

Deccan Chronicle Holdings

Rs 640

20th Oct 2006

Making headlines

Neutral

SCRIP DETAILS

Market Cap (Rs crores)	2,473.5
P/E (x)-FY07(E)	17.0
Market Cap/ Sales (x) FY07(E)	5.0
EV EBIDTA (x) FY07(E)	12.5
Dividend (Rs)/ Yield (%)	1/0.2
Equity Capital (Rs crores)	41.2
Face Value (Rs)	10.0
52 Week High/Low (Rs)	678.6/ 234.0

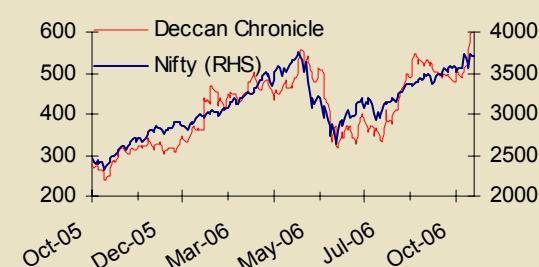
 Website: www.deccan.com

NSE Code	DCHL
Sensex	12724
Nifty	3677

SHARE HOLDING PATTERN (as on 30th June 2006)

Promoters	77.7
FII's	0.1
Mutual Funds/ Banks/ FIs	19.7
Public	2.3
Others	0.2

COMPARATIVE PRICE MOVEMENT



Deccan Chronicle Holdings Ltd (DCHL), the publisher of Deccan Chronicle, is the number one English Daily newspaper in Andhra Pradesh and the fourth largest English newspaper in India, in terms of readership. It recently took control of Asian Age Holdings, which publishes The Asian Age in five cities. It has reported better-than-expected results for Q2FY07.

Stellar Performance

Net sales for Q2FY07 jumped by 96%, to Rs 149.2 crores from Rs 76.1 crores in Q2FY06. PAT for the quarter went up by more than five times, to Rs 64.3 crores. For H1FY07, net sales grew to Rs 258.9 crores, up 85.3%. The Company showed an impressive rise of 251% in PAT, to Rs 87.6 crores from Rs 24.9 crores in H1FY06. EPS jumped significantly, to Rs 15.6 for Q2FY06 and Rs 21.2 in H1FY07.

Growth drivers

The major contributor to the substantial increase in topline is the 20% increase in volume growth and strong performance from the Chennai edition. Also, the 35% increase in advertisement rates, during the quarter, added significantly to the topline, as almost 90% of the revenue comes from advertising.

Operating margins improve significantly

The Company reported operating profits of Rs 76.5 crores, up 280.5%. Margins doubled, from 26.4% in Q2FY06 to 51.2% in Q2FY07, owing to the decrease in the operating costs to a large extent. Raw material cost as a percentage of sales declined by 2,180 bps, to 40.9%. Also, personnel cost and the other expenses reduced by 130 bps and 170 bps, i.e. to 3.5% and 4.4%, respectively.

Continued expansion of circulation in key markets

There has been an increase in circulation numbers in the key markets of Andhra Pradesh, from 1,31,478 in 2000 to 4,30,632 in 2005, a growth of 228% and a YoY growth of 45%. The recently launched Chennai edition also recorded good circulation figures. The Company has received ABC (Audit Bureau of Circulation) Certificate for its Chennai Edition, for 2,95,326 copies, for the Jan-Jun06 period.

The Management expects Deccan Chronicle to be a powerhouse in Southern India by 2008-09, where the circulation in Andhra Pradesh market would reach 10,50,000 copies, in Tamil Nadu would reach 7,00,000 copies while the Bangalore edition, which would be launched by FY07, would reach a circulation of 2,50,000 copies.

Recent Developments:

The Board of Directors of DCHL hiked the FII investment ceiling to 14%. With 10% limit for FDI holding, the total foreign holding limit in the Company would be up, to 24%.

The promoters have sold 4.12% stake in the Company. As on 30th Jun 2006, promoters held 77.75% in the Company.

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Financials

(YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY07(E)	Chg (%)
Net Sales	149.2	76.1	96.1	258.9	139.7	85.3	530.0	60.2
Raw Mat. consumed	61.0	47.7	27.9	121.0	82.6	46.6	238.5	25.3
Other expenses	6.5	4.6	40.1	13.4	9.1	46.6	33.4	57.2
Personnel	5.2	3.6	44.0	10.1	7.0	43.6	18.0	18.4
Total expenditure	72.8	56.0	29.9	144.4	98.7	46.3	289.9	27.8
Operating Profit	76.5	20.1	280.5	114.4	41.0	178.8	240.1	130.6
Other Income	3.7	2.8	33.6	6.6	6.8	-3.2	15.0	-29.7
Interest	7.3	5.7	28.6	13.7	10.3	33.2	25.0	29.3
Gross Profit	72.8	17.2	324.3	107.2	37.5	186.0	230.1	116.9
Depreciation	4.0	2.5	63.6	8.0	4.8	67.4	15.0	50.7
PBT	68.8	14.7	368.1	99.2	32.7	203.3	215.1	123.7
Prov. for Tax- Current	4.5	4.1	10.4	11.7	7.8	50.3	60.2	105.6
PAT	64.3	10.6	505.4	87.6	24.9	251.0	154.9	131.6
Equity Share capital	41.2	41.2		41.2	41.2		41.2	
EPS (Rs)	15.6	2.6	505.4	21.2	6.1	251.0	37.6	131.6
CEPS (Rs)	16.6	3.2	422.1	23.2	7.2	221.4	41.2	121.1
OPM (%)	51.2	26.4		44.2	29.4		45.3	
PBT (%)	46.1	19.3		38.3	23.4		40.6	
PAT (%)	43.1	13.9		33.8	17.8		29.2	

Valuation and Conclusion

Deccan Chronicle enjoys a leadership position in the Andhra Pradesh market. The Chennai edition has been successful and it is likely to drive up financials, in the coming years. With the proposed launch of the Bangalore edition, the Company is expected to rule the southern market.

The Management had earlier guided an EPS of Rs 24 for FY07; it has already achieved an EPS of Rs 21 in the first half itself. We thus expect it to post EPS of atleast Rs 38 for FY07. At the CMP of Rs 640, the stock is quoting at P/E of 17x for FY07 and 11.4x its FY08 (E) EPS of Rs 56. One can consider entering the stock on declines.

WAY2WEALTH Research

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