

## Revenue & cost pressures hit earnings

21<sup>st</sup> November 2008

### BUY

Price	Target
<b>Rs45</b>	<b>Rs78</b>

Sensex -	<b>8,915</b>
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#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(16)	(61)	(67)	(77)
Rel. to Sensex	(4)	(38)	(39)	(52)

Source: Bloomberg

#### Stock Details

Sector	Media
Reuters	DCHL.BO
Bloomberg	DECH@IN
Equity Capital (Rs mn)	490
Face Value (Rs )	2
52 Week H/L (Rs )	270/38
Market Cap (Rs bn)	11
Daily Avg Vol (No of shares)	467672
Daily Avg Turnover (US\$ mn)	0.7

#### Shareholding Pattern (%)

(30<sup>th</sup> Sep.'08)

Promoters	60.9
FII/NRI	18.9
Institutions	12.3
Private Corp.	4.3
Public	3.5

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Deccan Chronicle's Q209 results came as a big disappointment due to sharp rise in the newsprint prices and higher operating expenses owing to the launch of Financial Chronicle and Bangalore edition. The Q209 net sales increased by 20.6% YoY to Rs2264mn despite the 30% ad-rate hike effected at the beginning Q109 (implying volume de-growth). EBIDTA declined 34.3% YoY to Rs773mn due to severe operating cost pressures. While rising newsprint price has led to increase in the production cost (up 2200bps), the launch of Bangalore edition and Financial Chronicle have led to rise in the employee cost (up 260 bps) and admin cost (up 400bps). Higher tax provision in Q209 at 31% of PBT v/s 20% of PBT in Q208 led to 45% drop in net profit to Rs453mn.

Considering the disappointing results, slow down in the economy and sharp rise in the operating costs, we have reduced our revenue estimates by 17.5% and 24% and EPS estimates by 49.5% and 49.8% for FY09 and FY10E respectively. Our revised EPS estimates are at Rs7.6 and Rs9.7 for FY09E and FY10E respectively. We maintain BUY rating with revised price target of Rs78 (v/s Rs225 earlier) based on 8x FY10 EPS of Rs9.7. Acceleration in GDP growth and fall in newsprint prices remain upside risks.

#### Severe cost pressures persist

The sharp rise in the newsprint prices from ~US\$560 per ton to ~US\$980 per ton together with ~20% rupee depreciation has significantly impacted the production cost for the company. Moreover, the launch of Bangalore edition and Financial Chronicle has resulted in increased employee and admin expenses which also contributed to the decline in the EBIDTA margins. Considering the severe cost pressures, we reduce our EBIDTA margin estimates from 54.6% and 58.1% to 38.4% and 40.8% for FY09 and FY10E respectively. We highlight that the rupee depreciation and fall in newsprint prices would remain upside risks to our estimates.

#### Earning estimates cut by ~50%

The slowdown in the economy and subsequent reduction in the corporate advertisement budgets has begun to impact the revenue growth of the companies like Deccan Chronicle who are dependent on advertisement as primary source of revenue. With the ad-rate hike not getting fully absorbed and likely continuing pressure on volume growth, we have cut our revenue estimate by 17.5% and 24% for FY09E and FY10E respectively. With reduction in margin estimates and increase in interest expenses, we have reduced the earnings estimates by 49.5% and 49.8% for FY09 and FY10E respectively.

#### Valuation & recommendation

Our revised (standalone) earning estimates of Rs7.6 and Rs9.7 for FY09E and FY10E respectively, factors the slow down in the economy and its impact to the revenue growth and also the impact of cost pressures to the profitability. We continue to maintain BUY rating on the stock with revised price target of Rs78 based on 8x FY10E EPS of Rs9.7. At CMP of Rs45, the stock trades at 6x and 4.6x its FY09E and FY10E earnings respectively. While we continue to value Deccan on the basis of standalone estimates due to lack of information on the subsidiary companies, we highlight that the subsidiaries, Odyssey, Sieger Solutions and Deccan Chargers Sporting Ventures provide additional value unlocking opportunity.

	Net	EBITDA	ROCE	EV/	P/BV	EPS			
YE-Mar	Sales	(Core)	(%)	PAT	(%)	EBITDA	(Rs)	(Rs)	P/E
FY07	5,528	2,582	46.7	1,614	18.5	5.2	1.3	6.8	6.7
FY08	7,824	4,860	62.1	2,719	25.7	2.3	1.0	11.1	4.1
FY09E	9,017	3,465	38.4	1,877	21.4	2.7	0.9	7.6	5.9
FY10E	10,022	4,092	40.8	2,397	22.4	2.0	0.8	9.7	4.6

### Estimates revised downwards

We have revised our revenue assumptions (ad-rate & ad-volume) to factor the slowdown in economy and lack of volume growth as reflected in the Q209 results. We now assume effective realization (ad-rate) increase of 20% for FY09E and no increase for FY10E (v/s 25% for FY09E and 10% for FY10E). For the ad-volume we now factor 10% decline in FY09E and 3% growth in FY10E (v/s 5% and 3% growth for FY09E and FY10E respectively). Considering the above assumptions, we have reduced our revenue estimates by 17.5% and 23.9% for FY09E and FY10E respectively. Further, we have factored the cost pressures arising out of (1) rising newsprint prices and (2) increased employee and admin costs due to launch of Bangalore edition and Financial Chronicle and the increased interest expenses and reduced our earnings estimates by 49.5% and 49.8% for FY09E and FY10E respectively.

