

DB Corp



Unchanged script

Earnings stay under pressure

DB Corp posted a decline in earnings for the third quarter in a row, with 16% YoY fall in profits for Q3FY12, as the company finds itself caught in the middle of an aggressive expansion plan, as the ad market turns weak. The company posted inline topline growth of 13.6% YoY, supported by a strong 17% YoY growth in circulation revenues while the ad revenue growth decelerated suddenly to 7% YoY. The management attributed the sharp slowdown in ad growth momentum (despite festival season) to continued weakness in national advertisers' ad spend, even though local ad spend remains high.

Opex remains elevated on expansion, newsprint prices

Operating expenditure during the quarter rose by 26% YoY, slightly ahead of our expectations. The steep jump in opex was largely driven by an aggressive 11% YoY growth in newsprint prices for the quarter, which combined with 14% YoY volume growth led to a 27% YoY growth in material costs, thus pushing overall operating expenditure growth into higher trajectory.

Valuation – Upgrade to 'Accumulate'

While we have been negative on the stock price since our initiation, we believe that the current levels, post a steep 22% correction since Q1FY12, appear to be pricing in most of the risks. Currently, the stock trades at 13.4x FY13E earnings, which we believe is quite fair, for the biggest regional language print player in India, and provides an opportunity to gain reasonably once ad growth revives in regional print media space. Based on a target one year forward P/E of 15x, we value the stock at INR210 one year forward, and upgrade our rating from 'Reduce' to 'Accumulate' with the belief that the pain is likely to persist for at least two more quarters.

Rating : Accumulate

Target Price : INR210

Upside : 12%

CMP : INR188 (as on 24 January 2012)

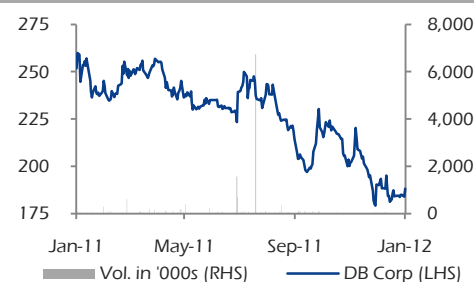
Key data*

Bloomberg /Reuters Code	DBCL IN/DBCL.BO
Current /Dil. Shares O/S (mn)	182/182
Mkt Cap (INRbn/US\$mn)	34/689
Daily Vol. (3M NSE Avg.)	11,429
Face Value (INR)	10

1 US\$= INR50.1

Source: Bloomberg ; * As on 24 January 2012

Price & Volume



Source: Bloomberg

Share holding (%)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Promoter	86.1	86.5	86.5	86.4
Institutional Investors	8.4	8.6	9.6	9.5
Other Investors	4.5	4.0	3.0	3.1
General Public	0.9	1.0	1.0	1.0

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	0.3	(9.2)	(11.3)
DB Corp	(13.7)	(21.4)	(25.3)
Hindustan Media Ventures	(7.5)	(7.1)	(22.5)
JagranPrakashan	(9.2)	(14.9)	(22.9)
HT Media	(8.4)	(21.0)	(11.2)

Source: Bloomberg

Y/E March (INR mn)	Q3FY12	Q3FY11	Q2FY12	YoY(%)	QoQ(%)	Q3FY12E	Variance (%)
Net Sales	3,956	3,482	3,539	13.6	11.8	3,936	0.5
Operating Expenses	2,937	2,334	2,768	25.8	6.1	2,805	4.7
% of Sales	74.3	67.0	78.2	723 bps	(395) bps	71.3	298 bps
EBITDA	1,018	1,148	771	(11.3)	32.0	1,131	(9.9)
EBITDA Margins (%)	25.7	33.0	21.8	(723) bps	395 bps	28.7	(298) bps
Other Income (Net)	25	30	20	(17.4)	26.9	30	(17.4)
Interest	81	34	67	136.2	20.4	34	136.2
Depreciation	134	110	124	22.0	8.6	121	10.9
PBT	828	1,034	600	(19.9)	38.0	1,005	(17.6)
Tax	271	382	197	(28.8)	37.5	302	(10.0)
Effective Tax Rate (%)	32.8	36.9	32.9	(412) bps	(11) bps	30.0	278 bps
Reported PAT	557	652	403	(14.7)	38.2	704	(20.9)
NPM (%)	14.1	18.7	11.4	(466) bps	269 bps	17.9	(381) bps
MI	3	(7)	(0)	-	-	-	-
Adjusted PAT	554	659	403	(16.0)	37.5	704	(21.3)

