

January 24, 2012

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Rating	Accumulate
Price	Rs188
Target Price	Rs231
Implied Upside	22.9%
Sensex	16,996
Nifty	5,127

(Prices as on January 24, 2012)
Trading data

Market Cap. (Rs bn)	33.7
Shares o/s (m)	183.3
3M Avg. Daily value (Rs m)	3.3

Major shareholders

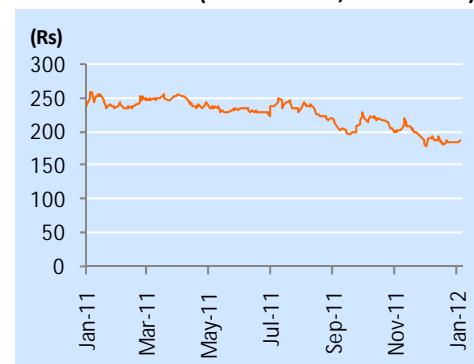
Promoters	86.43%
Foreign	5.18%
Domestic Inst.	4.27%
Public & Other	4.12%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.1)	(21.4)	(25.3)
Relative	(9.1)	(12.2)	(14.0)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	13.6	14.8	-8.1
2014	17.1	17.3	-1.5

Price Performance (RIC: DBCL.BO, BB: DBCL IN)


Source: Bloomberg

■ **Print ad revenue decelerates as macro weakness takes toll:** DB Corp (DBCL) reported muted 7% YoY ad revenue growth in the print business, driven by 11% growth in local ads even as national ads exerted a drag on growth. Automobiles, Electronics and Lifestyle were the key contributors to growth this quarter. Property and Govt ads remain weak. Circulation revenue recorded 17% YoY growth at Rs630m driven by 1) higher circulation and 2) increased cover prices in markets across Madhya Pradesh and Haryana.

■ **Newsprint cost and weak INR hit margins:** Newsprint expenses at 34% of revenues (35.2% in both Q2FY12 and 30.6% in Q3FY11) came in lower than our expectations as DBCL's measures to reduce pagination and shifting sourcing mix helped mitigate the impact of a 14% increase in newsprint costs to Rs31.77/kg. DBCL incurred forex loss of ~Rs87m related to newsprint imports – ~Rs28m above EBITDA and ~Rs59m in the interest and finance costs.

■ **Mature editions also see margins slip:** Mature editions recorded EBITDA margin of 33.7% (32.5% in Q2FY12), while emerging editions recorded EBITDA loss of Rs165m (Rs231m loss in Q2FY12). DBCL recorded pre-operating costs of ~Rs21m launches in Maharashtra. Cost controls on the selling & distribution (5% of revenues; 5.6% in Q3FY11 and 6.2% in Q2FY12) expenses helped mitigate the margin pressure from higher newsprint prices.

■ **Outlook:** DBCL's cost controls have helped mitigate the margin impact of slowdown in ad revenues and high newsprint prices. With expansion plans being moderated, the drag from new editions will also be limited, going forward. We revise our FY13E EPS upwards by ~5% to reflect the improved margin outlook and increase our target price to Rs231 (Rs221). Maintain **'Accumulate'**.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	12,656	14,937	17,023	18,784
Growth (%)	19.1	18.0	14.0	10.3
EBITDA (Rs m)	4,030	3,794	4,195	5,173
PAT (Rs m)	2,340	2,126	2,490	3,128
EPS (Rs)	12.8	11.6	13.6	17.1
Growth (%)	26.9	(9.2)	17.2	25.6
Net DPS (Rs)	4.6	4.6	4.6	4.6

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	31.8	25.4	24.6	27.5
RoE (%)	32.2	24.1	24.3	25.6
RoCE (%)	25.3	21.6	22.3	24.0
EV / sales (x)	2.7	2.3	2.0	1.8
EV / EBITDA (x)	8.6	9.1	8.2	6.5
PE (x)	14.7	16.2	13.8	11.0
P / BV (x)	4.2	3.7	3.1	2.6
Net dividend yield (%)	2.5	2.5	2.5	2.5