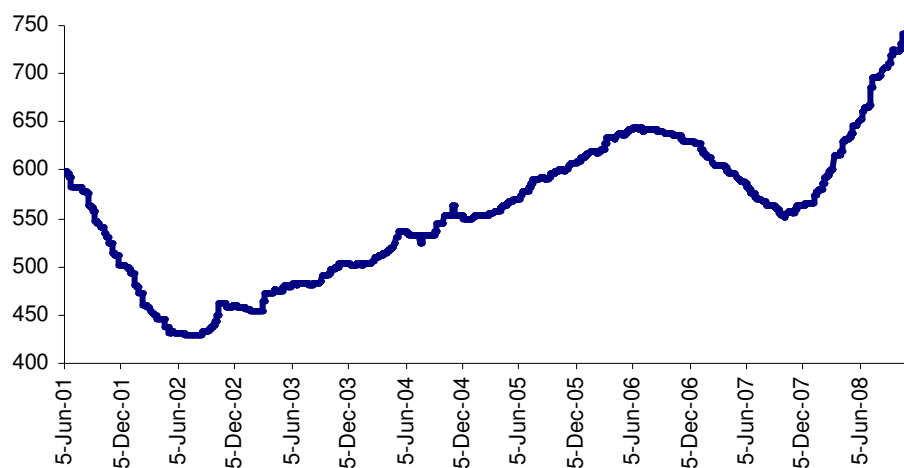
	FY09E				FY10E		
	FY08A	Old	New	Chg %	Old	New	Chg %
Net sales	7,823.7	10,932.6	9,017.5	-17.5%	13,162.5	10,022.3	-23.9%
EBIDTA	4,859.5	5,967.0	3,464.9	-41.9%	7,649.4	4,092.2	-46.5%
EBIDTA %	62.1	54.6	38.4	(1,616)	58.1	40.8	(1,728)
PAT	2,719.4	3,714.9	1,876.8	-49.5%	4,774.2	2,396.6	-49.8%
EPS	11.1	15.1	7.6	-49.5%	19.4	9.7	-49.8%

Source: Emkay Research

### Sharp rise in newsprint prices

Over the last 9 months the newsprint prices (landed cost) have risen sharply from US\$560 per ton to ~US\$980 per ton together. Adding to the trouble is the depreciating rupee as the entire newsprint consumed is imported by the company. Any further rise in newsprint prices act as downside risks to our estimates and vice versa.

#### Newsprint prices (USD/MT)



Source: Bloomberg, Emkay Research

### “Deccan Chargers” stake sale could unlock value

Deccan Chronicle has mandated KPMG corporate finance to identify strategic buyers for Deccan Chargers, the Franchise for Hyderabad team of IPL. The company has bought the Franchise rights for a staggered payment of US\$107mn payable over 10 years. A sell-off/ stake sale in the subsidiary could result in value unlocking for the shareholders. We highlight that our estimates for Deccan Chronicle are standalone and do not include the upsides from any of the subsidiary companies.

## Result overview

Stand alone results						
Particulars	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	% YoY
Net sales	1,877.7	2,162.0	2,050.5	1,935.3	2,264.3	20.6%
Employee Cost	61.7	65.3	72.8	99.8	133.5	116.4%
Production Cost	559.1	586.1	628.5	766.5	1,171.5	109.5%
Admin and Other	79.1	97.7	117.3	126.1	185.9	135.0%
<b>Total optng exp</b>	699.9	749.1	818.6	992.4	1,490.9	113.0%
<b>EBIDTA</b>	<b>1,177.8</b>	<b>1,412.9</b>	<b>1,231.9</b>	<b>942.9</b>	<b>773.4</b>	<b>-34.3%</b>
Depreciation	66.3	70.9	71.5	72.5	75.1	13.3%
<b>EBIT</b>	<b>1,111.5</b>	<b>1,342.0</b>	<b>1,160.4</b>	<b>870.4</b>	<b>698.3</b>	<b>-37.2%</b>
Other Income	90.8	102.5	82.9	59.3	154.6	70.3%
Interest	173.6	213.3	251.2	197.9	198.2	14.2%
<b>PBT</b>	<b>1,028.7</b>	<b>1,231.2</b>	<b>992.1</b>	<b>731.8</b>	<b>654.7</b>	<b>-36.4%</b>
Tax	202.7	201.8	965.6	122.0	202.0	-0.3%
<b>Net Profit</b>	<b>826.0</b>	<b>1,029.4</b>	<b>26.5</b>	<b>609.8</b>	<b>452.7</b>	<b>-45.2%</b>

