July 23, 2007

FOR PRIVATE CIRCULATION

Deccan Chronicle Holdings Ltd.

Price: Rs.221 — **Recommendation: BUY**

Price target: Rs.288 — **FY09E: EV/EBITDA: 9x; P/E:15x**

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Stock details

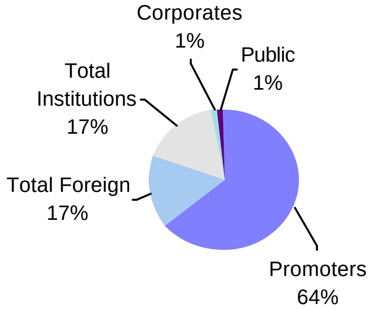
BSE code	:	532608
NSE code	:	DCHL
Market cap (Rs mn)	:	54120
Free float (%)	:	36.51
52-wk Hi/Lo (Rs)	:	245/65
Avg. Daily Volume BSE+NSE	:	208279
Shares o/s (mn)	:	246

Summary table (Rs mn)

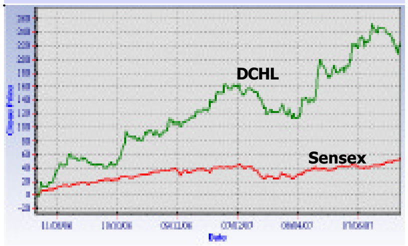
	FY07	FY08E	FY09E
Sales	5,528	7,810	10,513
Growth (%)	67.1	41.3	34.6
EBITDA	2,583	4,163	5,473
EBITDA margin (%)	46.7	53.3	52.1
Net profit	1,616	2,637	3,570
Net cash (debt)	(613)	(2,696)	(4,846)
EPS (Rs)	6.8	10.7	14.5
Growth (%)	-59.0	58.5	35.4
CEPS	7.5	11.6	15.4
DPS (Rs)	0.2	0.3	0.4
ROE (%)	30.3	29.0	29.5
ROCE (%)	26.6	32.9	36.8
EV/Sales (x)	9.6	6.7	4.8
EV/EBITDA (x)	20.5	12.6	9.2
P/E (x)	32.5	20.5	15.2
P/Cash Earnings	29.4	19.0	14.3
P/BV (x)	6.9	5.1	4.0

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern as on 31 Mar 2007



One-year performance (Rel to sensex)



Source: Capitaline

In the print media segment, we see Deccan Chronicle Holdings Ltd. (DCHL) as a strong regional print major from South India. It enjoys a dominant presence in Andhra Pradesh and growing clout in Chennai through its flagship offering - the English daily Deccan Chronicle. The successful Chennai launch in 2005 has helped DC extend its reach and enhanced its attractiveness to advertisers, in our opinion. DCHL now, intends to build on its strong prior presence in Hyderabad and Chennai through a Bangalore launch during FY08 and aims to emerge as a strong regional franchise in the demographically attractive South Indian market.

We expect DCHL's presence in attractive markets, readership gains, benefits of extended reach and recent ad rate hikes (around 30% across editions) to spur strong growth in revenues. Maturing of investments like Chennai, easing newsprint prices (40% of FY07 revenues) and lean cost structures are expected to drive operating margin expansion and strong profit growth over FY07-09E.

DCHL's revenues are expected to grow at a CAGR of 37% over FY07-09E to Rs.10.5 bn in FY09E driven by a robust 39% CAGR growth in ad revenues to Rs.9.7 bn and a 22% CAGR growth in circulation revenues over the period. Strong revenue growth, aided by operational leverage emerging across the business, is expected to impact operating margins positively and lead to a 46% & 49% CAGR growth in EBITDA and profits over FY07-09E.

Consequently, we expect DCHL to report an EPS of Rs.10.7 in FY08E and Rs.14.5 in FY09E. At current levels, the stock is available at 9x FY09E EV/EBITDA and 15x FY09E earnings. We recommend a BUY on DCHL with a price target of Rs.288, achievable over a 12 month horizon.

Investment Argument

- **DCHL: A dominant player in AP through India's fourth largest English daily:** Through its English news daily, the Deccan Chronicle, DCHL has a dominant presence in the Andhra Pradesh market with a readership share of more than 60% in the market. DC's readership numbers in Andhra are significantly higher than competition. The company has also successfully countered competition from national players like ToI. According to data released by the IRS, DC is the only top English daily that has grown its readership in FY07; 35% growth YoY. One of the factors that have helped DCHL maintain and grow its lead over competition in the Andhra market has been its understanding of the market in addition to being the only English newspaper in Andhra with such a wide presence - across seven editions.

- **Healthy outlook for growth in DCHL's advertising revenues:** We expect advertising revenues for DCHL to grow healthily on the back of continuing good economic growth expectations, DCHL's established competitive position in its market coupled with its extended reach post-Chennai entry. DCHL has also increased its ad rates by an average of 30% across its English editions in Q1FY08, which is reflective of its positioning and the conducive macro environment. We believe DCHL's extended reach has also increased its attractiveness to advertisers' targeting a wider South Indian audience. We expect advertising revenues to grow at a CAGR of 39% over FY07-09E to Rs.9.7 bn in FY09E from the Rs.5 bn reported in FY07.

- **DCHL's Chennai entry successful, adds to its reach in South India:** In FY05, DC entered the lucrative and important Chennai territory that has an estimated ad market of close to Rs.5 bn and a strong incumbent in the form of 'The Hindu'. We see the Chennai move as a means to grow its footprint, build on its dominance in Hyderabad and position itself as a regional newspaper franchise. We believe DCHL has met with a degree of success in its Chennai edition in terms of circulation numbers and, more vitally, higher ad yields for its dailies on the back of selling combined ad packages to advertisers. We believe this has been reflected in robust ad revenue growth registered in recent quarters by DCHL. We see the successful Chennai entry and greater reach translating into higher yields on the back of ad revenue catching up with rising circulation as one of the major drivers for the healthy ad revenue growth we estimate over FY07-09E.

- **DCHL eyes Bangalore to grow footprint across South India:** Post a stronger presence in the two markets of Andhra and Chennai, DC is now looking to fortify its position as a regional print media franchise with expansions across Bangalore and other centers of Tamil Nadu like Coimbatore and Tiruchi. The company, according to notifications to the BSE, is looking at rolling out a new edition in Bangalore during the course of FY08. We see merit in DCHL entering other markets in South India. This could provide an opportunity for DCHL to leverage the popularity and dominance of its brand in Andhra and Chennai and make it an attractive option for advertisers looking to reach out to a wider target market through a common platform.

- In our projections, we have factored in the Bangalore edition to be launched by Q4FY08, as the management has been guiding. We have assumed a year end print order (PO) of 0.1 mn in FY08E, and garner Rs.547 mn in ad revenues for an 11% share of Bangalore's estimated ad market by FY09E.

- **Solid growth expected in financials over FY07-09E:** Given the healthy revenue growth expected, easing of newsprint prices and on account of operating leverage showing through maturing of the Chennai edition, we expect operating margins to expand 660 bps to 53.3% in FY08 and then estimate a tapering to 52.1% on account of investments in Bangalore during FY09E. This is expected to result in strong profit growth for DCHL. DCHL has also recently hiked advertising rates by 30% for its English editions. This is expected to impact advertising revenue growth positively.

  We expect EBITDA for the company to grow at a CAGR of 46% to Rs.5.5bn in FY09 from Rs.2.58 bn reported in FY07 over the period FY07-09. Consequently, we expect EBITDA margins to improve to 52.1% in FY09 from the 46.7% reported in FY07.

  We expect DCHL to report revenues of Rs.7.8bn in FY08 and a further Rs.10.5bn in FY09 and net profits of Rs.2.63bn in FY08 and Rs.3.57bn in FY09. On a fully diluted equity capital of Rs.492 mn, this would translate into an EPS of Rs.10.7 for FY08 and Rs.14.5 in FY09. We also expect return ratios and cash generation for DCHL to improve significantly in the coming fiscals. We estimate RoCE to improve to 33% in FY08 and further to 37% in FY09 from the 26% reported in FY07.

