

CMP	Rs. 242	Absolute	Add
Target	Rs. 250	Relative	Underperform

Planned new launches raise uncertainty on earnings, Maintain Underperform

We went contra consensus on DB Corp in our note dated 4th Feb'11, on its far too aggressive moves on expansion in new states. While the street welcomed managements plans to launch in Jharkhand/ Bihar/ Maharashtra over FY11-13, we found these plans way too aggressive as the gestation losses of these new forays had the potential of keeping earnings/ stock performance subdued for an extended period of time especially given the uncertainty of earnings in FY12 & 13. The stock has corrected 5.2% since our note.

While the management maintained that their plans remain unaltered with roll out in Maharashtra starting May 29th in Aurangabad with the second city targeted for launch being Nasik, details on the launch in rest of Maharashtra (ex- Pune and Mumbai) are still unclear. The launch of editions in Bihar are targeted in H2FY12 however we see a high probability of this timeline getting deferred.

While the management had guided for gestation losses of Rs1.25bn in Jharkhand/ Bihar, Maharashtra market being far bigger (~3x the ad market size of Bihar, also geographical coverage is likely to be on similar lines) the overall gestation losses of the three new state launches in a span of three years are likely to put severe pressure on earnings atleast till FY13 if the management goes by current plans. Also incumbents/ competitors in Bihar/ Maharashtra have taken protective actions to strengthen their positions pre launch of DB Corp. In Bihar Prabhat Khabar dropped cover price to Rs2 per copy/ increased color pages and completed its launch in Muzaffarpur and Bhagalpur this February (earlier only in Patna). Both Hindustan and Prabhat Khabar are pushing circulation to improve readership/ penetration. In Aurangabad the incumbent newspaper 'Lokmat' was re-launched with new look and enhanced content also the paper is launching a compact daily- Tabloid as a flanker to protect readership pre DB Corp's launch.

We believe the gestation of the new launches shall keep the earnings growth subdued atleast till FY14 based on the current plans. We opine that the uncertainty of earnings growth and the risk attached to the new forays shall keep the stock performance under check and lead to continuation of underperformance compared to peers. We roll forward our valuation on FY13E earnings and arrive at a one yr target price of Rs250 (15x FY13E EPS).

Financial summary (Consolidated)						
Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA (x)
FY11	12,652	4,031	2,363	12.9	18.8	11.1
FY12E	14,721	4,426	2,663	14.5	16.7	9.8
FY13E	17,128	4,986	3,049	16.6	14.5	8.4

4QFY11 Update

Date	May 23, 2011		
Market Data			
SENSEX	18326		
Nifty	5486		
Bloomberg	DBCL IN		
Shares o/s	183mn		
Market Cap	45bn		
52-wk High-Low	Rs. 310-225		
3m Avg. Daily Vol	Rs. 11mn		
Index member	BSE 500		
Latest shareholding (%)			
Promoters	86.1		
Institutions	8.4		
Public	5.5		
Stock performance (%)			
	1m	3m	12m
DB Corp	-3	3	5
Sensex	-6	1	11.0
M&E Index	-3.6	7.1	-2

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DB Corp

Quarterly Financial Results

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Quarterly Financial Result (Consolidated)								
Rs. mn/Period	31-Mar-11	31-Mar-10	YoY Growth	31-Dec-10	QoQ Growth	FY11	FY12E	YoY Growth
Revenues	3,174	2,572	23.4%	3,482	-8.9%	12,652	14,721	16.4%
Raw materials	1,042	788	32.1%	1,065	-2.2%	3,838	4,502	17.3%
Employee cost	492	360	36.5%	485	1.5%	1,846	2,289	24.0%
Operating expenses	408	379	7.6%	386	5.8%	1,480	1,756	18.7%
Administrative, selling and other exp	436	348	25.3%	399	9.2%	1,458	1,749	20.0%
Total Operating Cost	2,378	1,876	26.7%	2,334	1.9%	8,621	10,296	19.4%
EBITDA	796	696	14.4%	1,148	-30.7%	4,031	4,426	9.8%
EBITDA margins	25.1%	27.0%	-197bps	33.0%	-789bps	31.9%	30.1%	-180bps
Depreciation	111	105	6.5%	110	1.1%	433	486	12.2%
Other income	36	44	-16.6%	30	21.1%	142	208	46.5%
EBIT	721	635	13.6%	1,068	-32.5%	3,740	4,148	10.9%
Interest	34	87	-60.8%	34	0.1%	153	149	-2.5%
PBT	687	547	25.5%	1,034	-33.6%	3,587	3,998	11.5%
Tax	235	197	19.3%	365	-35.5%	1,221	1,359	11.3%
Effective tax rate	34.3%	36.1%		35.3%		34.1%	34.0%	
Minority Interest	1	-17		-7		3	-24	
Adj PAT	450	367	22.6%	676	-33.4%	2,363	2,663	12.7%
PAT margin	14.2%	14.3%	-10bps	19.4%	-514bps	18.7%	18.1%	-59bps
EPS (Rs.)	2.46	2.02	21.4%	3.72	-34.1%	12.9	14.5	12.7%

