

## Margin pressure to remain, Maintain hold

May 19, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs240	Rs271
EPS change FY12E/13E (%)	-7.3/-NA
Target Price change (%)	-4.6
Sensex	18,086
Nifty	5,421

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	1	(10)	1
Rel. to Nifty	0	2	(0)	(5)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Print Media
Bloomberg	DBCL@IN
Equity Capital (Rs mn)	1833
Face Value(Rs)	10
No of shares o/s (mn)	183
52 Week H/L	307/225
Market Cap (Rs bn/USD mn)	44/976
Daily Avg Volume (No of sh)	22456
Daily Avg Turnover (US\$m)	0.1

### Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	86.1	86.3	86.3
FII/NRI	8.9	9.0	8.8
Institutions	3.2	3.1	3.1
Private Corp	0.9	0.6	0.6
Public	0.9	1.0	1.2

Source: Capitaline

### Naval Seth

naval.seth@emkayglobal.com  
+91 22 6624 2414

- Strong ad revenue of Rs2.5bn, growing by 30.6% yoy. Print revenues grew 27.4% yoy to Rs2.4bn, led equally volume and yield improvement
- EBITDA at Rs796mn improved 14.4% yoy. While EBITDA margin declined 197bps to 25.1%, on account of high opex pertaining to new launches
- Q4FY11 PAT grew by 22.5% yoy to Rs450mn, lower than our estimate of Rs550mn, led by lower interest out go and higher revenue realization
- Ad revenue growth to continue but margin pressure to remain in FY12E. We cut our EBITDA and EPS est. by 3.7% & 7.3%, resp. Maintain HOLD rating with revised target price Rs271

### Strong ad revenue growth but margins take a hit

DB Corp reported net sales growth of 23.4% yoy led by strong ad revenue growth of 30.6% yoy to Rs2.5bn (Our est. of Rs 2.3bn, 20.2% growth yoy). Print revenue grew better than expected by 27% yoy v/s our estimate of 20.0%. Circulation revenue remained flat at Rs 534mn yoy, due to price cut taken in couple of markets. Radio revenue stood at Rs133mn with EBITDA margin of 30%. Con. EBITDA grew by 14.4% yoy to Rs 796mn while EBITDA margins declined by 197bps yoy to 25.1%. Despite of strong revenue growth, margin decline was primarily due to 26.7% yoy rise in operating expenses. PAT for the quarter stood at Rs 450mn up 22.5% yoy but below our estimates of Rs550mn.

### Impending launches and cost increase to weigh on margins

DB Corp marked its entry in two new states during last fiscal and same is expected during FY12E (Maharashtra and Bihar). The company has booked pre-operating expense of Rs43mn pertaining to Bihar, Maharashtra and Jharkhand launch in Q4FY11, impacting margins to extent of ~135bps. Given the bigger size of both Maharashtra and Bihar market, we expect the margin for DB corp to get impacted in FY12E. Newsprint print prices have been stable at \$665/MT from last 2 quarters but increase in number copies pertaining to new launches would lead to higher raw material prices coupled with rise in other operating expenditure.

### Outlook

DB corp has re-aligned its ad rate card and it has also increased rate by 10-14% in April, 2011. With rise in yields and strong volumes, Ad revenue growth remains on track. Newsprint price from the current levels is not expected to increase significantly; however, the raw material prices for DB Corp would increase due to increase in circulation of copies for new launches as well as in existing markets. Considering this, we have revised our FY12E EBITDA estimates downwards by 3.7% and EBITDA margins by 166bps. We expect the margin would get back to normal levels post expansion during FY12E.

### Rating maintained at HOLD, target price revised to Rs271 (earlier Rs284)

We have revised our EPS estimated downwards for FY12E by 7.3% to Rs13.8 and introduced FY13E at Rs16.8. At CMP of Rs240, the stock trades at 17.4x and 14.3x our estimated EPS for FY12E and FY13E, respectively.

### Financial Snapshot

Y/E -	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (%)	P/E	EV/EBITDA	P/BV
FY10	10630	3429	32.3	1828	10.1	283.8	26.7	20.8	13.2	6.4
FY11P	12652	4031	31.9	2585	14.2	41.4	28.6	16.9	11.1	4.9
FY12E	14251	4241	29.8	2506	13.8	-3.0	22.6	17.4	10.4	3.9
FY13E	16308	5092	31.2	3047	16.8	21.6	22.7	14.3	8.6	3.3