Valuations

At the current market price of Rs.221, the stock trades at 9x our FY09E EV/EBITDA and 15x our estimated FY09E earnings of Rs.14.5 per share. We have valued DCHL on the basis of the two-stage DCF methodology with a WACC of 12% and a terminal growth rate of 4%. This has given us a fair value of Rs.288 per share.

We have validated this further using our EV/EBITDA methodology for valuing print companies. We prefer to accord DC a 15% discount to our target EV/EBITDA multiple of HT Media (14x 1 year forward). We accord this discount to DCHL on account of HT's established national presence, higher circulation, and higher ad rates.

To this, we have added Rs.2.5 per share or Rs.612mn, which is the book value of Odyssey's acquisition for DCHL. The company eventually plans to demerge Odyssey, its retail business, through a planned public offering at a later date. At this point, we have not ascribed a higher financial value to Odyssey due to lack of sufficient financial details. Higher than assumed valuations for'Odyssey' could provide upsides to the DC shareholder as and when they materialize.

At our target price of Rs.288, DCHL will be trade at 12x our FY09E EV/EBITDA and 19.8x our FY09E earnings, a blended 20% discount to our target valuations of HT Media. This provides an upside of 32% from current price levels. We recommend **BUY.**

Key Concerns

- **Higher than estimated newsprint costs:** We have assumed landed costs of newsprint for DCHL at a slight premium to the current levels as illustrated in our model. Any sustained uptrend in newsprint prices could lead to greater expenditure for print companies like DCHL and impact their profitability negatively.
- **Competition:** High competition in proposed editions like Bangalore and/or existing print markets; more so from aggressive new entrants could lead to price wars, slashing of ad rates and a general tepid outlook for growth and profitability for the players. This is similar to what Delhi had witnessed for an extended period of time between ToI and HT during 1995-2005.
- **Alternate media:** Shift of advertising revenue momentum from the print medium to other media like radio, Internet or television could impact the growth and profitability of print players like DCHL.

COMPANY BACKGROUND

DC - India's fourth largest English daily...

Promoted by T.Venkatram Reddy, 'Deccan Chronicle' is India's fourth largest English daily newspaper with a readership of 1.311 mn (up 35% YoY) according to the latest Indian Readership Survey (IRS) 2007 numbers. Expectedly, India's print leader ToI is at the top of the heap with 6.7 mn readers, followed by HT and 'The Hindu'.

Top 8 English dailies IRS 2007

(000's)	2006	2007
Times of India	6920	6781
Hindustan Times	3500	3331
Hindu	2570	2209
Deccan Chronicle	970	1311
Telegraph	1010	919
Economic Times	800	774
Mumbai Mirror	750	735
DNA	-	539

Source: IRS

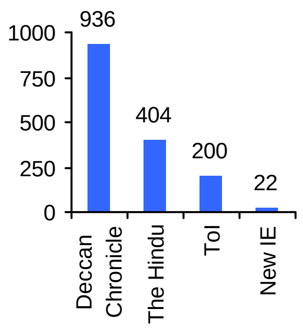
As illustrated in the attached tables, DCHL is the market leader in the Andhra Pradesh and Hyderabad markets with close to 60% of the readership and circulation share in the respective markets. DCHL has recently entered Tamil Nadu through its Chennai edition that was rolled out in March 2005. This is in line with the company's strategy of extending its presence in the lucrative South Indian ad market. An extended reach, in our opinion, has provided DCHL the leverage to sell ad space targeted at a wider South Indian audience and also increased its attractiveness to advertisers.

DCHL's business plans in the medium term include foraying into the Bangalore market and attempt to build a strong print franchise across South India with a presence in its major markets - Andhra Pradesh, Tamil Nadu and Karnataka.

...with a dominant presence in Hyderabad and Andhra Pradesh

In addition to its presence in print, DCHL has also ventured into retailing when it acquired Odyssey; a retail chain in September 2005 for a consideration of Rs.612 mn. Odyssey now has close to 12 stores across six cities and a retail space of close to 60000 sq ft. On its part, the company has decided to demerge Odyssey through a public offering aimed at allowing the retail business fund its growth requirements independently.

AP & Hyderabad. Readership market break up (in '000s)



Source: IRS

BUSINESS SEGMENTS

DCHL is present in the English language segment across Andhra Pradesh and now Tamil Nadu post the launch of its Chennai edition. According to the latest IRS figures reproduced above, DCHL is in pole position in Andhra with a readership of 0.936 mn, more than 2x the nearest competitor. In the Tamil Nadu market that DC entered in 2005, DCHL has a readership of 0.375 mn, with 'Hindu' being the market leader at a readership of 1.188mn.

Summing the above, DCHL has an overall readership of 1.311 mn. That makes it the fourth largest English newspaper daily in the country. DCHL has set up an additional color printing centre at Kondapur in Hyderabad in November 2004 in addition to the Chennai printing facility put in 2005. The table below illustrates the printing capacity DCHL has deployed in each of its printing facilities. Including its Chennai facility DCHL has a capacity of printing a total of 3.2 mn copies for a four-hour print run.

DCHL's current print capacity

Printing facility	Capacity (Copies/hr)
Secunderabad, Kompally	120000
Kondapur	165000
Vijayawada	60000
Rajamhundry	60000
Vizag	50000
Anantapur	75000
Karimnagar	60000
Nellore	60000
Chennai	115000

Source: Company

The company publishes seven editions of the Deccan Chronicle in Andhra Pradesh. They are printed from locations like Hyderabad/Secunderabad, Vijayawada, Rajahmundry, Vishakhapatnam, Anantapur, Karimnagar and Nellore. In addition to its wide presence in Andhra Pradesh, in March 2005, DC has also made an entry in the Chennai market. In addition to the general newspaper, DCHL also publishes the weekly vernacular news magazine 'Andhra Bhoomi' in Andhra Pradesh.

DCHL's competitive strengths

Significant brand equity

We opine that Deccan Chronicle is a well-established brand that is recognized widely for its popular appeal and geographic reach through South India, more so in Andhra Pradesh. We believe one of the factors that has helped DCHL maintain and grow its lead over competition has been its understanding of the market in addition to being the only English newspaper in Andhra with such a wide presence - seven editions.

This brand equity and entrenched presence in a major market could help reduce DC's cost of entry into new markets and/or ventures in cross media, in our opinion.

Cost efficiency of operations

Established brand, cost effective operations and modern printing infrastructure - among DC's competitive strengths

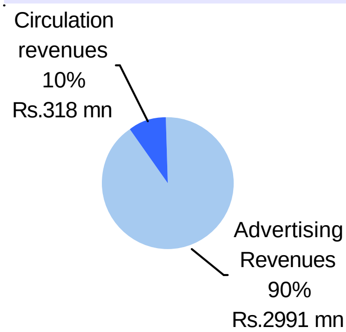
DC has a strong presence in its target markets that places it at an advantage in terms of attracting higher ad spends, better rates and also efficient business arrangements. This has been evidenced in the Chennai launch as DCs ability to enter and establish operations in a new market like Chennai at a low cost was made possible by its prior dominant presence in a neighboring market, relationship with advertisers and lean cost structures.

Modern printing infrastructure

The company has nine printing facilities across South India - eight in Andhra and one in Chennai catering to its various published editions; including a modern state-of-the-art facility in Kondapur that has been developed in FY06. Over the years, DC has also invested significantly in employing modern printing technology that has led to increased productivity (lesser newsprint consumed per page) and helped in the production of higher quality newspaper products.

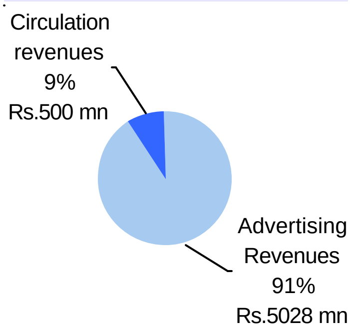
As mentioned, DCHL is planning to enter the Bangalore market during FY08. To this effect, it has set up infrastructure, that is, the building and required printing machinery in Bangalore during FY07. The company, in FY07, has also carried out capital expenditure for its expansion in other centers across Tamil Nadu like Coimbatore and Tiruchi.

