Company Focus

11 December 2007 | 29 pages

Deccan Chronicle Holdings (DCHL.BO)

Initiation of coverage ☑

Initiating at Buy with Rs286 Target Price: Entering the Big League

- **Regional leader** — We initiate coverage on DCHL with a Buy/Medium Risk rating and a target price of Rs286. DCHL publishes the fourth-largest selling English newspaper in India and has leadership in the state of Andhra Pradesh. After Chennai, DCHL will expand into the Bangalore market, which will give it a strong foothold in South India.
- **Leveraged play on Indian print media** — DCHL is the most leveraged play on Indian print media. Its superior business model rests on: 1) heavy advertising skew which should be sustainable as advertising revenues grow at a 25% 3-yr CAGR; 2) strong profitability (>2x that of listed peers) due to a lean fixed-cost base; and 3) exposure to the English print market, which has higher ad yields.
- **Management steps to address concerns** — DCHL has been de-rated due to concerns on mounting debtor days, declining promoter ownership and use of capital. Management has addressed some of these issues: 1) Receivables worth Rs2bn have been sold to ICICI Bank at 12.5%, and 2) Management will publish quarterly balance sheets from 3Q07 to improve transparency.
- **Strong business, undemanding valuations** — At 16.6x FY09E P/E, DCHL is the cheapest in our print media coverage, despite strong business fundamentals. We believe that the worst is priced in. Until more clarity emerges, the stock may continue to trade at a discount to peers. We value DCHL at 22x FY09E EPS, which is a premium to regional peers but at a 20% discount to Indian peers due to the aforementioned concerns.

Buy/Medium Risk	1M
Price (10 Dec 07)	Rs215.10
Target price	Rs286.00
Expected share price return	33.0%
Expected dividend yield	0.8%
Expected total return	**33.7%**
Market Cap	Rs52,673M
	US$1,340M

Price Performance (RIC: DCHL.BO, BB: DECH IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	679	3.29	111.8	65.3	14.0	23.3	0.1
2007A	1,614	6.75	105.0	31.9	6.2	28.2	0.5
2008E	2,677	10.87	61.1	19.8	5.1	28.7	0.8
2009E	3,192	12.97	19.3	16.6	4.1	27.5	0.9
2010E	4,058	16.48	27.1	13.0	3.3	28.0	1.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	65.3	31.9	19.8	16.6	13.0
EV/EBITDA adjusted (x)	50.6	20.5	11.9	10.2	7.9
P/BV (x)	14.0	6.2	5.1	4.1	3.3
Dividend yield (%)	0.1	0.5	0.8	0.9	1.1
Per Share Data (Rs)					
EPS adjusted	3.29	6.75	10.87	12.97	16.48
EPS reported	3.29	6.75	10.87	12.97	16.48
BVPS	15.41	34.60	42.08	52.29	65.49
DPS	0.23	1.12	1.63	1.95	2.47
Profit & Loss (RsM)					
Net sales	3,309	5,528	7,435	8,875	10,566
Operating expenses	-2,367	-3,117	-3,285	-4,129	-4,730
EBIT	**942**	**2,411**	**4,150**	**4,746**	**5,835**
Net interest expense	-194	-332	-560	-508	-438
Non-operating/exceptionals	213	324	405	527	659
Pre-tax profit	**962**	**2,403**	**3,995**	**4,765**	**6,056**
Tax	-283	-790	-1,318	-1,572	-1,998
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**679**	**1,614**	**2,677**	**3,192**	**4,058**
Adjusted earnings	679	1,614	2,677	3,192	4,058
Adjusted EBITDA	1,041	2,582	4,409	5,011	6,105
Growth Rates (%)					
Sales	99.7	67.1	34.5	19.4	19.1
EBIT adjusted	78.4	156.0	72.1	14.4	23.0
EBITDA adjusted	77.3	148.0	70.7	13.7	21.8
EPS adjusted	111.8	105.0	61.1	19.3	27.1
Cash Flow (RsM)					
Operating cash flow	**-1,230**	**215**	**3,189**	**2,772**	**3,459**
Depreciation/amortization	100	171	259	265	270
Net working capital	-2,093	-1,768	254	-685	-868
Investing cash flow	**-2,260**	**-2,559**	**-775**	**325**	**-100**
Capital expenditure	-1,427	-2,308	-775	0	-100
Acquisitions/disposals	0	0	0	325	0
Financing cash flow	**3,323**	**3,642**	**-1,250**	**-1,779**	**-1,041**
Borrowings	3,475	163	-663	-1,100	-233
Dividends paid	-47	-268	0	0	0
Change in cash	**-167**	**1,298**	**1,164**	**1,318**	**2,318**
Balance Sheet (RsM)					
Total assets	**9,801**	**15,168**	**16,740**	**18,267**	**21,367**
Cash & cash equivalent	2,035	3,333	4,497	5,815	8,134
Accounts receivable	1,358	3,037	2,444	2,918	3,474
Net fixed assets	3,686	5,823	6,339	5,749	5,580
Total liabilities	**6,624**	**6,899**	**6,381**	**5,395**	**5,246**
Accounts payable	366	340	460	556	620
Total Debt	3,464	5,281	5,388	4,288	4,056
Shareholders' funds	**3,177**	**8,269**	**10,359**	**12,872**	**16,121**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	31.5	46.7	59.3	56.5	57.8
ROE adjusted	23.3	28.2	28.7	27.5	28.0
ROIC adjusted	15.0	20.2	28.0	30.7	35.8
Net debt to equity	45.0	23.5	8.6	-11.9	-25.3
Total debt to capital	52.2	39.0	34.2	25.0	20.1