Source: Company, Elara Securities Estimate

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	9,610	13.0	1,472	15.3	475	(36.7)	2.6	19.9	16.6	71.8	23.8
FY10	10,630	10.6	3,430	32.3	1,829	284.9	10.1	40.4	33.8	18.7	10.2
FY11	12,652	19.0	4,030	31.9	2,354	28.7	13.0	31.9	36.3	14.5	8.7
FY12E	14,274	12.8	3,670	25.7	2,107	(10.5)	11.6	23.3	29.3	16.2	9.2
FY13E	17,018	19.2	4,411	25.9	2,545	20.8	14.0	23.6	30.8	13.4	7.4

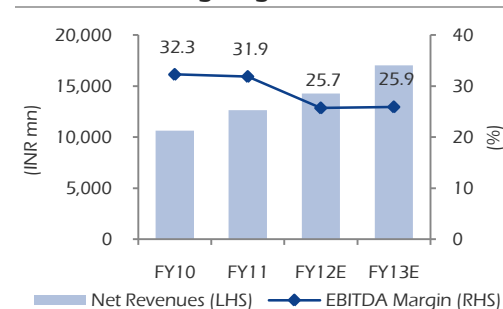
Source: Company, Elara Securities Estimates

Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11	FY12E	FY13E
Revenue	10,630	12,652	14,274	17,018
EBITDA	3,430	4,030	3,670	4,411
Non operating Income	112	142	137	164
OPBITDA	3,542	4,172	3,807	4,575
Depreciation & Amortization	378	433	482	526
EBIT	3,164	3,740	3,325	4,049
Interest Expenses	357	153	137	137
PBT	2,807	3,586	3,189	3,912
Taxes	1,057	1,274	1,138	1,424
Reported PAT	1,749	2,313	2,051	2,488
Net Minority Interest	(79)	(42)	(56)	(57)
Adjusted PAT	1,829	2,354	2,107	2,545
Balance Sheet (INR mn)	FY10	FY11	FY12E	FY13E
Share Capital	1,815	1,815	1,815	1,815
Stock Options Outstanding	13	23	23	23
Reserves	4,659	6,417	7,990	9,889
Borrowings	3,207	1,707	1,707	1,707
Deferred Tax (Net)	609	609	609	609
Minority Interest	44	103	147	90
Total Liabilities	10,347	10,674	12,291	14,133
Gross Block	7,165	8,465	9,065	10,065
Accumulated Depreciation	1,305	1,696	2,178	2,704
Net Block	5,861	6,770	6,888	7,362
Capital Work In Progress	614	614	614	614
Investments	205	205	205	205
Net Working Capital	3,541	2,960	4,458	5,827
Miscellaneous Expenditure	126	126	126	126
Total Assets	10,347	10,674	12,291	14,133
Cash Flow Statement (INR mn)	FY10	FY11	FY12E	FY13E
Cash profit adjusted for non cash items	2,675	2,757	2,532	2,987
Working Capital Changes	(244)	(540)	(289)	(414)
Operating Cash Flow	2,431	2,216	2,243	2,573
Capex	(2,471)	(1,300)	(600)	(1,000)
Free Cash Flow	(39)	916	1,643	1,573
Financing Cash Flow	(699)	(2,139)	(571)	(782)
Investing Cash Flow	(233)	(1,158)	(463)	(836)
Net change in Cash	1,499	(1,081)	1,210	955
Ratio Analysis	FY10	FY11	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	10.6	19.0	12.8	19.2
EBITDA Growth	133.0	17.5	(8.9)	20.2
PAT Growth	284.9	28.7	(10.5)	20.8
EBITDA Margin	32.3	31.9	25.7	25.9
Net Margin	17.2	18.6	14.8	15.0
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.2	0.1	(0.0)	(0.1)
ROE (%)	40.4	31.9	23.3	23.6
ROCE (%)	33.8	36.3	29.3	30.8
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	10.1	13.0	11.6	14.0
EPS Growth (%)	284.9	28.7	(10.5)	20.8
DPS (INR/Share)				
P/E (x)	18.7	14.5	16.2	13.4
EV/EBITDA (x)	10.2	8.7	9.2	7.4
EV/Sales (x)	3.3	2.8	2.4	1.9
Price/Book (x)	5.3	4.1	3.5	2.9
Dividend Yield (%)				

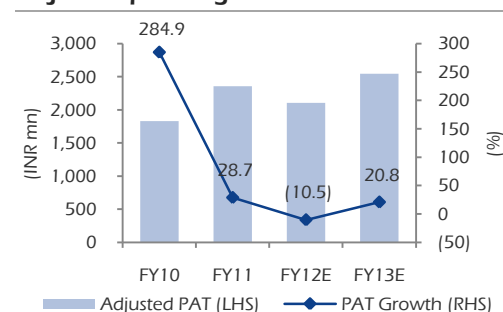
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