Revenue break up in FY06



Source: Company

Revenue break up in FY07



Source: Company

Revenue break-up for DCHL

For FY07, the company has earned revenues of Rs.5.52 bn, with advertising revenues of Rs.5.03 bn contributing a dominant 90% to DCHL's revenue pie. The circulation revenues at Rs.500 mn made around 9%of the company revenues.

In comparison to fiscal FY06, ad revenues grew at 69% YoY in FY07 to Rs.5.02 bn from the previous Rs.2.98 bn. We believe this growth was driven by contributions from the Chennai market and the ad rate hikes that DC effected in FY07 on the back of its rapidly growing circulation. We note that perusal of the latest IRS numbers points to the fact that within the top five publications DC is the only English daily to grow its readership YoY; by a robust 35%. We estimate the Chennai market contributed close to Rs.1.4 bn of ad revenues in FY07 compared to the Rs.522 mn in FY06.

Circulation revenues also grew 57% YoY to Rs.500 mn in FY07 from the Rs.318 mn in FY06, on the back of addition of new editions and cover price hikes in existing ones.

As is the case with most newspapers DC's revenue mix is skewed more towards the advertising stream. This is also because of the low cover price strategy that DC adopts to lock in a readership base first. DC charges an average cover price of Rs.1.6-1.8 in Andhra and entered the Chennai market at a Re.1 cover price. Competitors like ToI charge an average of Rs.2.5 whereas Hindu charges close to Rs.3.5 per copy.

Revenue model in the print business: Newspaper companies primarily depend on ad revenue streams to drive revenue growth

Print companies' revenue stream dominated by ad revenues...

A newspaper publisher has two streams of revenues - circulation revenues and revenues from the sale of advertising space. The cover price for a news daily is less than half of the cost per copy. On a global front, it is estimated that of the US$1.7-bn newspaper industry, revenues generated through the selling of ad space account for close to 55%.

Traditionally, the newspaper industry in India has been characterized by cover prices that are lower than even the cost of production of a newspaper. According to industry sources and research, the average costs of production of a newspaper are Rs.8-9 (for DC around Rs.6), whereas the cover prices vary from Rs.1-2 (in DCHL's case). This is much lower than the cover prices the manufacturers sell the newspaper for to earn their circulation revenues. Given this, the profitability of newspaper companies depends on the revenues they earn from the advertising stream and the ad yields/rates these editions command.

...circulation numbers also expected to tend upwards:

Circulation in India, at 200 mn copies per day (Source: NRS 2005), is less than 20% of the Indian population - quite low by global standards. With another 300 mn of the population being literate and still not a daily newspaper reader, and coupled with an improving literacy rate, newspaper circulation is expected to grow at a healthy rate. Higher readership triggers an increase in advertising rates and ad space occupancy, as it determines the cost per thousand circulated copies for the advertiser.

Healthy outook for circulation growth given growing literacy

In the case of a newly launched edition, the advertising rates depend on the circulation numbers generated and synergies generated with other editions in terms of an extended reach from the advertiser point of view. Once the edition starts gaining currency with advertisers it is able to command good ad rates from national advertisers. However, normally, there is a good amount of time lag between the circulation numbers picking up and appreciation in ad rates for the new edition.

INVESTMENT POSITIVES

Healthy growth outlook for advertising revenues:

Our premise of a healthy outlook for the growth of advertising revenues across different media including print is based on the following pointers of:

a) Healthy economic growth expectations for the Indian economy. This is expected to lead to higher levels of disposable income, going forward. Healthy economic growth is also expected to increase the ad budgets of advertisers in order to cater to the rise in consumerism across the consuming classes.

b) We opine that an increase in the country's levels of literacy could be expected to provide positive momentum to readership and circulation growth for successful print companies.

- **Penetration of print in comparison to other media has been low**

Healthy economic growth, rising literacy and relatively low penetration of ad-spends underpin optimistic outlook for ad revenue growth

The attached graph illustrates the penetration of various media in India. We opine that the low penetration of the print medium reflects:

The relatively lesser penetration (reach) of different media in India due to structural factors like nascent economic growth, which is reflected in metrics like ad-spend/ GDP etc and the extant lower levels of literacy and also disposable income in comparison to international peers.

Reach of different media in India

	2005 R1	2005 R2	2006 R1
Est. Individuals ('000s)	739625	777969	784548
Press	36.6	37.5	38.2
TV	54.4	55	54.9
Satellite	26.1	27	28
Radio	21	20.7	20.9
Cinema	31.2	11.4	9.9
Press + TV	61.4	62.2	62.6
All media	70	67.6	67.6

Source: IRS Readership survey, 2006 R1

We opine that with a rise in literacy levels in India the print medium would continue to cater to a growing market. Within the space, the content and reach of individual players would determine the fate and success of the individual players, in our opinion. Our optimism, regarding the growth in readership and circulation numbers for Indian print players, also stems from the fact that the current 200 mn circulated newspaper copies are less than 20% of India's population. With rising levels of literacy a growth in these numbers could be expected.

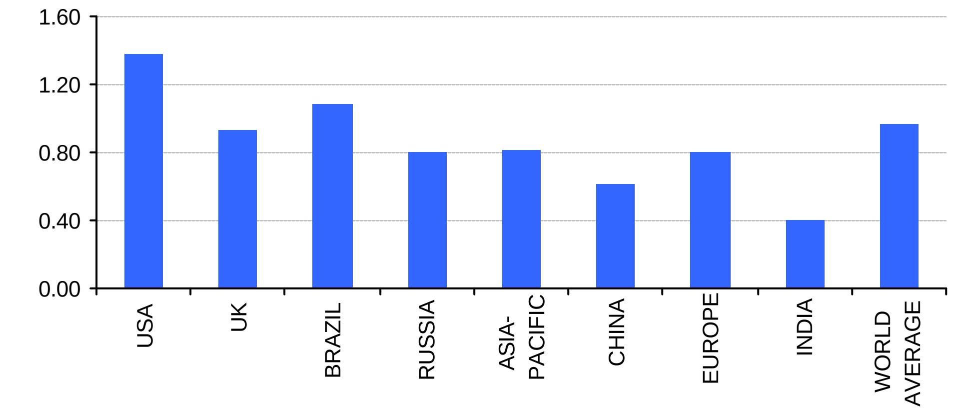
- **Perusal of some numbers...**

According to a Ficci-PwC report on the Indian media and entertainment, the print media currently accounts for 48% of the Rs.137.5 bn advertising spend in India in 2006 as against 43% globally. While we do not expect the share of print media in overall advertising spend to increase from here, advertising revenues will grow as the overall ad spend as a percentage of GDP in the Indian scenario is far lower than the global average.

In 2005, the advertising spends for India stood at 0.34% of the GDP. We believe this metric could increase significantly due to rising consumerism and growing interest from global brands attracted by the expanding Indian market.

On a comparative basis, we see that India is possibly still in the nascent stage of evolution as an advertising market. As the graph shows, India's ad spend as a percentage of GDP remains low when compared to other developing markets like the US, Japan or even China. These numbers reflect the fact that the Indian advertising space is some distance away from reaching maturity, which keeps the window open for increased ad spends by corporates in the future.

Ad-spend as a % of GDP in India



Source: Published data, Zenith Publication, 2005

- **...point to possible healthy growth in ad revenues for the print sector:**

Ad spend in India is just 0.4% of GDP as against 0.54% in China, 1.34% in the US and a world average of 0.96. Assuming that India comes close to the world average of existing ad-spend and that the share of print media aligns with the global average of 43% by 2015, it could be roughly estimated that advertising revenues in print media would register a 10%-plus CAGR over these 10 years from 2005-2015.

- **Breaking down India's ad-market in the print sector...on the rise, contrary to developed media markets:**

We have attempted to break down the advertising market in India based on data points available from the industry. According to a Ficci-PwC estimate, India's overall ad market (ad spend) on different media put together is at Rs.137.5 bn for 2006, of which 48% is in the print sector. We note that print's share of the ad pie has increased in 2006 vis-à-vis the 46% reported in 2005, contrary to trends in the developed markets.