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	3,956	3,482	13.6	3,539	11,032	9,479	16.4
Consumption of raw materials	1,350	1,065	26.9	1,245	3,779	2,798	35.1
<i>% of net sales</i>	<i>34.1</i>	<i>30.6</i>		<i>35.2</i>	<i>34.3</i>	<i>29.5</i>	
SG&A	1,097	884	24.2	1,072	3,128	2,375	31.7
<i>% of net sales</i>	<i>27.7</i>	<i>25.4</i>		<i>30.3</i>	<i>28.4</i>	<i>25.1</i>	
Other Expenditure	490	386	27.0	451	1,333	1,071	24.4
<i>% of net sales</i>	<i>12.4</i>	<i>11.1</i>		<i>12.8</i>	<i>12.1</i>	<i>11.3</i>	
Total Expenses	2,938	2,334	25.9	2,768	8,239	6,244	32.0
<i>% of net sales</i>	<i>74.3</i>	<i>67.0</i>		<i>78.2</i>	<i>74.7</i>	<i>65.9</i>	
EBITDA	1,018	1,148	(11.3)	771	2,793	3,235	(13.7)
<i>EBITDA margins (%)</i>	<i>25.7</i>	<i>33.0</i>		<i>21.8</i>	<i>25.3</i>	<i>34.1</i>	
Other income	25	30	(17.5)	20	81	105	(23.2)
PBIDT	1,043	1,178	(11.5)	791	2,874	3,340	(14.0)
Depreciation	134	110	22.0	124	375	321	16.8
Interest	81	34	136.2	67	174	119	46.8
Profit before tax	828	1,034	(19.9)	600	2,324	2,900	(19.9)
Tax	271	382	(28.9)	197	753	1,038	(27.4)
<i>Tax rate (%)</i>	<i>32.8</i>	<i>36.9</i>		<i>32.9</i>	<i>32.4</i>	<i>35.8</i>	
PAT before minority interest & exceptional items	556	652	(14.7)	403	1,571	1,862	(15.6)
Less: Minority interest	3	(7)	NA	(0)	3	(3)	NA
Adjusted profit after tax	554	659	(16.1)	403	1,567	1,865	(16.0)

Source: Company Data, PL Research

Exhibit 2: Segmental Revenues (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Advertisement	3,059	2,810	8.9	2,735	8,626	7,536	14.5
Circulation	630	540	16.7	601	1,799	1,609	11.8
Others	267	132	101.8	203	607	334	81.7
Total revenues	3,956	3,482	13.6	3,539	11,032	9,479	16.4

Source: Company Data, PL Research

Exhibit 3: Margin contraction in both, mature and emerging editions

Y/e March	Q1FY12	Q2FY12	Q3FY12
Mature Editions			
Total revenue	3,183	3,086	3,381
Operating expenses	2,002	2,084	2,240
EBITDA	1,181	1,002	1,141
<i>EBITDA Margin</i>	<i>37.1%</i>	<i>32.5%</i>	<i>33.7%</i>
Emerging Editions			
Total revenue	219	302	376
Operating expenses	331	496	520
EBITDA before pre-operating expenses	(112)	(194)	(144)
Pre-operating expenses	61	37	21
EBITDA	(173)	(231)	(165)
<i>EBITDA Margin</i>	<i>-79.0%</i>	<i>-76.5%</i>	<i>-43.9%</i>

Source: Company Data, PL Research

Takeaways from the earnings call

- DBCL is still in the expansion mode in Rajasthan, Gujarat and Punjab and does not envisage cover price increases there soon.
- No major capex plans in the next 15 months. In FM Phase III, DBCL plans to target smaller markets within its footprint.
- With DBCL and most of its competitors operating at peak capacity utilization in the radio business, the focus will be on double-digit improvement in yields.
- Foreign currency exposure on debt taken for capex on machinery led to ~Rs107m of forex impact, which was capitalized.
- Other revenue includes ~Rs120m job work revenue by *MP Printers*, which was acquired in Q2FY12. The business is operating at 24% operating margins.

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	12,656	14,937	17,023	18,784
Raw Material Expenses	5,320	6,887	7,509	8,190
Gross Profit	7,336	8,050	9,514	10,594
Employee Cost	1,845	2,527	3,260	3,939
Other Expenses	1,460	1,730	2,059	1,483
EBITDA	4,030	3,794	4,195	5,173
Depr. & Amortization	424	502	519	572
Net Interest	152	240	134	116
Other Income	142	114	121	115
Profit before Tax	3,597	3,165	3,662	4,599
Total Tax	1,259	1,045	1,172	1,472
Profit after Tax	2,338	2,121	2,490	3,128
Ex-Od items / Min. Int.	518	(5)	—	—
Adj. PAT	2,340	2,126	2,490	3,128
Avg. Shares O/S (m)	183.3	183.3	183.3	183.3
EPS (Rs.)	12.8	11.6	13.6	17.1