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Investment Strategy

Initiating Coverage with a Buy, Target Price Rs286

DCHL is 4th largest publisher in English newspapers

We initiate coverage on shares of Deccan Chronicle Holdings Ltd (DCHL) with a Buy/Medium Risk rating and a target price of Rs286. DCHL is the publisher of *Deccan Chronicle*, which is the fourth largest English daily in India by circulation and a market leader in the South-Indian state of Andhra Pradesh.

We believe **DCHL** is best leveraged to the growth in Indian Print Market for the following reasons:

Strong ad growth and superior profitability should drive EPS CAGR of 36% over FY07-10E.

- It has a strong advertising skew which leads to strong profitability. Its EBITDA margins at 46.7% are more than double those of its peers.
- An advertising CAGR of 25% over FY07-10E, driven by expansion in newer markets, ad rate hikes and increasing shift in demand towards colored advertising will sustain profitability, in our view.
- A strong macro environment and a shift towards advertising in non-metros (Mumbai and Delhi, specifically) coupled with DCHL's leadership position should drive earnings CAGR of 35% over FY07-10E.

Value-unlocking initiatives in its subsidiaries should be additional positive catalysts to the stock price, which are not currently factored in our forecasts.

Management aggressively addressing balance sheet issues

DHCL stock has been de-rated over the last six months on account of issues pertaining to high receivables, declining promoter ownership and use of capital. Management has addressed some of these issues. Receivables of Rs2bn have been sold to ICICI Bank at 12.5%. Also, management will publish quarterly balance sheets from 3Q07 to improve transparency.

Till more clarity on recent issues, we value DCHL at 10-25% discount to peers

At 16.6x FY09E P/E, DCHL stock is the cheapest in our print media coverage despite strong business fundamentals. We believe that the worst is priced in. Until more clarity emerges, the stock may continue to trade at a discount to its Indian peers. We value DCHL at 22x FY09E EPS, which is a premium to regional peers but at a 20% discount to the average target multiple for Indian peers due to the above concerns.

Valuations

Valuing DCHL at 22x FY09E EPS for TP of Rs286

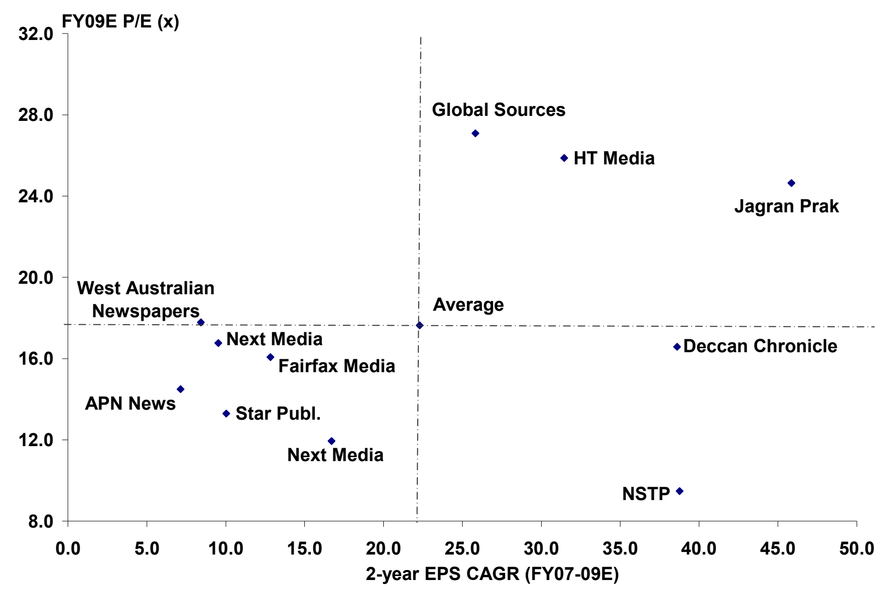
We use P/E to value print media stocks as these multiples are widely used and tracked by the market. Using a target multiple of 22x FY09E earnings, we arrive at Rs286 as our target price. Global print media stocks trade at a premium to the broader markets given their superior earnings profile, steady cash flows and capital efficiency. We have benchmarked our target multiple against regional and Indian publishing peers. We value DCHL at a premium to regional peers, but at a discount to Indian peers.