India's print market: healthy growth has led to an increased proportion of the ad-revenue pie for print in 2006

Breaking down India's ad-market in the print sector

Data and Comments	(Rs mn)
Total ad spend across various media	137500
Total print media ad spend, 48% of overall media spend	66000
Hindi newspaper ad spend, estimated @ 25% of newspaper ad-spends	14850
English newspaper ad spend, estimated @ 50% of newspaper ad-spends	29700
Regional newspaper ad spend, estimated @ 25% of newspaper ad-spends	14850

Source: FICCI-PwC, Industry, Kotak Securities - Private Client Research

According to the industry and our discussions with the management, DCHL through its presence across Andhra and Tamil Nadu, caters to close to 17-20% of the print sector's ad revenues. By rolling out its Bangalore edition, DCHL aims to broad base its offerings in South India and will also be present in the major ad markets of the South - Andhra, Tamil Nadu and Karnataka.

DCHL, in lieu of its successful entry into the lucrative Chennai market and proposed Bangalore entry (estimated ad market size of Rs.4.6 bn), has thus attempted to make itself a more attractive proposition for advertisers and grow on its dominant position in the Andhra market.

DCHL - primed for growth aided by attractive demographics in its target markets:

DC - Positioned in markets with attractive demographics

DC, as mentioned earlier, is currently present in Andhra, Tamil Nadu and proposes to enter Karnataka during the current fiscal. We note that the advertising market in South India is skewed towards these three states. We opine that high literacy levels, relatively speedy economic development - evidenced by strong job creation by the service sectors, has resulted in higher per capita incomes here vis-à-vis the national average.

This higher purchasing power in the target markets is a key driver of the higher advertising budgets of advertisers in these geographies, in our opinion. We also believe that given these factors there is more interest from advertisers. This has possibly helped the ad market in South India grow at higher rates than the overall market.

Given this broad premise, DCHL's leadership position in Andhra and a growing presence in Chennai have positioned the company well to capture the strong growth in these markets, in our opinion.

Effective execution of the Bangalore edition could further increase DC's attractiveness to advertisers through its enhanced reach and prime it for the next stage of growth, in our opinion.

South India demographics

	AP	TN	Karnataka	India
Per capita income (Rs)	20,757	23,358	21,696	18,517
Literacy (%)	60	73	67	65

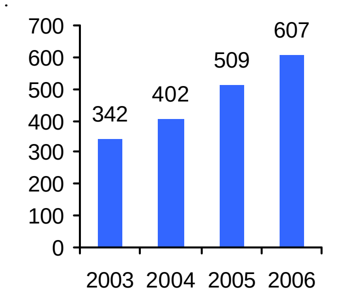
Source: Industry, MoSPI

DCHL- a dominant player in Andhra, with growing footprint in South India:

Deccan Chronicle is a dominant market leader in Andhra Pradesh with a readership share of more than 60% in the market. DC's readership numbers in Andhra are significantly higher than competition and the company has also successfully countered competition from national players like ToI.

A look at DC's readership/circulation growth will illustrate the fact that it has grown its circulation by more than 80% from FY04 to FY07; much faster than the broad market. This strong growth in circulation has helped DC effect ad rate hikes consistently and led to solid growth in its ad revenues from the AP market. DC's ad revenues from the AP market stood at Rs.3.4 bn, a growth of more than 4x over the FY04 and a solid 48% growth over FY06.

DC's growing circulation in AP (in '000s)



Source: ABC

The following charts illustrate the rapid circulation growth achieved by DC in the recent past and also its competitive positioning in the AP market.

We believe the strategies behind the solid growth achieved by Deccan Chronicle in its target markets can be possibly encapsulated as below:

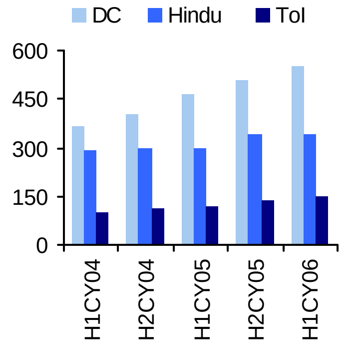
a) Entering the market with low cover prices and ad rates; DC looks to enter new markets with low cover prices and rates to lock in an initial readership/advertiser base.

b) DC then grows its readership base riding on content, customization of news and content selection based on popular appeal.

c) On the back of a growing circulation/reach and low ad rates, DC is an economic means of advertisement vis-à-vis competition. This gives it the leeway to effect consistent ad rates - leveraging its reach and also meaning good economics for the advertisers. As the accompanying table would illustrate on a CPT basis DC despite the consistent rate hikes still is has the lowest CPT.

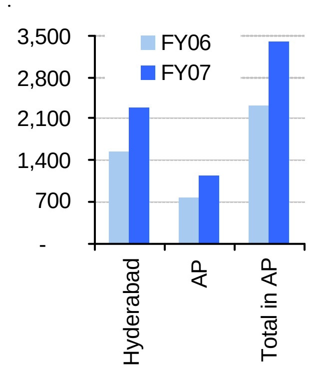
d) DC also has been able to effectively counter competition and drive the solid growth by increasing pagination, optimizing ad rates, adding more color pages that enjoy premium ad rates and by customizing content.

Competitive positioning in the AP market, Circulation growth over 2004-06 (in '000s)



Source: ABC data for the period

Revenue growth in Hyderabad, & AP in FY07 over FY06 (Rs mn)



Source: Company, Kotak Securities - Private Client Research

CPT comparison across publications

	Readership ('000s)	Ad rate B/W	Ad rate Color	CPT B/W	CPT Color
Hyderabad					
DCHL	648	610	850	0.90	1.30
Hindu	153	160	210	1.00	1.40
ToI	190	300	310	1.60	1.60
AP					
DCHL	936	975	1,365	1.00	1.50
Hindu	404	300	365	0.70	0.90
ToI	200	300	310	1.50	1.60
Chennai					
DCHL	257	525	680	2.00	2.60
Hindu	662	780	1,175	1.20	1.80
TN					
DCHL	375	525	680	1.40	1.80
Hindu	1188	950	1,380	0.80	1.20
Bangalore					
ToI	510	1250	1,290	2.50	2.20

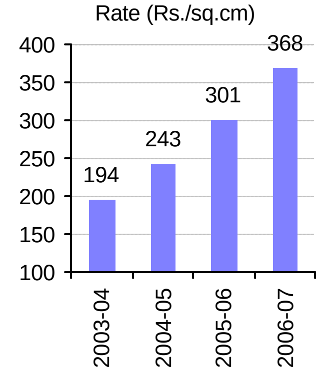
Source: Company, Kotak Securities - Private Client Research

We believe one of the factors that has helped DCHL maintain and grow its lead over competition in the Andhra market has been its understanding of the market in addition to being the only English newspaper in Andhra with such a wide presence - across seven editions.

- **....Reach, market dominance & cost effectiveness lead to ad rate hikes:**

As illustrated earlier, DC has made significant gains in readership, up 35% YoY at 1.3 mn on the back of growing readership in Andhra and the strong pick up experienced in Chennai. DC is the only top English daily that has seen an increase in readership YoY according to the IRS data.

Ad rate trend for DCHL, 90% increase over period



Source: Company

Top 8 English dailies IRS 2007; DC only daily to gain readers YoY

Readership in 000's	2006	2007
Times of India	6920	6781
Hindustan Times	3500	3331
Hindu	2570	2209
Deccan Chronicle	970	1311
Telegraph	1010	919
Economic Times	800	774
Mumbai Mirror	750	735
DNA	-	539

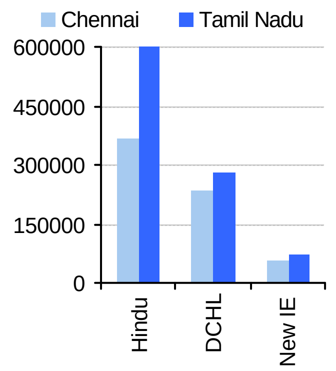
Source: IRS

Growing circulation and cost effectiveness have led to steady rise in DC's ad rates

Riding on strong readership gains and extended reach after a successful Chennai entry, DCHL has effected ad rate hikes of 30% across its various editions. We believe these rate hikes coupled with a favorable macro environment and South India's strong consumption patterns will drive strong growth in ad revenues for DCHL over FY08-09E.