% of sales	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Chg bps
Employee Cost	3.3	3.0	3.6	5.2	5.9	261
Production Cost	29.8	27.1	30.7	39.6	51.7	2,196
Admin and Other	4.2	4.5	5.7	6.5	8.2	400
EBIDTA	62.7	65.4	60.1	48.7	34.2	(2,857)
Net Profit	44.0	47.6	1.3	31.5	20.0	(2,400)
ETR	19.7	16.4	97.3	16.7	30.9	1,115

Source: Company, Emkay research

## Financials

## Income statement

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
Net Sales	5,528	7,824	9,017	10,022
Growth (%)	67.1	41.5	15.3	11.1
Staff Cost	215	261	504	605
% of Sales	3.9	3.3	5.6	6.0
Production Cost	2,406	2,343	4,381	4,594
% of Sales	43.5	29.9	48.6	45.8
Admin & Other Costs	325	360	667	732
% of Sales	5.9	4.6	7.4	7.3
EBITDA	2,582	4,860	3,465	4,092
Growth (%)	148.0	88.2	-28.7	18.1
EBIDTA %	46.7	62.1	38.4	40.8
Other Income	324	379	404	394
Interest	332	768	689	452
Depreciation	171	280	336	403
PBT	2,403	4,191	2,844	3,631
Tax	790	1,471	967	1,235
ETR	32.9	35.1	34.0	34.0
PAT	1,614	2,719	1,877	2,397
Growth (%)	137.8	68.5	-31.0	27.7
Net Margin (%)	29.2	34.8	20.8	23.9

## Cash Flow

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
Profit Before Tax	2,403	4,191	2,844	3,631
Depreciation	171	280	336	403
Interest Expenses	332	768	689	452
(Inc)/Dec in Inventory	92	(2)	(44)	(11)
(Inc)/Dec in Debtors	(1,679)	590	(271)	(303)
(Inc)/Dec in loans & Adv	(725)	(889)	650	(50)
Inc (Dec) in Cur Liab	(86)	692	61	60
Less: Direct Taxes	592	834	796	1,017
CFO	(309)	4,504	3,468	3,166
(Pur)/Sale of Fixed Asset	(2,323)	(834)	(250)	(500)
(Pur)/Sale of Investment	(251)	(506)	-	-
CFI	(1,975)	(1,224)	(250)	(500)
Incr/(Dec) in Borrowings	1,816	2,646	(4,135)	-
Increase in Capital	2,240	-	135	-
Dividend Paid	(268)	(859)	(864)	(864)
Interest Paid	(115)	(434)	(689)	(452)
CFF	3,582	1,334	(5,553)	(1,315)
Net Inc/(Dec) in Cash	1,298	4,614	(2,335)	1,350
Opening Balance	2,035	3,333	7,947	5,612
Closing Balance	3,333	7,947	5,612	6,962

## Balance Sheet

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
Equity Capital	478	490	492	492
Reserves	7,791	10,181	11,326	12,859
Net worth	8,269	10,671	11,818	13,351
Total Debt	6,051	8,062	3,927	3,927
Deferred Tax Liabilities	441	568	739	957
<b>Capital Employed</b>	<b>14,761</b>	<b>19,301</b>	<b>16,484</b>	<b>18,235</b>
Gross Block	6,092	6,464	6,864	7,364
Less Depreciation	394	670	1,006	1,409
Net Fixed Assets	5,698	5,794	5,858	5,955
CWIP	125	579	429	429
Investments	1,403	1,909	1,909	1,909
Inventory	300	301	346	357
Debtors	3,037	2,447	2,718	3,020
Cash and Bank	3,333	7,947	5,612	6,962
Loans & Advances	1,138	1,900	1,250	1,300
Cur Liab & Provisions	407	1,683	1,743	1,804
Net Current Assets	7,400	10,913	8,182	9,836
Miscellaneous exp	135	106	106	106
<b>Total Assets</b>	<b>14,761</b>	<b>19,301</b>	<b>16,484</b>	<b>18,235</b>

## Ratios

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
EBITDA %	46.7	62.1	38.4	40.8
EBIT%	49.5	63.4	39.2	40.7
NPM %	29.2	34.8	20.8	23.9
ROCE (%)	18.5	25.7	21.4	22.4
Adj. ROE (%)	19.5	25.5	15.9	18.0
Adj. EPS	6.8	11.1	7.6	9.7
Cash EPS	7.5	12.2	9.0	11.4
Book Value	34.6	43.6	48.0	54.2
DPS	1.0	3.0	3.0	3.0
Payout %	16.7	31.6	46.0	36.0
Debtors days	200.5	114.2	110.0	110.0
Asset Turnover	0.4	0.4	0.5	0.5
PE (x)	6.7	4.1	5.9	4.6
Cash PE	6.0	3.7	5.0	4.0
P/BV	1.3	1.0	0.9	0.8
EV/Sales	2.4	1.4	1.0	0.8
EV/EBITDA	5.2	2.3	2.7	2.0
Dividend Yield %	2.2	6.7	6.7	6.7

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