DB Corp

Business Overview

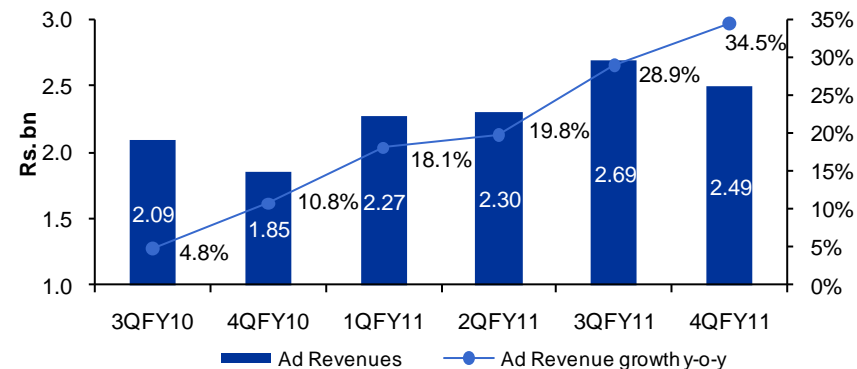
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Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	14998	14721	-1.8%	17453	17128	-1.9%
EBITDA	4557	4426	-3%	5087	4986	-2.0%
Margin (%)	30.4%	30.1%	-32bps	29.1%	29.1%	-4bps
PAT	2769	2663	-4%	3201	3049	-4.7%
PAT Margin	18.5%	18.1%	-37bps	18.3%	17.8%	-54bps
EPS	15.1	14.5	-3.8%	17.5	16.6	-4.9%

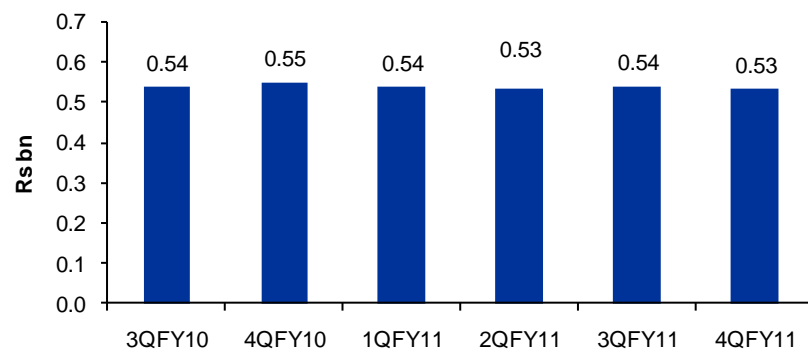
All figures in Rs. mn, except EPS, which is in Rs.