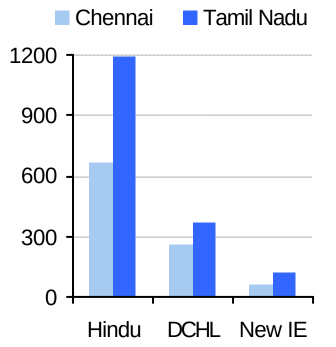
Despite its domination of the market, we opine that based on the available CPT data that reflects DC's economy to advertisers leave the window open for possibly further rate hikes in the future.

Circulation landscape in Chennai & TN



Source: ABC

Readership landscape in Chennai & TN (in '000s)



Source: IRS

DC Chennai - circulation gains and extended reach in South India have made the entry successful

Expect ad rates to also catch up with circulation leading to ad revenue growth over FY08-FY09E

DCHL's Chennai entry successful, adds to its reach in South India

DCHL entered Chennai in FY05 through its general news broadsheet edition and has since then gained impressively in terms of readership and revenue share. DC entered the Chennai market at a cover price of Re.1 that was lower than competition and also with ad rates that were at a significant discount to the market leader-Hindu.

As the tables illustrate, in the Chennai market, 'Hindu' was the clear leader with a readership base of 1.5 mn. DC, riding on its strategy of aggressive pricing cover and ad rate has managed to ramp up its readership/circulation numbers and emerge as a strong competitor for the incumbent 'Hindu'.

As the readership data indicates, DC has ramped up its readership in Chennai and Tamil Nadu to 0.257 mn and 0.375 mn, respectively. DC, according to the data, has now attained readership numbers that are 30-40% of those enjoyed by the market leader Hindu.

- **DC Chennai - With successful execution has boosted attractiveness to advertisers....**

In the print business, incremental growth on existing strong editions can be achieved by adding new editions that enhance the reach of the publication thereafter. Enhanced reach for a publication, more so a strong one provides it the leverage to sell advertisement space targeting a wider audience.

DC Chennai has probably done exactly this for the company - allowing the company to provide different combinations of space on various editions to advertisers through volume discounts and better yields for the overall business.

Given the strong pick up in DC's circulation, we expect ad revenues from the Chennai market to follow in FY08E and FY09E. As with most media segments, ad revenue in print also follow with a lag after circulation has firmed up and enjoys brand equity in the target markets.

From an ad rate point of view, DC Chennai' s rack rates and ad occupancies are at a significant discount to Hindu (DC charges according to media publications Rs.700/ sq.cm nearly 50% lower than the Hindu). Going forward, we expect this discount to narrow down only marginally even if circulation numbers for DC in Chennai pick up better than our expectations. We attribute this to a time lag between a new edition gaining circulation and this being subsequently recognized by advertisers.

- **...expect strong growth over FY08E & FY09E, as revenues catch up with circulation**

In our estimate, DC made close to Rs.1.41 bn of ad revenues from the Chennai market, a growth of more than 2.5x over FY06. The Chennai edition in FY07 contributed close to 28% of the company's overall ad revenues. Going forward, we estimate the Chennai edition's ad revenues to grow by 42% and 32% over FY08E and FY09E, respectively, on the back of the recently effected ad rate hikes and readership gains for DC in Chennai.

At Rs.2.65 bn, we expect DC Chennai to contribute close to 29% of the overall ad revenues by FY09E.

Aiming to grow its footprint across South India - DCHL now looks at Bangalore...

DC now aiming at a Bangalore entry to extend reach and attractiveness to adverisers

Post a stronger presence in the two markets of Andhra and Chennai, DC is now looking to fortify its position as a strong regional print media franchise. The company, according to notifications to the BSE, is looking at rolling out a new edition in Bangalore during the course of FY08. In addition to Bangalore, DC is also looking at expansion across other centers of Tamil Nadu like Coimbatore and Tiruchi, riding on the existing presence in Chennai.

To this effect, DCHL has set up infrastructure, that is, the building and required printing machinery for the Bangalore edition during FY07. The company, in FY07 has also carried out capital expenditure for its expansion in other centers across TN like Coimbatore and Tiruchi. We believe given efficient execution DCHL could look at its new stage of growth through the Bangalore edition.

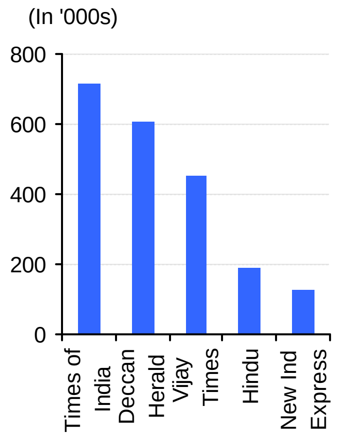
As mentioned earlier, augmented reach in South India, riding on its already strong brand equity and positioning could increase the company's attractiveness to advertisers. DCHL could provide different ad selling combinations across its different editions. In our opinion, this could allow DC to enjoy higher utilization of space available in the Bangalore edition and at the same time increase the effective yields for the other editions.

We see merit in Deccan Chronicle entering other markets in South India as it could:

a) Provide an opportunity for DCHL to leverage the popularity and dominance of its brand in Andhra and Chennai and help it attract mindshare in these new markets. DC's presence in similar markets in the South could also reduce the physical costs of entry in terms of marketing costs, trade discounts and customer acquisition.

b) In addition to this, an extended presence in the lucrative southern belt, in our opinion, could make DCHL an attractive option for advertisers looking to reach out to an extended target market through a common platform. We opine that efficient execution of these new editions could result in enhanced ad yields for the company as the editions gain circulation and currency with the advertisers.

Readership in Bangalore (000's)



Source: IRS 2006

■ The Karnataka market ...attractive demographics, fragmented and key for ToI

The Karnataka English newspaper market is essentially a two-player market with ToI and Deccan Herald at the top. ToI's No.1 position in the Karnataka market was helped by its decision to acquire the Vijay Times in 2006. We believe Bangalore is an attractive market for advertisers with the number of educational institutes- churning well educated and employable professionals, the wide presence of the services sector and the strong job creation it has brought with it.

Karnataka is a market where the incumbent ToI has been present for long. Also Bangalore is a vital cog in ToI's national reach - with its relative lack of success in other South Indian centres like Hyderabad and Chennai. DC leads in Hyderabad by a distance and is catching up fast with, the incumbent Hindu in Chennai.

Given the strategic importance of Bangalore, we expect ToI to do all it can to maintain and build its position in Bangalore in the face of competition from a strong regional franchise like DC.

■ DC Bangalore: We estimate 11% ad revenue market share by FY09E, EBITDA break even in 5 quarters; management commentary more optimistic

We do expect DC to gain initial circulation given its aggressive pricing strategy but believe ToI will have the financial muscle to stand aggressive pricing. We also opine that DC would probably have to make higher initial investments on sales and marketing cost heads in the Bangalore market than elsewhere.

Current cost structures of DCHL show these and 'other costs' put together at Rs.489 mn for FY07, 6.4% of revenues; much lower than peers like HT Media and Jagran Prakashan for whom these stand at close to 25% of revenues.

Assumed 0.1 mn PO from Bangalore in Q4FY08; efficient execution may be a longer term growth driver, in our opinion

In our projections, we have factored in Bangalore to be launched by Q4FY08, as the management has been guiding. We have assumed a year end P.O. (print order) of 0.1mn and expect the initiative to break even at EBITDA five quarters after launch.

In FY09E, we have assumed DC Bangalore to garner Rs.547 mn in ad revenues and an 11% share of Bangalore's estimated ad market.

We have assumed higher S&M investments for DC in Bangalore, given our assessment of the market place and a strong incumbent-ToI. The management, on its part, is looking at a break even within a year of launch.

We will watch keenly how the Bangalore entry pans out for DCHL and believe efficient execution here could provide DCHL a new longer term growth driver. Given its lean cost structures, success in Bangalore could lead to strong growth in the company's profitability in the longer term, in our opinion.

Solid growth expected in DCHL financials over FY07-09E

Healthy ad revenue growth maturing investments and easing newsprint prices to drive growth in financials

We expect solid growth in DCHL's financials over FY07-09E on the back of favorable macro factors like rising income and literacy levels. At the company level, we expect a presence in attractive markets, readership gains, benefits of extended reach and ad rate hikes to spur strong growth in revenues.