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	2,452	979	2,288	2,217
C/F from Investing	(1,266)	(19)	(1,260)	(1,086)
C/F from Financing	(1,486)	(1,354)	(1,216)	(849)
Inc. / Dec. in Cash	(300)	(394)	(188)	281
Opening Cash	1,526	1,226	833	645
Closing Cash	1,226	833	645	926
FCFF	880	333	1,279	1,381
FCFE	280	(176)	912	1,381

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	19.1	18.0	14.0	10.3
EBITDA (%)	17.7	(5.9)	10.6	23.3
PAT (%)	28.1	(9.2)	17.2	25.6
EPS (%)	26.9	(9.2)	17.2	25.6
Profitability				
EBITDA Margin (%)	31.8	25.4	24.6	27.5
PAT Margin (%)	18.5	14.2	14.6	16.6
RoCE (%)	25.3	21.6	22.3	24.0
RoE (%)	32.2	24.1	24.3	25.6
Balance Sheet				
Net Debt : Equity	—	—	—	(0.1)
Net Wrkng Cap. (days)	35	96	97	103
Valuation				
PER (x)	14.7	16.2	13.8	11.0
P / B (x)	4.2	3.7	3.1	2.6
EV / EBITDA (x)	8.6	9.1	8.2	6.5
EV / Sales (x)	2.7	2.3	2.0	1.8
Earnings Quality				
Eff. Tax Rate	35.0	33.0	32.0	32.0
Other Inc / PBT	3.9	3.6	3.3	2.5
Eff. Depr. Rate (%)	5.0	5.5	5.0	5.0
FCFE / PAT	12.0	(8.3)	36.6	44.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	8,179	9,426	11,067	13,345
Total Debt	2,035	1,526	1,160	1,160
Other Liabilities	699	699	698	698
Total Liabilities	10,913	11,651	12,925	15,203
Net Fixed Assets	7,359	6,876	7,616	8,130
Goodwill	—	—	—	—
Investments	163	163	163	163
Net Current Assets	3,392	4,613	5,146	6,910
<i>Cash & Equivalents</i>	<i>1,731</i>	<i>1,308</i>	<i>1,371</i>	<i>1,902</i>
<i>Other Current Assets</i>	<i>4,187</i>	<i>5,708</i>	<i>6,496</i>	<i>7,941</i>
<i>Current Liabilities</i>	<i>2,526</i>	<i>2,403</i>	<i>2,720</i>	<i>2,933</i>
Other Assets	—	—	—	—
Total Assets	10,913	11,651	12,925	15,203

Quarterly Financials (Rs m)

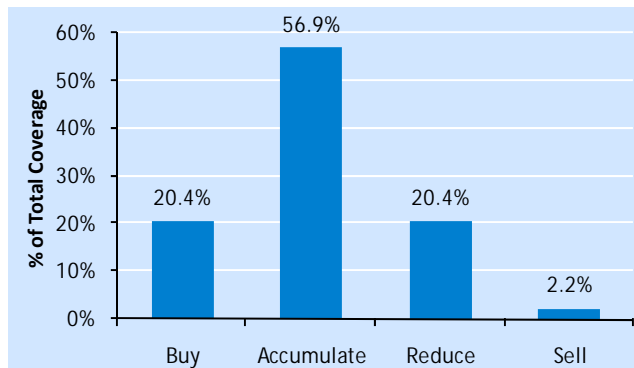
Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	3,174	3,537	3,539	3,956
EBITDA	796	1,003	771	1,018
<i>% of revenue</i>	<i>25.1</i>	<i>28.4</i>	<i>21.8</i>	<i>25.7</i>
Depr. & Amortization	111	117	124	134
Net Interest	34	27	67	81
Other Income	36	37	20	25
Profit before Tax	687	896	600	828
Total Tax	235	284	197	271
Profit after Tax	450	611	403	554
Adj. PAT	450	611	403	554

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Ad Rev. (Rs m)	10,026	11,237	13,065	14,574
Circulation Rev. (Rs m)	2,143	2,372	2,533	2,691
RM cost/Rev (%)	30.3	33.7	32.9	33.2
Ad rev. gr. (%)	28.8	12.1	16.3	11.5
Circ rev. gr. (%)	(3.4)	10.7	6.8	6.2
NP cost (INR/MT)	27,235	32,414	31,673	32,080

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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