Print Ad Revenues up 34% y-o-y



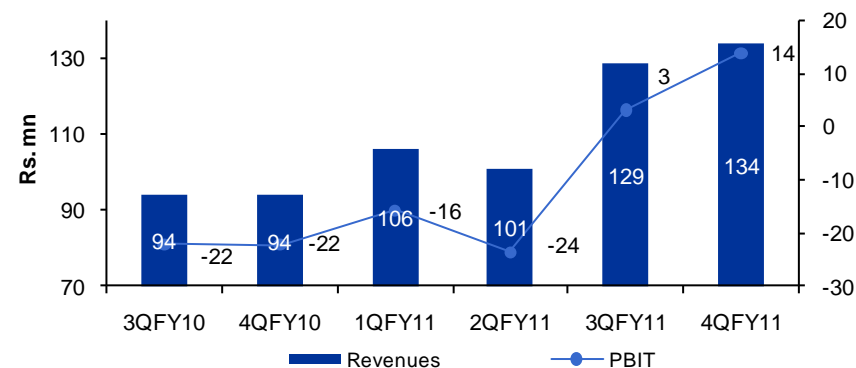
Source: Company, Spark Research

Lower cover prices keep circulation revenues subdued



Source: Company, Spark Research

Radio profitability improving on higher revenue trajectory



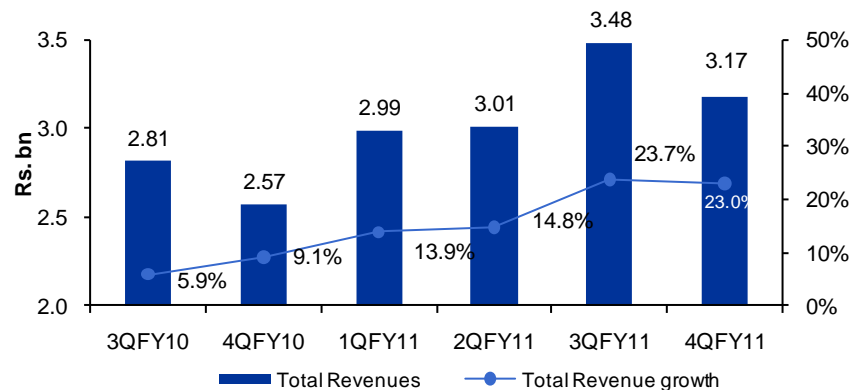
Source: Company, Spark Research

DB Corp

Business Overview (Contd.)

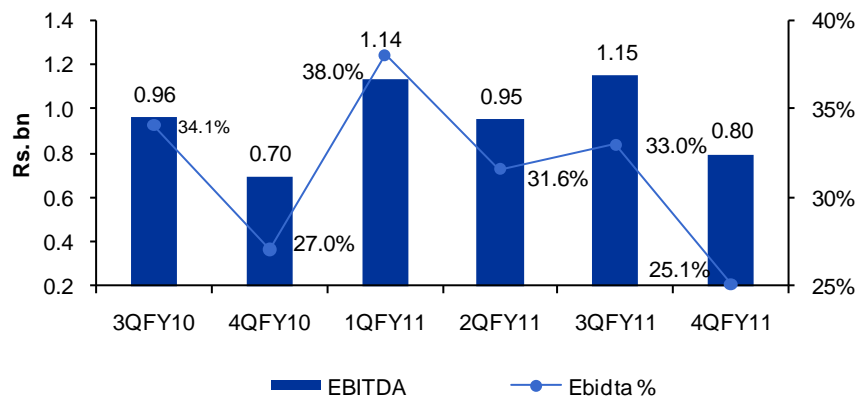
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Revenue growth continues to be strong



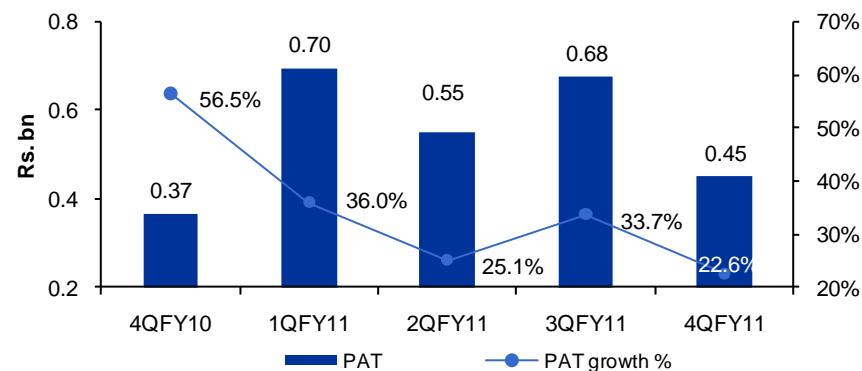
Source: Company, Spark Research

EBITDA growth/ margin affected by newsprint price/ new launches



Source: Company, Spark Research

PAT below estimate



Source: Company, Spark Research

Earnings Sensitivity to Newsprint Price

	Newsprint prices (Rs/Tonne)	EPS (Rs.)
FY2012E	25041	16.8
	27041	15.6
	29041	14.5
	31041	13.4
	33041	12.3
FY2013E	26493	19.0
	28493	17.8
	30493	16.6
	32493	15.4
	34493	14.2