## Quarterly financials

	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Sales	2,572	2,987	3,010	3,482	3,174	23.4	(8.9)	12,652	10,579	19.6
Raw Material	788.6	831.8	901.2	1064.5	1041.6	32.1	(2.2)	3,839	3,279	17.1
<i>as % of sales</i>	30.7	27.8	29.9	30.6	32.8			30.3	31.0	
Employee Cost	360.4	410.5	458.7	484.5	492.0	36.5	1.5	1,846	1,318	40.0
<i>as % of sales</i>	14.0	13.7	15.2	13.9	15.5			14.6	12.5	
SG&A expenses	364.7	285.9	336.7	399.1	436.0	19.5	9.2	1,458	1,186	22.9
<i>as % of sales</i>	14.2	9.6	11.2	11.5	13.7			11.5	11.2	
Other operating expenses	362.4	322.7	362.2	385.9	408.3	12.7	5.8	1,479	1,417	4.4
<i>as % of sales</i>	14.1	10.8	12.0	11.1	12.9			11.7	13.4	
Total Expenditure	1876.1	1850.8	2058.7	2334	2378	26.7	1.9	8621	7200	19.7
<b>EBITDA</b>	<b>695.6</b>	<b>1135.9</b>	<b>951.3</b>	<b>1148</b>	<b>796</b>	<b>14.4</b>	<b>(30.7)</b>	<b>4,031</b>	<b>3,379</b>	<b>19.3</b>
Depreciation	104.6	104.2	107.0	110.2	111.4	6.5	1.1	432.7	378.4	14.4
<b>EBIT</b>	<b>591.0</b>	<b>1031.7</b>	<b>844.3</b>	<b>1037.8</b>	<b>684.6</b>	<b>15.8</b>	<b>(34.0)</b>	<b>3598</b>	<b>3001</b>	<b>19.9</b>
Other Income	43.6	43.4	32.0	30.0	36.4	(16.6)	21.1	141.8	93.9	51.0
Interest	87.3	47.0	37.7	34.1	34.2	(60.8)	0.1	153.0	289.0	(47.1)
<b>PBT</b>	<b>547.4</b>	<b>1028.1</b>	<b>838.6</b>	<b>1033.7</b>	<b>686.8</b>	<b>25.5</b>	<b>(33.6)</b>	<b>3587.2</b>	<b>2805.7</b>	<b>27.9</b>
Tax	197.4	348.7	307.7	381.6	235.5	19.3	(38.3)	1273.4	1057.2	20.5
<b>PAT before MI</b>	<b>350.0</b>	<b>679.4</b>	<b>530.9</b>	<b>652.1</b>	<b>451.3</b>	<b>28.9</b>	<b>(30.8)</b>	<b>2313.8</b>	<b>1748.5</b>	<b>32.3</b>
Minority interest	-17.2	-15.8	-19.8	-7.3	1.4			-41.6	-79.5	(47.7)
<b>APAT</b>	<b>367.2</b>	<b>695.3</b>	<b>550.7</b>	<b>659.4</b>	<b>449.9</b>	<b>22.5</b>	<b>(31.8)</b>	<b>2355.3</b>	<b>1828.0</b>	<b>28.8</b>

Margins (%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	bps	bps	YTD'11	YTD'10	bps
EBIDTA	27.0	38.0	31.6	33.0	25.1	(197)	(789)	31.9	31.9	(8)
EBIT	23.0	34.5	28.1	29.8	21.6	(141)	(823)	28.4	28.4	8
EBT	21.3	34.4	27.9	29.7	21.6	35	(805)	28.4	26.5	183
PAT	14.3	23.3	18.3	18.9	14.2	(10)	(476)	18.6	17.3	134
Effective Tax rate	36.1	33.9	36.7	36.9	34.3	(177)	(262)	35.5	37.7	(218)

## Financials

## Income statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>Net Sales</b>	<b>10,630</b>	<b>12,652</b>	<b>14,251</b>	<b>16,308</b>
<i>Growth (%)</i>	25.0	48.7	67.5	91.7
	3,279	3,839	4,405	4,907
Employee cost	1,318	1,846	2,072	2,243
SG&A expenses	1,170	1,458	1,787	2,075
Other operating expenses	1,433	1,479	1,745	1,990
<b>Total operating expenditure</b>	<b>7,200</b>	<b>8,621</b>	<b>10,009</b>	<b>11,216</b>
<b>EBITDA</b>	<b>3,429</b>	<b>4,031</b>	<b>4,241</b>	<b>5,092</b>
<i>Growth (%)</i>	-97.0	-96.5	-96.3	-95.5
Depreciation	378	433	520	613
<b>EBIT</b>	<b>3,051</b>	<b>3,598</b>	<b>3,722</b>	<b>4,479</b>
<b>EBIT margin (%)</b>	<b>28.7</b>	<b>28.4</b>	<b>26.1</b>	<b>27.5</b>
Other Income	112	142	199	249
Interest expenses	357	153	174	166
<b>PBT</b>	<b>2,806</b>	<b>3,587</b>	<b>3,746</b>	<b>4,562</b>
Tax	1,057	1,000	1,236	1,505
<i>Effective tax rate (%)</i>	37.7	27.9	33.0	33.0
<b>PAT before MI</b>	<b>1,748</b>	<b>2,587</b>	<b>2,510</b>	<b>3,056</b>
Minority interest	-79	3	4	9
<b>Adjusted PAT after MI</b>	<b>1,828</b>	<b>2,585</b>	<b>2,506</b>	<b>3,047</b>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT</b>	2,694	3,445	3,547	4,313
Depreciation	378	433	520	613
Interest	357	153	174	166
Other Non-Cash items	2,521	-944	-425	-725
Chg in working cap	-244	321	-162	-508
Tax paid	-1,057	-1,000	-1,236	-1,505
<b>Operating Cashflow</b>	<b>4,649</b>	<b>2,409</b>	<b>2,418</b>	<b>2,354</b>
Capital expenditure	-382	-388	-1,099	-809
<b>Free Cash Flow</b>	<b>4,267</b>	<b>2,020</b>	<b>1,319</b>	<b>1,545</b>
Other income	112	142	199	249
Investments	33	40	-500	-500
<b>Investing Cashflow</b>	<b>-238</b>	<b>-207</b>	<b>-1,400</b>	<b>-1,061</b>
Equity Capital Raised	231	22	-9	-1
Loans Taken / (Repaid)	-2,424	-830	-200	-100
Interest Paid	-357	-153	-174	-166
Dividend paid (incl tax)	0	0	0	0
<b>Financing Cashflow</b>	<b>-2,549</b>	<b>-961</b>	<b>-384</b>	<b>-267</b>
<b>Net chg in cash</b>	<b>1,861</b>	<b>1,242</b>	<b>634</b>	<b>1,026</b>
Opening cash position	452	2,313	3,555	4,189
Closing cash position	2,313	3,555	4,189	5,215