We believe a premium valuation for DCHL compared to regional peers is warranted due to: (1) DCHL's strong profitability – EPS CAGR of 35% and EBITDA CAGR 33% over FY07-10E; and (2) Strong growth in the Indian print market which is expected to grow at a CAGR of 14.8% over the next five years compared to a 3.6% CAGR expected in the Asia-Pacific market.

Balance sheet issues might remain as a near-term overhang

Balance sheet and management issues are likely to remain as an overhang on valuations despite management's efforts to address them. Hence we ascribe a 20% discount to the average target multiple for DCHL's Indian peers.

Figure 1. Regional Print Companies - Relative Valuation



Source: Company Reports and Citi Investment Research

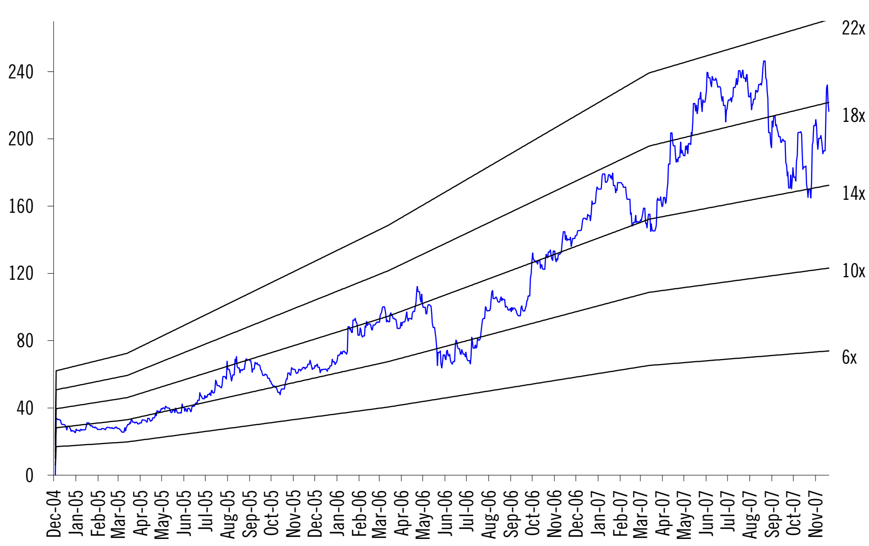
Figure 2. Regional Publishing Valuation Summary

