

UPDATE

MID CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | DECH.BO |
| Bloomberg code | DECH IN |
| Market cap. (US\$ mn) | 923 |
| 6M avg. daily turnover (US\$ mn) | 3.6 |
| Issued shares (mn) | 242 |
| Target price (Rs) | 209 |

Performance (%) 1M 3M 12M

| | | | |
|----------|----|----|-----|
| Absolute | 16 | 10 | 410 |
| Relative | 7 | 4 | 161 |

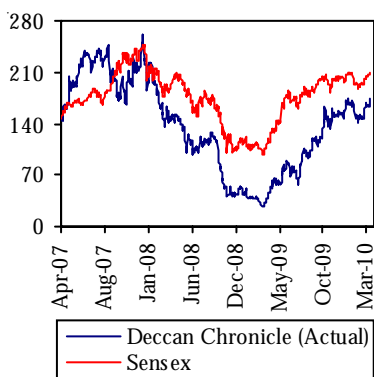
Valuation ratios (Standalone)

| Yr to 31 Mar | FY10E | FY11E |
|--------------------|-------|-------|
| EPS (Rs) | 11.4 | 13.0 |
| +/- (%) | 98.6 | 14.6 |
| PER (x) | 15.3 | 13.3 |
| PBV (x) | 3.2 | 2.8 |
| Dividend/Yield (%) | 2.3 | 2.3 |
| EV/Sales (x) | 4.4 | 4.0 |
| EV/EBITDA (x) | 8.6 | 7.8 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 64 |
| FII's | 15 |
| MF's | 9 |
| BFSI's | 3 |
| Public & Others | 9 |

Relative performance



Deccan Chronicle

Maintain Outperformer

Price: Rs 173

BSE Index: 17,578

22 March 2010

Well played - DC

The Indian Premier League (IPL) has inducted two new teams taking the total team count, from IPL Season IV onwards, to 10. The commissioner of IPL, Mr. Lalit Modi has indicated that no more teams will be added in the IPL.

The Sahara Group has won the Pune team for US\$ 370 mn and Kochi has been won by Rendezvous Sports Group for US\$ 333.3 mn. The Pune team is 3.3 times costlier than the Mumbai team (the costliest team till now at US\$ 112 mn) and 5.5 costlier than the Jaipur team (the cheapest team at US\$ 67 mn). The payment has to be made over a ten year period, the NPV of these payments for Pune works out to be US\$ 240 mn and for Kochi at US\$ 220 mn, at a 12.5% discounting rate.

How does Deccan Chargers compare with the new teams, from a financial perspective?

The Pune team will have to fork out Rs 2.4 bn as expenses (Rs 1.7 bn as license fees, Rs 0.3 bn as player cost, Rs 0.2 bn as overheads and Rs 0.2 bn as interest costs) in IPL Season IV whereas Deccan Chargers will pay only Rs 0.9 bn (Rs 0.4 as license fees, Rs 0.3 bn as player cost and Rs 0.2 bn as overheads) in IPL Season IV. Thus the cash flows and profitability of Deccan Chargers (and the old teams) will be far better than the new teams; hence valuations should also be at a premium.

We are comfortable assigning a premium of 25% to Deccan Chargers over the NPV of the Pune team (US\$ 240 mn at a 12.5% discounting rate). Hence, we assign a valuation of US\$ 300 mn to Deccan Chargers or Rs 57 per share for DCHL.

We also roll forward our target price of the core business to FY11E EBITDA maintaining the same EV/EBITDA multiple of 6.5x and our core business value is now upward revised to Rs 152 per share (from Rs 132 per share based on FY10E EBITDA). Our new target price for Deccan Chronicle is Rs 209 per share (upward revised from Rs 175). Maintain Outperformer.

Valuations

| | Valuation Methodology | | Target Price | |
|---------------------------|--------------------------|--|--------------|------------|
| | Old | New | Old | New |
| Core business (newspaper) | 6.5x FY10E EV/EBITDA | 6.5x FY11E EV/EBITDA | 132 | 152 |
| IPL | US\$ 225 mn (base price) | 25% premium to the NPV of the Pune team license fees | 43 | 57 |
| Target Price (Rs) | | | 175 | 209 |

Income Statement (Standalone)

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---|--------------|---------------|--------------|--------------|
| Net sales | 7,824 | 8,149 | 8,991 | 9,780 |
| <i>Growth (%)</i> | <i>41.5</i> | <i>4.2</i> | <i>10.3</i> | <i>8.8</i> |
| Operating expenses | (2,948) | (5,467) | (4,384) | (4,749) |
| Operating profit | 4,876 | 2,682 | 4,607 | 5,030 |
| EBITDA | 4,876 | 2,682 | 4,607 | 5,030 |
| <i>Growth (%)</i> | <i>88.8</i> | <i>(45.0)</i> | <i>71.7</i> | <i>9.2</i> |
| Depreciation | (297) | (321) | (410) | (439) |
| Other income | 379 | 427 | 298 | 425 |
| EBIT | 4,958 | 2,789 | 4,494 | 5,016 |
| Interest paid | (768) | (709) | (432) | (360) |
| Pre-tax profit (before non-recurring) | 4,191 | 2,079 | 4,062 | 4,656 |
| Pre-tax profit (after non-recurring) | 4,191 | 2,079 | 4,062 | 4,656 |
| Tax (current + deferred) | (1,471) | (679) | (1,280) | (1,467) |
| Net profit (before Minority Interest, Pref. Dividend etc.) | 2,719 | 1,401 | 2,782 | 3,190 |
| Reported PAT | 2,719 | 1,401 | 2,782 | 3,190 |
| Adjusted net profit | 2,719 | 1,401 | 2,782 | 3,190 |
| <i>Growth (%)</i> | <i>68.5</i> | <i>(48.5)</i> | <i>98.6</i> | <i>14.6</i> |