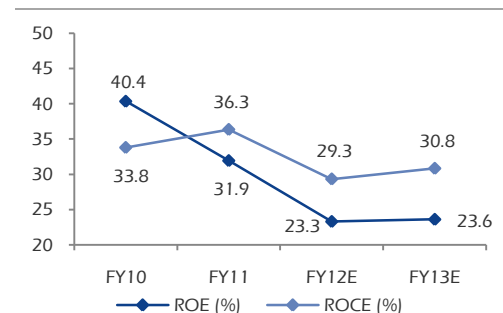
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Earnings under pressure

DB Corp reported robust topline growth of 13.6% YoY during Q3FY12, in line with our expectations, driven by a 7% YoY growth in ad revenues and 17% growth in circulation revenues. However, PAT for the quarter fell by 16% YoY, as the higher operating expenditure to support investments in new markets eroded translation of revenue growth into earnings levels, a theme we expected DB Corp to play out throughout FY12E, in our initiation on the company.

Exhibit 1: Revenue break-up Q3FY12

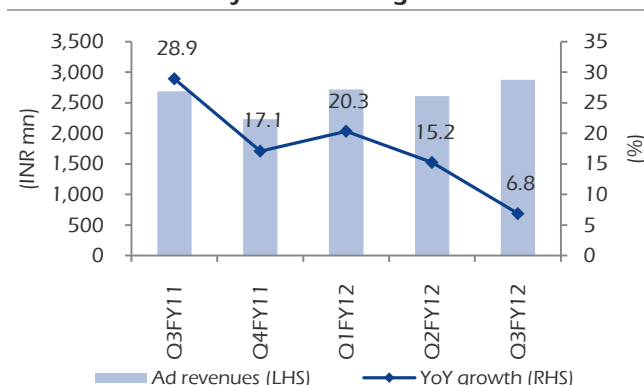
(INR mn)	Q3FY12	Q3FY11	Q2FY12	QoQ (%)	YoY (%)
Ad revenues	2,872	2,688	2,610	10.0	6.8
Circulation revenues	630	540	601	4.8	16.7
Radio revenues	157	129	127	23.4	21.5
Other operating revenues	297	125	201	47.6	137.4

Source: Company

Ad revenue growth decelerates to 7%

DB Corp reported sharp deceleration in ad revenue growth to 7% YoY for its Q3FY12 results, lower than our expectations and unexpected as we were expecting festival season and contribution from new markets to keep overall ad revenue growth in double digits. However, ad revenue growth in mature markets (editions operating for over four years) was only 6% and new markets i.e. Jharkhand and Maharashtra contributed the rest.

Exhibit 2: Quarterly ad revenue growth trend



Source: Company

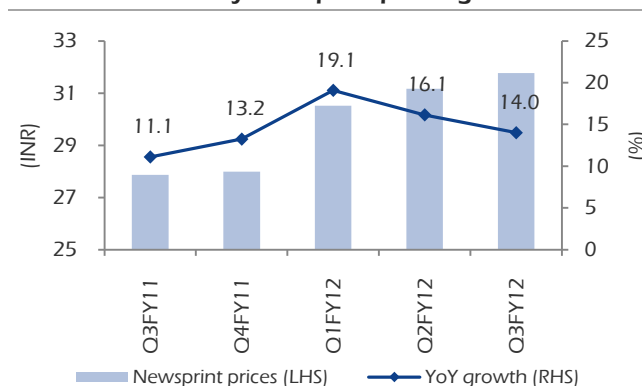
Management points to slowdown in national ad spend

The management attributed high weakness in national advertisers' ad spend as the key reason behind the trend, even as retail sales continued to be in double digits, posting 11% YoY growth. Further, it cited caution over likely ad growth trend for FY13E, observing high uncertainty prevailing in the macro environment.

Material costs flare up on high newsprint prices, circulation levels

Operating expenditure during the quarter rose by 26% YoY, slightly ahead of our expectations. The steep jump in opex was largely driven by an aggressive 11% YoY growth in newsprint prices for the quarter, which combined with 14% YoY volume growth (in-line with our estimates) led to a 27% YoY growth in material costs, thus pushing overall operating expenditure growth into higher trajectory.

Exhibit 3: Quarterly newsprint prices growth trend



Source: Company

The management commented that the high growth in newsprint prices was largely the result of firm international prices due to rupee depreciation, which in turn is pushing domestic prices higher, to maintain import parity. It expected newsprint prices to fall from current levels at the blended levels, as international prices have been stable for some time.