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,815	1,815	1,815	1,815
Reserves & surplus	5,035	7,211	9,276	11,599
<b>Net worth</b>	<b>6,850</b>	<b>9,026</b>	<b>11,091</b>	<b>13,414</b>
Secured Loans	2,966	2,136	1,936	1,836
Unsecured Loans	241	241	241	241
<b>Loan Funds</b>	<b>3,207</b>	<b>2,377</b>	<b>2,177</b>	<b>2,077</b>
Net deferred tax liability	609	90	90	90
Minority Interest	44	47	51	53
<b>Total Liabilities</b>	<b>10,710</b>	<b>11,540</b>	<b>13,409</b>	<b>15,634</b>
Gross Block	7,165	7,554	8,653	9,452
Less: Depreciation	1,305	1,738	2,258	2,871
<b>Net block</b>	<b>5,861</b>	<b>5,816</b>	<b>6,395</b>	<b>6,582</b>
Capital work in progress	614	614	614	624
<b>Investment</b>	<b>205</b>	<b>165</b>	<b>665</b>	<b>1,165</b>
<b>Current Assets</b>	<b>5,977</b>	<b>8,200</b>	<b>9,305</b>	<b>11,227</b>
Inventories	722	948	1,067	1,222
Sundry debtors	1,934	2,295	2,469	2,982
Cash & bank balance	2,313	3,555	4,189	5,215
Loans & advances	1,008	1,402	1,579	1,807
<b>Current lia &amp; Prov</b>	<b>2,073</b>	<b>3,374</b>	<b>3,683</b>	<b>4,070</b>
Current liabilities	1,706	2,800	3,056	3,378
Provisions	367	574	626	692
<b>Net current assets</b>	<b>3,905</b>	<b>4,825</b>	<b>5,622</b>	<b>7,157</b>
Misc. exp & Def. Assets	126	119	113	106
<b>Total Assets</b>	<b>10,710</b>	<b>11,540</b>	<b>13,409</b>	<b>15,634</b>

## Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
Core EBITDA Margin	32.3	31.9	29.8	31.2
Net Margin	17.9	20.5	17.5	18.4
ROCE	30.3	31.6	28.0	28.9
ROE	26.7	28.6	22.6	22.7
RoIC	50.4	51.2	51.6	56.5
<b>Per Share Data (Rs)</b>				
EPS (adjusted)	10.1	14.2	13.8	16.8
CEPS	12.2	16.6	16.7	20.2
BVPS	37.3	49.3	60.8	73.6
DPS	0.0	2.0	2.0	2.0
<b>Valuations (x)</b>				
PER	20.8	16.9	17.4	14.3
P/CEPS	19.7	14.4	14.4	11.9
P/BV	6.4	4.9	3.9	3.3
EV / Sales	4.2	3.5	3.1	2.7
EV / EBITDA	13.2	11.1	10.4	8.6
Dividend Yield (%)	0.0	0.8	0.8	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.1	-0.2	-0.2	-0.3
Net Debt/EBIDTA	0.2	-0.3	-0.6	-0.8

**Recommendation History: D B Corp – DBCL IN**

Date	Reports	Reco	CMP	Target
03/02/2011	<a href="#">DB Corp Event Update</a>	Hold	253	284
25/01/2011	<a href="#">DB Corp Q3FY11 Result Update</a>	Hold	260	284
27/10/2010	<a href="#">DB Corp Q2FY11 Result Update</a>	Hold	284	284
03/08/2010	<a href="#">DBCL Q1FY11 Result Update</a>	Accumulate	248	284

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
13/05/2011	<a href="#">Tulip Telecom Q4FY11 Result Update</a>	Buy	163	218
05/05/2011	<a href="#">Bharti Airtel Q4FY11 Result Update</a>	Hold	358	406
02/05/2011	<a href="#">Sterlite Technologies Q4FY11 Result Update</a>	HOLD	59	54
15/04/2011	<a href="#">Telecom Sector Event Update</a>			

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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