Maturing of investments like Chennai, easing newsprint prices (40% of FY07 revenues) and lean cost structures are expected to drive operating leverage and strong profit growth over FY07-09E for DCHL. For DCHL we expect,

- **A healthy ramp up in advertising revenues:** We expect healthy growth in advertising revenues on expectations of healthy economic growth for India, given the nascent stage of the Indian ad market vis-à-vis international peers.

  We note that DCHL has hiked its advertising rates across editions by an average 30% effective Q1FY08. This is indicative of the continued demand from the advertisers and also the leverage DC is commanding due to its dominant presence in AP and extended reach in South India, post-Chennai. DC's low CPT despite high reach continues to make it an economic option for advertisers and lends it leeway for further hikes, in our opinion.

- **Modest growth in circulation revenues:** We expect circulation revenues to grow at a modest rate across different editions in line with the readership growth expected due to improving literacy levels.

DC Chennai estimated to add significantly to ad revenue kitty

- **Chennai business contribution:** We see greater synergy from the Chennai edition and DC's positioning as a strong regional franchise paying off in terms of greater ad sales, better package pricing and increased occupancy ratios for the English print business. Rising circulation numbers in Chennai and rise in ad volumes sold lead us to believe that DC's strategy of driving leverage and ad volumes on the back of an extended presence is paying off. We see rising contribution from the Chennai market in terms of revenues and maturing investments as a key driver of the solid growth in DCHL's financials.

Consolidated revenue projections (Rs mn)

	FY06	FY07	FY08E	FY09E
Advertising Revenues	**2,998**	**5,028**	**7,076**	**9,681**
DC Hyderabad	1,523	2,291	3,209	4,175
DC Rest of AP	779	1,118	1,537	2,001
DC Chennai	522	1,417	2,011	2,657
Asian Age, Bangalore	174	202	252	301
DC Bangalore	-	-	67	547
Circulation Revenues	**318**	**500**	**607**	**743**
Total Revenues	**3,301**	**5,528**	**7,810**	**10,513**

Source: Company, Kotak Securities - Private Client Research

For DCHL, we expect advertising revenues to grow robustly from the current Rs.5.02 bn in FY07 to Rs.7.2 bn in FY08 and, further, to Rs.9.7 bn in FY09 on the back of growing traction from target markets and also due to ad rate hikes effected recently across the English editions.

On an individual basis, we expect ad revenue growth to be strong from the Chennai edition - 4x of FY06 estimated ad revenues in FY08, a growth of 42% over FY07. However, we believe that DC Andhra (Hyderabad and the rest of Andhra) will continue to be the revenue driver (66% of FY08E ad revenues) with ad revenues for DC Hyderabad expected to grow to Rs.4.17 bn in FY09 from the current Rs.2.29bn in FY07.

On the circulation revenue front, we expect modest growth in the markets to drive growth to Rs.742 mn in FY09 from the current Rs.500 mn in FY07. We have attempted to estimate future growth in circulation revenue by assuming modest cover price hikes across select leader editions coupled with circulation growth in line with industry. We believe circulation will continue to be a smaller proportion of DC's ad pie given its low cover pricing strategy and the impending Bangalore entry.

We expect 38% CAGR in FY07-09 revenues driven by the ad stream and modest gains in circulation

From DC Bangalore, we expect no significant revenue contribution in FY08 (assumed launch in Q4FY08). In FY09E, we estimate Rs.547 mn in ad revenues from the Bangalore edition.

Overall, we expect revenues for DCHL to register 38% growth in FY08 to Rs.7.8 bn and a further 34% growth in FY09 to Rs.10.5 bn, a CAGR of 37% over FY07-09E.

Strong margin expansion across FY07-09E.....courtesy ad revenue growth, maturing investments & easing newsprint prices

Given the healthy revenue growth expected, easing of newsprint prices and on account of operating leverage showing through maturing of the Chennai edition, we expect operating margins to expand to jump 660bps to 53.3% in FY08 and then estimate a tapering to 52.1% on account of investments in Bangalore during FY09E, resulting in strong profit growth for DCHL.

Margin expansion aided by strong revenue growth, maturing investments and economies of scale

The strong EBITDA percentage improvement registered by DCHL also demonstrates the high operating leverage that is typical of a newspaper publishing business. We expect EBITDA for the company to grow at a CAGR of 46% to Rs.5.4bn in FY09 from Rs.2.58 bn reported in FY07 over the period FY07-09. Consequently, we expect the EBITDA margins to improve to 52.1% in FY09 from the 46.7% reported in FY07.

We see this expansion in profitability as new editions ramp up revenue growth and profitability in the backdrop of easing newsprint prices (40% of FY07 revenues). DCHL has also recently hiked advertising rates by 30% for its English editions. This is expected to impact advertising revenue growth positively.

...Aided by easing of newsprint prices and an appreciating rupee

Easing newspring prices to also help EBIDTA growth

Newsprint costs are the most sizeable components in a newspaper business. For DCHL, they contributed to nearly 40% of revenues in FY07. Newsprint costs have eased over the last two quarters and have dipped close to 12-13% of their peaks in Q2'07. Newsprint prices had then (2HFY06-1HFY07) escalated due to uptrend in the commodity cycle.

Newsprint costs currently rule at around $580-600 per ton, in comparison to the $720 levels in Q2FY07. According to our discussions with the industry, the current trend of an easing in newsprint costs is expected to sustain due to:

a) Commissioning of a capacity in China and,

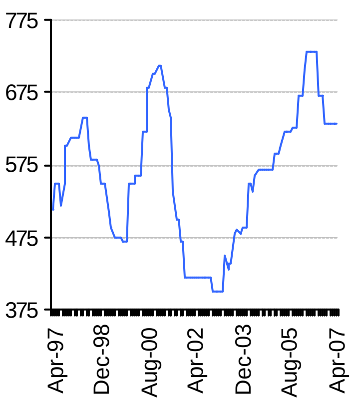
b) Weakness in US consumption of newsprint; on account of falling newspaper circulation and the tepid ad revenue growth being witnessed by the US print industry.

Imported newsprint is generally of higher quality and its consumption for DCHL has trended upwards over the last fiscal due to higher proportion of color pages and also increased pagination. The current appreciation of the INR, 9% against the dollar YTD has also been positive for print companies and is expected to reduce the imported landed newsprint costs for them.

In our projections, we have assumed the effective landed costs of newsprint for DCHL at the levels of $620/ton over FY08, 12% lower than FY07. In FY09, we assumed this price would go up by 5% and have then assumed gradual up ticks of 3-4% in the landed price in our longer term assumptions post FY09.

We believe any further and sustained easing of effective newsprint costs for DCHL from the current levels will be EBITDA positive for the company.

Newsprint price trend, Canadian newsprint, CIF Mumbai, $/ton



Source: CRIS-INFAC, Industry

Newsprint, Costs and key assumptions

	FY07	FY08E	FY09E
Net print orders in period, mn	0.87	1.21	1.37
No.of pages/ paid sale	33	36	37
Days	362	362	362
Pages Printable/MT	202,987	202,987	202,987
Implied Consumption of newsprint, MT	51,624	71,085	89,711
Re./$	45	41.5	42
Cost/MT, $	705	613	643
Total Newsprint Cost, Rs.Mn	1,642	1,832	2,474

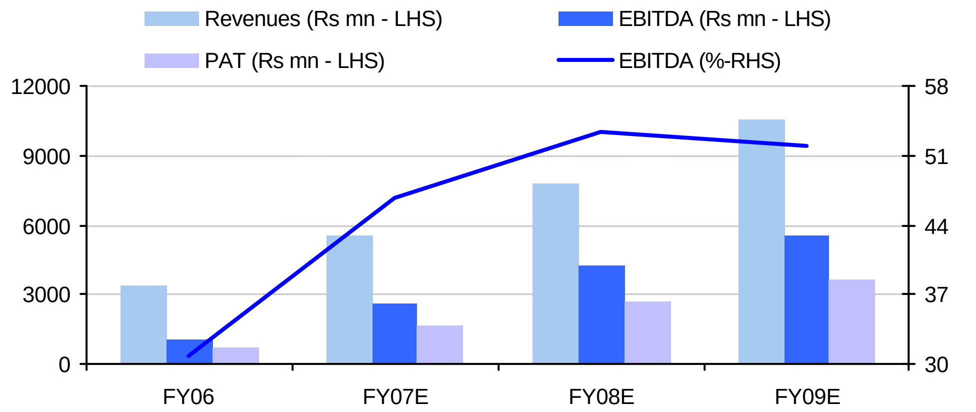
Source: Company, Kotak Securities - Private Client Research

- **Expected to result in robust profitability growth; PAT CAGR of 49% over FY07-09E**

We expect DCHL to report revenues of Rs.7.8bn in FY08 and a further Rs.10.5bn in FY09 and net profits of Rs.2.6bn in FY08 and Rs.3.57bn in FY09. On a fully diluted equity capital of Rs.492 mn (post conversion of all FCCBs), this would translate into an EPS of Rs.10.7 for FY08 and Rs.14.5 in FY09.

