

16<sup>th</sup> April 2007

## BUY

Price **Rs 164** Target Price **Rs222**

Sensex - 13,384

### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	2	53	88
Rel. to Sensex	2	3	46	57

Source: Capitaline

### Stock Details

Sector	Media
Reuters	DCHL.BO
Bloomberg	DECH@IN
Equity Capital (Rs mn)	478
Mkt. Cap (Rs bn)	38.8
Face Value (Rs)	2
52 Week H/L (Rs)	184/60
Daily Avg Volume (No of shares)	305739
Daily Avg Turnover (US\$ mn)	1.2

### Shareholding Pattern (%)

Promoters	63.5
FII's /NRI's	17.1
Institutions	16.9
Private Corp	1.1
Public	1.4

Source: BSE, 31<sup>st</sup> March 2007

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# Deccan Chronicle

## The southern delight

Earnings  
Upgrade

Deccan Chronicle has announced an Ad rate hike of 30% across all the segments. The increase in the Advertisement rates would be effective from May 2007. Following this announcement, we have revised our estimates for FY08E & introduced the estimates of FY09E. We expect the Net sales to increase by CAGR 32% from Rs5528mn in FY07E to Rs9638mn for FY09E. We expect the EBITDA to increase by CAGR 46% from Rs2517mn in FY07E to Rs5388mn in FY09E. We expect the EBITDA margins to increase from 45.5% in FY07E to 55.9% in FY09E, an increase in excess of 10 percentage points over the next two years. We expect the PAT to increase by CAGR 49.6% from Rs1628mn in FY07E to Rs3645mn in FY09E. At CMP of Rs165, the stock trades at 11.1x our estimated EPS of Rs14.8 for FY09E and 6.3x EV/EBITDA for FY09E. We maintain a BUY recommendation on the stock with a revised price target of Rs 222, based on 15x EPS Rs 14.8 for FY09E.

### Trend in advertisement rate hike continues ...

Deccan Chronicle has announced a 30% increase in the advertisement rates across all the segments effective from May 2007. The advertisement rate hike is in line with our expectation and the trend of the company in implementing the hikes. Despite the increase in the advertisement rates, the cost of advertising with Deccan Chronicle is cheaper by over 25% as compared to its competitor in the Chennai market. With the revision in the ad rates, advertisement revenues would contribute to 94% of net sales for FY08E and FY09E as against 92% for FY07E.

### Bangalore a new feather in the cap

With a focus on strengthening its position in south India, Deccan Chronicle would be launching its Bangalore edition in Q1FY08. The company has already spent Rs450mn towards machineries and facilities for the launch of the edition. We believe that the company's strategy of charging lower cover price and increasing circulation would enable the company to increase its circulation, which in turn would result in higher advertisement revenues.

### Valuations

The advertisement rate hike will have a high delta effect, as the majority of the revenues would flow directly to the PBT. We have not factored the financials of the retailing subsidiary Odyssey in our estimates due to lack of information availability. The company also has plans to list Odyssey separately, which may lead to a further upside from our mentioned levels. At CMP of Rs165, the stock trades at 11.1x our estimated EPS of Rs14.8 for FY09E and 6.3x EV/EBITDA FY09E. We maintain our BUY recommendation on the stock with a revised price target of Rs222.

	Net Sales	EBITDA core	EBITDA %	PAT	ROCE %	EV/ EBITDA	P/BV	Div Yield (%)	EPS (Rs)	P/E
FY06	3308.8	1017.4	30.7	679.7	12.5	10.5	10.7	0.1	3.0	55.5
FY07E	5527.6	2516.8	45.5	1628.0	20.9	15.4	4.4	0.6	6.6	24.9
FY08E	7866.1	4129.0	52.5	2736.4	31.0	8.9	3.5	0.6	11.1	14.8
FY09E	9638.0	5387.8	55.9	3645.0	33.2	6.3	2.7	0.7	14.8	11.1

### Odyssey – a fast growing business

Odyssey, a 100% subsidiary of Deccan Chronicle, is in the business of retailing books, music, toys, cards, gifts, etc. The company has large stores in Chennai, Hyderabad, Trichy, Nagpur, Bangalore, Mysore, Bombay, etc. and has plans to open stores in Ahmedabad, New Delhi, Chandigarh, Pune, Vizag, Mangalore, etc. Although the management has guided for net sales of Rs2500mn and a PBT of Rs320mn for FY08, we have not factored them in our estimates due to lack of information availability. A separate listing of Odyssey is also on the cards.