Exhibit 4: Key Ratios (as % of net sales)

	Q3FY12	Q3FY11	bps change	Q2FY12	bps change
Raw material	34.1	30.6	356	35.2	(104)
Staff Cost	15.9	13.9	203	17.3	(138)
Selling Expenses	5.1	5.6	(44)	6.2	(105)
Other Expenses	19.1	17.0	207	19.5	(47)

Source: Company

Expansion plans postponed

Observing weak ad environment and high newsprint prices, DB Corp management has postponed plans to enter Bihar in FY12E, as it wants to conclude current expansion in Maharashtra market first. It expects to enter Bihar in FY13E, though as of now it has left the exact timing to the levels of newsprint prices and ad environment. We count this as a minor positive for all the three print players, viz. DB Corp, Jagran Prakashan and Hindustan Media Ventures, as it would spare FY13E from cover price cuts and aggressive competitive tactics in Bihar market where all of these would be competing.

Valuation – Upgrade to ‘Accumulate’

DB Corp’s stock price has remained under pressure, largely due to negative earnings growth since it launched its first edition in Jharkhand, a trend we expected to continue in FY12E. While we have been negative on the stock price since our initiation, we believe that the current levels, post a steep 22% correction since Q1FY12, appear to be pricing in most of the risks.

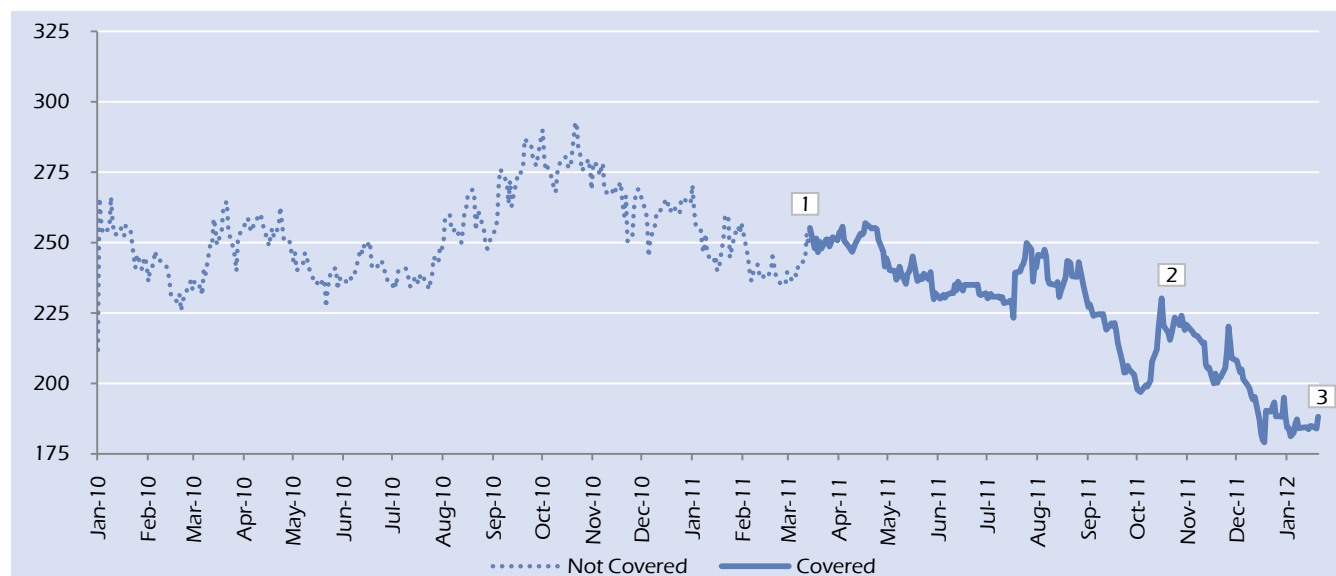
Currently, the stock trades at 13.4x FY13E earnings, which we believe is quite fair, for the biggest regional language print player in India, and provides an opportunity to gain reasonably once ad growth returns in the regional print media space. Based on a target one year forward P/E of 15x, we value the stock at INR210 one year forward, and upgrade our rating from ‘Reduce’ to ‘Accumulate’, with the belief that the pain is likely to continue for at least two more quarters.

Exhibit 5: Valuation summary

(INR mn)	FY11	FY12E	FY13E
Recurring PAT	2,354	2,107	2,545
YoY growth (%)	29	(11)	21
Target PE Multiple (x)			15
PAT FY13E			2,545
Target market cap			38,169
No. of shares (mn)			182
Target share price (INR)			210
CMP (INR)			188
% upside			11.9

Source: Company

Coverage History



	Date	Rating	Target Price	Closing Price
1	18-Mar-2011	Reduce	INR254	INR255
2	21-Oct-2011	Reduce	INR230	INR221
3	24-Jan-2012	Accumulate	INR210	INR188

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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