We expect an EBITDA & PAT CAGR of 46% & 49%, respectively, over FY07-09E

Revenue and PAT growth



Source: Company, Kotak Securities - Private Client Research

- **Balance sheet; Strong cash flow generation, return ratios & a significant cash pile**

Given the solid growth in financials we project and capex for the Bangalore edition already accounted for in FY07, we expect strong cash flow generation from DCHL in our financials.

Ample cash on balance sheet improving return ratios and cash flow generation

We expect the return ratios and cash generation for DCHL to improve significantly in the coming fiscals. We estimate the RoCE to improve to 34% in FY08 and further to 36% in FY09 from the 27% reported in FY07.

We also note that DCHL is sitting on ample cash in the balance sheet, close to Rs. 3.7 bn. The management is of the opinion that this cash can be used to further new growth initiatives- cross media ventures and/or will be returned back to the shareholders. In terms of cross media ventures, DCHL is reportedly looking at boosting its current website www.deccan.com and is looking at modes to optimize its established general newspaper presence in South India through the internet space.

Odyssey- retail foray, scope for value unlocking

Odyssey, scope for possible value unlocking; we value it at book given lack of financial details

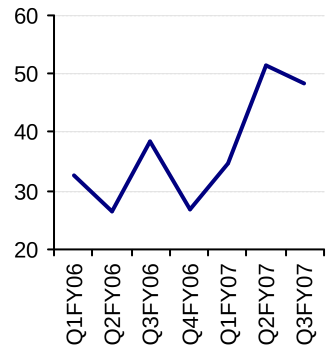
In addition to its presence in print, DCHL also ventured into retailing when it acquired Odyssey; a retail chain in September 2005 for a consideration of Rs.612 mn. Odyssey now has close to 12 stores across six cities and a retail space of close to 60000 sq ft. On its part, the company has decided to demerge Odyssey through a public offering aimed at letting the retail business fund its growth requirements independently.

The company eventually plans to demerge Odyssey its retail business, through a planned public offering at a later date. We have assumed value to DC shareholder at book value (Rs.612 mn, Rs.2.5 per DCHL share) due to lack of details. Value unlocking from Odyssey through a possible public offering at a later date could provide upsides to our DCHL fair value estimate.

Past Financials, FY07: Strong revenue growth and 1510 bps EBITDA margin expansion led the 2.4x PAT growth

For FY07, the company had reported sales of Rs.5.52 bn and profits of Rs.1.61 bn, translating into an EPS of Rs.6.6 on the equity capital of Rs.478 mn and FV of Rs.2. As illustrated in the table, DCHL reported a robust set of numbers in FY07 with EBITDA rising 2.3x YoY to Rs.2.58 bn and PAT rising multiple-fold YoY to Rs.1.61 bn.

Margin Improvement over six quarters



Source: Company

We believe the robust set of numbers delivered in FY07 by DCHL reflect the following:

Healthy momentum on ad revenue front (Rs.5 bn, 69% increase YoY). DCHL looks to be reaping the benefits of readership gains, ad rate hikes and extended presence in the attractive southern market post its Chennai entry. This has increased its attractiveness to advertisers and bolstered its yields in the business.

Lean cost structures. DCHL enjoys the highest EBITDA margins within the print segment; we opine this has been due to operational efficiencies due to the location of its facilities close to target markets and the cost control measures adopted by the company.

Current cost structures of DCHL show the 'other costs' put together at Rs.489 mn, 6.4% of revenues are much lower than peers like HT Media and Jagran for which these stand at close to 25% of revenues on account of cost efficiencies..

DCHL also has a low wage bill at 4% of revenues in comparison to HT Media's 14% or Jagran's 12%. DCHL has been able to keep its wage pay outs low by adopting automated processes and implementing VRS schemes, thereby reducing its employee base. DC has made investments of Rs.1.5bn in state-of-the-art printing infrastructure in FY06 in addition to the investments made in FY07.

DCHL-Margins & growth vis-à-vis peers

(Rs mn)	Revenues			EBITDA			PAT			EBITDA (%)		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
HT Media	10,391	12,709	14,955	1,902	2,776	3,828	1,149	1,796	2,414	18.3	21.8	25.6
DCHL	5,528	7,683	10,423	2,583	4,163	5,473	1,616	2,637	3,570	46.7	53.3	52.1
Jagran Prakashan	6,013	7,577	9,168	1,207	1,773	2,250	775	1,066	1,370	20.1	23.4	24.5

Source: Companies, Kotak Securities - Private Client Research, Bloomberg

Within other cost components, raw materials as a percentage of sales stood at 43.5% lower than the 57% in FY06, despite the rise in international newsprint costs mainly due to the increase in ad rates, combined yields and a degree of success achieved by DCHL in its sourcing strategy on the raw material front.

We believe these factors, in addition to DC's dominant position, positioning in a demographically attractive South India and the overall favorable macro environment have primarily contributed to the strong performance of DCHL in FY07. On the back of these factors and the strong operating leverage, the EBITDA margin jumped to 46.7% from 31.5% in FY06. This strong improvement in profitability, in our opinion, also demonstrates the high operating leverage that is typical of a newspaper publishing business.

Assumptions

We have based our projections from FY08 onwards on fully diluted equity capital of Rs.492 mn, total outstanding 246 mn shares. This is post conversion of all the pending FCCBs.

We have also estimated the launch of DC Bangalore in Q4FY07 and arrived at an EBITDA break even, five quarters after launch factoring in possible higher S&M expenses in the market. We have assumed a starting print order of 0.12 mn in Q4FY08 and targeted an 11% ad market share by FY09E.

We have also not attributed any value yet to 'Odyssey', the company's retail business that was acquired for Rs.612 mn. We have assumed value to DC shareholder at book value due to lack of details. Value unlocking from Odyssey through a possible public offering at a later date could provide upsides to our DCHL fair value estimate.

We have not assumed any significant capex in the current fiscal, FY08, as DCHL has already carried out a significant capex program in FY07 with the setting up of the facility for launch of the Bangalore edition. We have assumed regular capex in our forecasts required for technological up gradation in the erstwhile locations.

DCHL has assumed debt levels of Rs.5.8 bn, including FCCB as of March 31 2006. The company has stated its intention to retire significant amounts of debt during FY07-08E given the strong cash flow generation. Going forward, we have assumed modest debt retirement given estimated cash generation leading to lower interest outgo for the company.

Valuations

At the CMP of Rs.218, the stock trades at 9x our FY09E EV/EBITDA and 15x our estimated FY09E earnings of Rs.14.5 per share

We have valued DCHL on the basis of the two-stage DCF methodology with a WACC of 12% and a terminal growth rate of 4%. This has given us a fair value of Rs.288 per share.

We have validated this further using our EV/EBITDA methodology for valuing print companies that generate strong cash flows when mature. We prefer to accord DC a 20% discount to our target EV/EBITDA multiple for HT Media (14x 1 year forward). We accord this discount to DCHL on account of HT's established national presence, higher circulation and ad rates.