Balance Sheet (Standalone)

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------|---------------|---------------|---------------|---------------|
| Cash & Marketable sec. | 7,947 | 3,597 | 6,138 | 7,231 |
| Other current assets | 4,672 | 4,226 | 4,259 | 4,639 |
| Investments | 1,909 | 2,409 | 2,409 | 2,409 |
| Net fixed assets | 6,456 | 8,231 | 8,222 | 8,424 |
| Total assets | 20,984 | 18,464 | 21,028 | 22,704 |
| Current liabilities | 3,016 | 2,588 | 3,537 | 3,599 |
| Total debt | 6,729 | 3,680 | 3,550 | 3,050 |
| Other non-current liabilities | 568 | 697 | 777 | 817 |
| Total liabilities | 10,313 | 6,965 | 7,864 | 7,467 |
| Share capital | 490 | 490 | 490 | 490 |
| Reserves & surplus | 10,181 | 11,009 | 12,675 | 14,748 |
| Shareholders' funds | 10,671 | 11,499 | 13,164 | 15,237 |
| Total equity & liab. | 20,984 | 18,464 | 21,028 | 22,704 |
| Capital employed | 17,968 | 15,875 | 17,492 | 19,104 |

Cash Flow Statement (Standalone)

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------|----------------|----------------|--------------|----------------|
| Pre-tax profit | 4,191 | 2,079 | 4,062 | 4,656 |
| Depreciation | 297 | 321 | 410 | 439 |
| Change in working capital | 2,411 | 18 | (64) | (318) |
| Total tax paid | (1,343) | (550) | (1,200) | (1,427) |
| Cash flow from oper. (a) | 5,555 | 1,868 | 3,209 | 3,351 |
| Capital expenditure | (955) | (2,095) | (401) | (642) |
| Change in investments | (506) | (500) | - | - |
| Others | 160 | (1) | - | - |
| Cash flow from inv. (b) | (1,301) | (2,596) | (401) | (642) |
| Free cash flow (a+b) | 4,254 | (728) | 2,808 | 2,709 |
| Equity raised/(repaid) | 592 | - | - | - |
| Debt raised/(repaid) | 678 | (3,049) | (130) | (500) |
| Dividend (incl. tax) | (859) | (573) | (137) | (1,117) |
| Cash flow from fin. (c) | 412 | (3,622) | (267) | (1,617) |
| Net chg in cash (a+b+c) | 4,665 | (4,350) | 2,542 | 1,093 |

Key Ratios (Standalone)

| Yr end 31 Mar (%) | FY08 | FY09 | FY10E | FY11E |
|-----------------------|--------|--------|--------|--------|
| Adjusted EPS (Rs) | 11.2 | 5.7 | 11.4 | 13.0 |
| Growth | 55.0 | (49.1) | 98.6 | 14.6 |
| Book NAV/share (Rs) | 44.1 | 47.0 | 53.8 | 62.2 |
| Dividend/share (Rs) | 3.0 | 2.0 | 4.0 | 4.0 |
| Dividend payout ratio | 31.6 | 40.9 | 40.1 | 35.0 |
| Tax | 35.1 | 32.6 | 31.5 | 31.5 |
| EBITDA margin | 62.3 | 32.9 | 51.2 | 51.4 |
| EBIT margin | 63.4 | 34.2 | 50.0 | 51.3 |
| RoCE | 30.4 | 16.5 | 26.9 | 27.4 |
| Net debt/Equity | (11.4) | 0.7 | (19.7) | (27.4) |

Valuations (Standalone)

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|-------------------|------|------|-------|-------|
| PER | 15.4 | 30.3 | 15.3 | 13.3 |
| PCE | 13.9 | 24.7 | 13.3 | 11.7 |
| Price/Book | 3.9 | 3.7 | 3.2 | 2.8 |
| Yield (%) | 1.8 | 1.2 | 2.3 | 2.3 |
| EV/Net sales | 5.0 | 4.8 | 4.4 | 4.0 |
| EV/EBITDA | 8.1 | 14.7 | 8.6 | 7.8 |

Du Pont Analysis - ROE (Standalone)

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|----------------------|------|------|-------|-------|
| Net margin (%) | 34.8 | 17.2 | 30.9 | 32.6 |
| Asset turnover | 0.4 | 0.4 | 0.5 | 0.4 |
| Leverage factor | 1.9 | 1.8 | 1.6 | 1.5 |
| Return on equity (%) | 28.9 | 12.6 | 22.6 | 22.5 |

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 4. **SELL:** Potential downside of < -25% (absolute returns)
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