### The recent IRS survey ranks Deccan at no 4 among English newspapers

In the recent IRS 2007 round 1 survey, Deccan Chronicle with a readership of 1.3mn was ranked at no 4 among the English newspaper readerships. While the top three print media players, The Times of India, Hindustan Times and The Hindu have presence in excess of 14 states, Deccan Chronicle has a presence in only two states and the readership in those states have put the company at the no.4 position in terms of readership.

According to the IRS survey, the readership of Deccan Chronicle has seen an increase of 5.5% while that of the top 3 players has seen a decline in the readerships. The readership of Times of India has reduced by 2%, Hindustan Times by 5% and that of The Hindu by 14% over the previous round.

#### English Newspaper Readership ('000)

1	The Times Of India	6,782
2	Hindustan Times	3,329
3	Hindu	2,210
4	<b>Deccan Chronicle</b>	<b>1,311</b>
5	Telegraph	920
6	The Economic Times	777
7	Mumbai Mirror	735
8	DNA	539
9	Tribune	539
10	Midday (Eng)	509

Source: IRS 2007, Emkay Research

Deccan Chronicle readership	R2 2006	R1 2007	% change
Andhra Pradesh	969	936	-3.4%
Tamil Nadu	274	375	36.9%
Total	1,243	1,311	5.5%

Source: IRS 2007, Emkay Research

### Deccan Chronicle caters to lucrative markets

Deccan Chronicle currently operates in the states of Andhra Pradesh and Tamilnadu, which contribute a healthy 24% to the total advertisement revenues from the print medium in India. The Bangalore launch would further increase the company's access to 31% of the print advertisement revenues in India. We believe that Deccan Chronicle is nicely positioned to reap the benefits of the ad spends in the regions of presence.

Statewise print ads revenues	% share
Maharashtra	16
<b>Tamil Nadu</b>	<b>13</b>
<b>Andhra Pradesh</b>	<b>11</b>
Kerala	8
UP	7
<b>Karnataka</b>	<b>7</b>
Delhi	6
Gujarat	6
Punjab/Chandigarh	5
W Bengal	4
Rajasthan	3
Others	14
Total	100

Source: Ad Ex, Emkay Research

Profit & Loss Statement					Balance Sheet				
Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E	Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E
Total Sales	3,308.8	5,527.6	7,866.1	9,638.0	Equity Capital	412.3	492.2	492.2	492.2
Growth (%)	99.7	67.1	42.3	22.5	Reserves	2,765.5	8,665.1	11,124.6	14,437.4
Staff Cost	197.3	219.0	251.9	302.2	Networth	3,177.8	9,157.4	11,616.8	14,929.6
% of Sales	6.0	4.0	3.2	3.1	Total Debt	5,887.7	2,500.0	1,000.0	300.0
Production Cost	1,842.8	2,487.7	2,974.0	3,321.5	Deferred Tax Liabilities	243.3	429.4	667.3	825.8
% of Sales	55.7	45.0	37.8	34.5	Deferred expenses	9.6	9.6	9.6	9.6
Admin & Other Costs	251.3	304.0	511.3	626.5	Total Capital Employed	9,318.4	12,096.3	13,293.8	16,065.0
% of Sales	7.6	5.5	6.5	6.5	Gross Block	3,740.9	4,090.9	4,490.9	4,590.9
EBITDA	1,017.4	2,516.8	4,129.0	5,387.8	Less Depreciation	239.1	404.1	618.6	865.3
% of Sales	30.7	45.5	52.5	55.9	Net Fixed Assets	3,501.8	3,686.8	3,872.3	3,725.7
Other Income	246.4	180.0	200.0	200.0	CWIP	405.7	600.0	300.0	250.0
Operating Profit	1,263.8	2,696.8	4,329.0	5,587.8	Investments	893.5	893.5	893.5	893.5
% of Sales	38.2	48.8	55.0	58.0	Goodwill	172.9	172.9	172.9	172.9
Interest	197.3	206.1	148.8	58.5	Inventory	399.9	605.8	862.0	1,188.2
Depreciation	102.8	165.0	214.5	246.7	Debtors	1,357.9	1,817.3	2,586.1	3,168.6
PBT bef. EO items	963.7	2,325.7	3,965.7	5,282.6	Cash and Bank	2,056.5	4,310.4	4,669.4	7,076.6
Net EO Items	-	-	-	-	Loans & Advances	882.1	800.0	1,000.0	900.0
PBT	963.7	2,325.7	3,965.7	5,282.6	Other current assets	-	-	-	-
Tax	284.0	697.7	1,229.4	1,637.6	Total Curr. Assets	4,696.3	7,533.5	9,117.5	12,333.5
ETR	29.5	30.0	31.0	31.0	Current Liabilities & Provisions	520.7	959.3	1,231.4	1,479.5
PAT	679.7	1,628.0	2,736.4	3,645.0	Net Current Assets	4,175.5	6,574.2	7,886.1	10,854.0
Growth (%)	112.1	139.5	68.1	33.2	Miscellaneous exp	168.9	168.9	168.9	168.9
% of Sales	20.5	29.5	34.8	37.8	Total Assets	9,318.4	12,096.3	13,293.8	16,065.0