To this, we have added Rs.2.5 per share, which is the cost of Odyssey's acquisition for DCHL. The company eventually plans to demerge Odyssey, its retail business, through a planned public offering at a later date. At this point we have not ascribed any financial value to Odyssey due to lack of sufficient financial details.

We recommend a BUY on DCHL with a price target of Rs.288

At our target price, DCHL will be trading at 12x our FY09E EV/EBITDA and 19.8x our FY09E earnings, a blended discount of 20% to our target valuations of HT Media. Our expected price target of Rs.288 provides an upside of 32% from the current price levels. We recommend a **BUY.**

FCFF valuation per share (Rs mn)	
Total FCFF	67,199
Less net debt (cash)	(2,696)
Shareholders' value	69,895
Value per share	293

Assumptions	
Grth FY08-10	Actual
Terminal Growth (%)	4.00
Beta	0.84
Risk Free Rate (%)	8.00
Market Risk Premium (%)	6.00
Cost of Equity (%)	12.33
Cost of Debt (%)	6.70
Debt	3,310
Equity	54,120
WACC (%)	12.00

Source: Kotak Securities - Private Client Research

Estimated fair value at Rs.288 per share. BUY

DCF valuation

Free Cash Flow to Firm (Rs mn)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E
PAT	**1,616**	**2,637**	**3,570**	**4,682**	**5,694**	**6,634**	**7,529**
Depreciation	171	208	224	240	255	270	285
Int (1-tax)	222	174	161	141	114	101	94
Capex	(1,614)	(400)	(350)	(300)	(300)	(250)	(250)
NWC change	(363)	(635)	(838)	(364)	(455)	(403)	(415)
FCFF	**758**	**1,983**	**2,767**	**4,399**	**5,307**	**6,351**	**7,242**
Discounted Value	758	1,983	2,470	3,507	3,777	4,036	53,408

Source: Kotak Securities - Private Client Research

The following grid below gives a sensitivity analysis based on various scenarios.

Sensitivity analysis

	WACC (%)		
Terminal Growth	**11.7**	**12.0**	**12.3**
3	276	266	256
4	305	**293**	281
5	343	327	313

Source: Kotak Securities - Private Client Research

Deccan Chronicle, Fair value estimation.

	FY09E	Validation/Assumption
By EV/EBITDA Method		
EBITDA	5473.0	
Target EV/EBITDA (x)	11.9	15% discount to target
EV	65128.3	valuations of HT Media
Less: Net Debt	-2695.9	
Net EV	67824.3	
No. of shares	246	Fully diluted, post FCCB conversion
EV/ Share	275.7	
DCF Methodology		
Value/ Share	292.0	4% terminal growth rate and 12% WACC
Simple average of both	**285.0**	
'Odyssey' Book value (Rs mn)	**612**	
No. of DCHL shares	246	
Value/share of DCHL (Rs)	2.5	
Target fair value/share (Rs)	**288**	**32%**

Source: Kotak Securities - Private Client Research

Peer valuation - relatively attractive

Peer valuation; P/E, EV/EBITDA, EBITDA CAGR & RoCE

	P/E (x)		EV/EBITDA (x)		RoCE (%)		Mkt Cap	EBITDA CAGR
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	(Rs mn)	FY07-09E
HT Media	30.7	22.8	18.6	13.0	26.4	30.4	55048.8	42%
DCHL	20.5	15.2	12.6	9.2	32.9	36.8	54120.0	46%
Jagran Prakashan	28.6	22.3	15.4	12.8	19.0	22.0	30521.4	37%

Source: Bloomberg, Kotak Securities - Private Client Research

KEY CONCERNS

Higher than estimated newsprint costs. We have assumed landed costs of newsprint for DCHL at a slight premium to the current levels as illustrated in our model. Any sustained uptrend in newsprint prices could lead to greater expenditure for print companies like DCHL and impact their profitability negatively.

High competition in proposed editions like Bangalore and/or existing print markets; more so from aggressive new entrants could lead to price wars, slashing of ad rates and a general tepid outlook for growth and profitability for the players. This is similar to what Delhi had witnessed for an extended period of time between ToI and HT during 1995-2005.

Shift of advertising revenue momentum from the print medium to other mediums like radio, internet or television could impact the growth and profitability of print media players like DCHL.

Profit and loss statement (Rs mn)

(Year-end Mar)	FY06	FY07	FY08E	FY09E
Revenues	**3,309**	**5,528**	**7,810**	**10,513**
% change yoy	99.7	67.1	41.3	34.6
EBITDA	**1,017**	**2,583**	**4,163**	**5,473**
% change yoy	73.2	153.9	61.2	31.5
Depreciation	103	171	208	224
EBIT	**915**	**2,412**	**3,955**	**5,249**
% change yoy	73.3	163.8	64.0	32.7
Net Interest	197	332	260	240
Other Income	246	323	240	320
Earnings Before Tax	964	2,403	3,935	5,329
% change yoy	95.5	149.4	63.7	35.4
Tax	200	788	1,299	1,759
as % of EBT	2.1	3.3	3.3	3.3
Net Income adj	**681**	**1,616**	**2,637**	**3,570**
% change yoy	110	137	63	35
Shares outstanding (m)	41.2	239.0	246.0	246.0
EPS (Rs)	16.5	6.8	10.7	14.5
DPS (Rs)	1.0	0.2	0.3	0.4
CEPS	19.0	7.5	11.6	15.4

Balance sheet (Rs mn)

(Year-end Mar)	FY06	FY07	FY08E	FY09E
Cash and cash equivalents	2,066	3,729	5,113	6,662
Accounts receivable	1,358	1,917	2,641	3,412
Loans & advances	882	182	257	346
Inventories	400	595	756	1,018
Misc expenditure	169	190	220	220
Current Assets	4,706	6,423	8,767	11,439
Goodwill	173	173	173	173
LT investments	893	893	893	893
Net fixed assets	3,908	5,351	5,543	5,669
Total Assets	**9,849**	**13,030**	**15,595**	**18,394**
Provisions	130	217	307	455
Current Liabilities	391	720	955	1,092
Minority Interest	10	10	10	10
LT debt	5,897	4,010	3,310	2,710
Other liabilities(deferred tax)	243	243	243	243
Equity & reserves	3,178	7,830	10,771	13,885
Total Liabilities	**9,849**	**13,030**	**15,595**	**18,394**

Cash flow statement (Rs mn)

(Year-end Mar)	FY06	FY07	FY08E	FY09E
PAT	681	1,616	2,637	3,570
Depreciation	103	171	208	224
Change in NWC	(1,846)	363	(635)	(838)
Operating cash flow	**(1,063)**	**2,150**	**2,209**	**2,956**
Investments	(574)	-	-	-
Capex	(1,656)	(1,614)	(400)	(350)
Investment cash flow	**(2,230)**	**(1,614)**	**(400)**	**(350)**
Loans Raised	3,485	(1,888)	(700)	(600)
Dividend	(47)	(54)	(84)	(112)
Financial cash flow	**3,438**	**(1,942)**	**(784)**	**(712)**
Other adjustments	(281)	3,070	358	(344)
Change in Cash	(136)	1,663	1,383	1,550
Opening Cash	2,202	2,066	3,729	5,113
Closing Cash	2,066	3,729	5,113	6,662

Source: Company; Kotak Securities - Private Client Research

Ratio analysis

(Year-end Mar)	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	30.7	46.7	53.3	52.1
EBIT margin (%)	27.6	43.6	50.6	49.9
Net profit margin (%)	20.6	29.2	33.8	34.0
Adjusted EPS growth (%)	112.4	-59.0	58.5	35.4
Receivables (days)	97.5	108.1	106.5	105.1
Inventory (days)	32.7	32.8	31.6	30.8
Debt/ equity ratio	1.4	0.9	0.4	0.2
ROE (%)	24.4	30.3	29.0	29.5
ROCE (%)	16.7	26.6	32.9	36.8
EV/ Sales (x)	3.9	9.6	6.7	4.8
EV/EBITDA (x)	12.7	20.5	12.6	9.2
Price to earnings (x)	13.3	32.5	20.5	15.2
Price to book value (x)	3.0	6.9	5.1	4.0
Price to cash earnings (x)	11.6	29.4	19.0	14.3

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Disclaimer

Analyst holding in stock: NIL