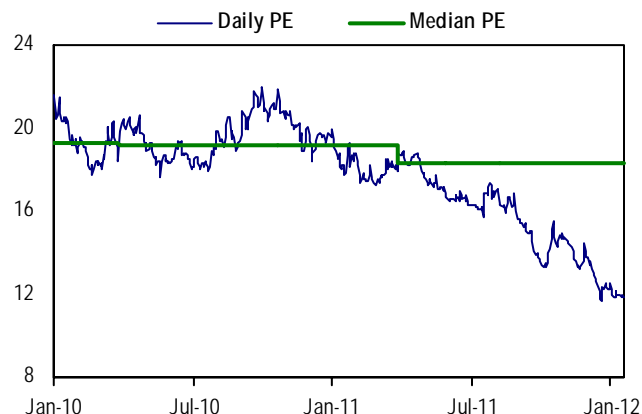
Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share capital	1,815	1,833	1,833	1,833	1,833
Reserves & surplus	4,672	6,456	7,757	9,518	11,725
Shareholders' funds	6,487	8,289	9,590	11,351	13,558
Minorities interests	44	4	-	-	-
Total Debt	3,207	2,372	1,872	1,372	872
Capital Employed	9,739	10,665	11,462	12,723	14,430
Net fixed assets	6,475	7,358	8,253	9,133	10,041
Net Other Current Assets	1,717	2,107	2,419	2,986	3,474
Cash & Cash Eq.	1,950	1,731	1,091	904	1,215
Investments	205	163	150	150	150
Net Deferred Tax Assets	(609)	(695)	(450)	(450)	(450)
Total assets	9,739	10,665	11,462	12,723	14,430

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	32.3	31.9	24.6	25.6	25.7
Net margin (%)	17.0	20.2	13.7	14.9	15.5
Yield (%)	1.1	1.1	1.9	1.9	1.9
Net debt/Equity (x)	0.2	0.1	0.1	0.0	0.0
Net Working Capital (days)	122	108	87	85	91
Asset turnover (x)	1.5	1.5	1.5	1.5	1.5
ROCE (%)	30.6	32.9	27.0	29.1	30.1
RoE (%)	28.2	31.2	21.1	21.9	21.6
EV/Net sales (x)	3.3	2.7	2.4	2.1	1.8
EV/EBITDA (x)	10.1	8.5	9.6	8.0	6.9
PER (x)	18.3	13.0	16.7	13.6	11.5
Price/Book (x)	5.1	4.1	3.5	3.0	2.5

1-Year forward P/E Band



Median PE v/s Daily PE



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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