Source : Company, Emkay Research

Source : Company, Emkay Research

## Ratios

Mar end	FY06	FY07E	FY08E	FY09E
<b>PBT</b>	<b>964</b>	<b>2,326</b>	<b>3,966</b>	<b>5,283</b>
Depreciation	103	165	215	247
Interest Expenses	47	206	149	59
Others	27	0	0	0
<b>Operating Cash Flow</b>	<b>1,140</b>	<b>2,697</b>	<b>4,329</b>	<b>5,588</b>
(Inc)/Dec in Inventory	(206)	(206)	(256)	(326)
(Inc)/Dec in Debtors	(913)	(459)	(769)	(583)
(Inc) / Dec in loans & Advances	(42)	82	(200)	100
Inc/(Dec) in Cur Liabilities	51	439	272	248
Less:Direct Taxes	200	512	991	1,479
<b>CFO</b>	<b>(288)</b>	<b>2,041</b>	<b>2,385</b>	<b>3,548</b>
(Purchase)/Sale of Fixed Asset	(1,439)	(544)	(100)	(50)
(Purchase)/Sale of Investment	(833)	0	0	0
<b>CFI</b>	<b>(2,972)</b>	<b>(544)</b>	<b>(100)</b>	<b>(50)</b>
Increase/(Decrease) in Borrowings	3,541	(3,388)	(1,500)	(700)
Increase in Capital	0	4,628	0	0
Dividend Paid	(47)	(277)	(277)	(332)
Interest Paid	(47)	(206)	(149)	(59)
Misc Expenses	(119)	0	0	0
<b>CFF</b>	<b>3,104</b>	<b>758</b>	<b>(1,926)</b>	<b>(1,091)</b>
Net Increase/(Decrease) in Cash	(156)	2,254	359	2,407
Opening Balance	2,213	2,056	4,310	4,669
<b>Closing Balance</b>	<b>2,056</b>	<b>4,310</b>	<b>4,669</b>	<b>7,077</b>

Source : Company, Emkay Research

## Ratios

Mar end	FY06	FY07E	FY08E	FY09E
EBITDA %	30.7	45.5	52.5	55.9
EBIT%	35.1	45.8	52.3	55.4
NPM %	20.5	29.5	34.8	37.8
ROCE (%)	12.5	20.9	31.0	33.2
Adj. ROE (%)	21.4	17.8	23.6	24.4
Adj. EPS	3.0	6.6	11.1	14.8
Cash EPS	3.4	7.3	12.0	15.8
Book Value	15.4	37.2	47.2	60.7
DPS	0.2	1.0	1.0	1.2
Payout %	6.9	17.0	10.1	9.1
Debtors days	150	120	120	120
Asset Turnover	0.4	0.5	0.6	0.6
PE (x)	55.5	24.9	14.8	11.1
Cash PE	48.2	22.6	13.8	10.4
P/BV	10.7	4.4	3.5	2.7
EV/Sales	3.2	7.0	4.7	3.5
EV/EBITDA	10.5	15.4	8.9	6.3
Dividend Yield %	0.1	0.6	0.6	0.7

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## Emkay Rating Distribution

Ratings	Definition
BUY	Expected total return (%) of stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) of stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
REDUCE	Expected total return (%) of stock price appreciation and dividend yield) of below 10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.
NEUTRAL	Analyst has no investment opinion on the stock under review.

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