Source: Company, Spark Research

Abridged Financial Statements

Rs. mn	FY09	FY10	FY11	FY12E	FY13E
Profit & Loss					
Revenues	9,610	10,630	12,652	14,721	17,128
EBITDA	1,473	3,430	4,031	4,426	4,986
Depreciation	290	378	433	486	533
EBIT	1,183	3,051	3,598	3,940	4,454
Other Income	-	112	142	208	290
Interest	402	357	153	149	158
PBT	782	2,806	3,587	3,998	4,586
Net Profit	477	1,828	2,585	2,663	3,049
Adjusted Net Profit	477	1,828	2,363	2,663	3,049
Balance Sheet					
Shareholders Equity	2,577	6,487	8,289	10,094	12,286
Minority Interest	124	44	4	(20)	(43)
Deferred Tax	393	609	695	695	695
Total debt	5,631	3,207	2,372	2,195	2,018
Total Networth & Liabilities	8,724	10,347	11,359	12,964	14,956
Net fixed assets	3,763	5,861	6,238	6,792	6,859
CWIP	2,708	614	705	200	200
Goodwill	-	-	415	415	415
Investments	326	1,692	1,463	2,500	4,000
Current assets	3,899	4,127	4,618	5,317	6,041
Current liabilities	2,189	2,073	2,189	2,461	2,760
Net current assets	1,710	2,055	2,429	2,856	3,281
Misc exp not w/off	217	126	110	200	200
Total Assets	8,724	10,347	11,359	12,964	14,956
Cash Flows					
Cash flow s from Operations	1,149	2,384	2,270	2,677	3,164
Cash flow s from Investing	(2,677)	(1,895)	(514)	(1,455)	(1,810)
Cash flow s from Financing	1,517	(388)	(1,789)	(1,184)	(1,193)
Free cash flow to fund	(1,805)	1,788	1,369	2,142	2,564
Free cash flow to equity	(6)	(877)	380	1,816	2,229

Key metrics

	FY09	FY10	FY11	FY12E	FY13E
Growth ratios (%)					
Sales	11.4%	10.6%	19.0%	16.4%	16.3%
EBITDA	-19.5%	132.8%	17.5%	9.8%	12.7%
Net Profit	-37.1%	283.2%	29.3%	12.7%	14.5%
Margin ratios (%)					
EBITDA	15.3%	32.3%	31.9%	30.1%	29.1%
EBIT	12.3%	28.7%	28.4%	26.8%	26.0%
Net Profit	5.0%	17.2%	20.4%	18.1%	17.8%
Performance ratios					
RoE (%)	20.0	40.3	32.0	29.0	27.3
RoCE (%)	15.8	33.2	34.5	34.1	34.0
Dividend Yield (%)	0.2	0.8	1.7	1.7	1.7
Total Assets Turnover (x)	1.3	1.1	1.2	1.2	1.3
Fixed Assets Turnover (x)	2.6	1.8	2.0	2.2	2.5
Financial stability ratios					
Net Debt to Equity (x)	1.9	0.2	0.1	0	0
Debtor days	67	66	69	69	69
Loans and Advances	40	35	31	30	26
Creditor days	58	63	48	48	48
Other current liabilities	24	24	22	20	19
Working capital days	65	71	70	71	70
Valuation metrics					
Market Cap (Rs.mn)	40,847	43,927	44,355	44,355	44,355
Diluted Shares (mn)	169	182	183	183	183
Adjusted EPS (Rs.)	2.8	10.1	12.9	14.5	16.6
P/E (x)	85.6	24.0	18.8	16.7	14.5
EV (Rs. mn)	40,847	43,927	44,355	44,355	44,355
EV to Sales (x)	4.3	4.1	3.5	3.0	2.6
EV/ EBITDA (x)	31.1	13.1	11.1	9.8	8.4
EV/ Operating cash flow (x)	39.8	18.9	19.8	16.3	13.2

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Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
4-Feb 11	255	271	Add	U-PF
13-Jan 11	254	307	Buy	O-PF
3-Jan 11	266	307	Buy	O-PF

Analyst Certification

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