Company	Ticker	Price	Rating	Market Cap (US$m)	P/E FY08E	P/E FY09E	EV/EBITDA FY08E	EV/EBITDA FY09E	Dividend Yield (%) FY08E	FCF Yield (%) FY 2008E	ROE (%) FY08E	ROE (%) FY09E	ROCE (%) FY08E	ROCE (%) FY09E	EPS CAGR 2007-2009E	EBITDA CAGR 2007-2009E	PEG FY 2009E
Asia Ex-Japan & Ex India																	
Next Media	0282.HK	2.87	2L	888	18.8	16.8	11.4	10.1	4.5%	5.8%	11.0%	12.2%	10.4%	12.0%	9.5	8.2	1.8
SCMP Group	0583.HK	2.32	3L	464	11.7	14.2	5.3	6.1	6.9%	9.8%	16.5%	13.4%	17.6%	14.5%	-9.0	-9.0	-1.6
Global Sources	GSOL.O	32.52	1L	1,377	38.8	27.1	30.0	20.0	0.0%	3.7%	19.3%	23.8%	nm	nm	25.8	47.3	1.0
NSTP	NSTP.KL	2	1L	131	16.0	9.5	5.0	3.2	3.0%	11.3%	2.9%	4.7%	2.2%	4.0%	38.8	11.9	0.2
Star Publications	STAR.KL	3.5	1L	779	15.5	13.3	8.9	7.6	7.0%	7.8%	14.0%	15.8%	16.3%	19.5%	10.0	17.2	1.3
Singapore Press	SPRM.SI	4.58	1L	5,057	13.7	11.9	8.9	7.5	6.2%	6.4%	24.0%	25.1%	20.4%	23.6%	16.7	15.6	0.7
Asia Ex-Jap Avg*					**19.1**	**15.5**	**11.6**	**9.1**	**4.6%**	**7.5%**	**14.6%**	**15.8%**	**13.4%**	**14.7%**	**15.3**	**15.2**	**0.6**
Australia																	
APN News & Media	APN.AX	5.22	2M	2,280	15.4	14.5	10.7	10.2	4.4%	5.9%	19.2%	20.4%	11.8%	11.3%	7.1	3.5	2.0
Fairfax Media Ltd	FXJ.AX	4.81	1M	6,441	18.3	16.1	11.7	10.1	4.4%	6.0%	7.8%	8.8%	7.9%	8.5%	12.8	30.4	1.3
West Aus Newspap	WAN.AX	12.31	3M	2,279	19.3	17.8	13.1	12.0	5.2%	3.9%	120.2%	188.3 %	30.1%	37.4%	8.4	15.0	2.1
Australia Average					**17.7**	**16.1**	**11.8**	**10.8**	**4.7%**	**5.3%**	**49.1%**	**72.5%**	**16.6%**	**19.1%**	**9.5**	**16.3**	**1.8**
India																	
Deccan Chronicle	DCHL.BO	215.1	1M	1,340	19.8	16.6	12.6	11.1	0.8%	4.6%	28.7%	27.5%	17.4%	19.0%	38.6	39.3	0.4
Jagran Prakashan	JAGP.BO	663.3	1L	1,016	34.1	24.6	20.9	15.1	1.6%	1.2%	22.0%	27.6%	17.5%	22.4%	45.9	45.9	0.5
HT Media	HTML.BO	219.65	3L	1,309	33.1	25.9	19.2	14.6	0.6%	6.0%	18.4%	20.3%	12.5%	14.0%	31.4	27.8	0.8
India Average					**29.0**	**22.4**	**17.6**	**13.6**	**1.0%**	**3.9%**	**23.0%**	**25.1%**	**15.8%**	**18.5%**	**38.6**	**37.7**	**0.6**
Regional Avg					**21.2**	**17.4**	**13.1**	**10.6**	**3.7%**	**6.0%**	**25.3%**	**32.3%**	**14.9%**	**16.9%**	**19.7**	**21.1**	**0.9**

Source: Citi Investment Research

* Asia Ex-Japan Ex-India Average; Price as of Dec 10, 2007

Figure 3. Deccan Chronicle P/E Band Chart



Source: Citi Investment Research

Competitive Position and Strategy

Leadership Position in Key Markets

DCHL publishes *Deccan Chronicle*, which is the leading English newspaper in Andhra Pradesh with circulation of 649,489 copies and a leading English daily newspaper in Tamil Nadu with circulation of 298,822 copies (source: ABC Circulation). It is the fourth largest English daily in India with circulation of 948,311 copies and readership of more than 1.3m readers.

Figure 4. All India Readership (In '000)

Daily	2003 R1 Jul 03 -Nov 03	2003 R2 Jul 03 - Jun 04	2005 R1 Jan-Dec 04	2005 R2 Jul 04 - Jun 05	2006 R1 Jan-Dec 05	2006 R2 Jul 05 - Jun 06	2007 R1 Jan-Dec 06	Growth 2007 R1 over 2006 R1 Absolute	%
The Times of India	7,230	7,093	7,041	7,287	7,084	6,919	6,781	-303.0	-4.3%
Hindustan Times	2,946	3,150	3,276	3,521	3,508	3,501	3,331	-177.0	-5.0%
Hindu	2,710	2,735	2,661	2,787	2,797	2,571	2,209	-588.0	-21.0%
Deccan Chronicle	**1,054**	**1,105**	**1,029**	**1,014**	**1,132**	**969**	**1,311**	**179.0**	**15.8%**
Telegraph	1,024	1,024	1,049	1,149	1,082	1,008	919	-163.0	-15.1%
The Economic Times	1,009	1,039	949	906	868	789	774	-94.0	-10.8%
Mumbai Mirror							735	Na	na
Tribune	499	448	468	481	483	518	539	56.0	11.6%
DNA						443	539	Na	na
Mid-Day (English)	769	778	746	776	737	600	509	-228.0	-30.9%
Deccan Herald	750	692	688	651	604	542	498	-106.0	-17.5%

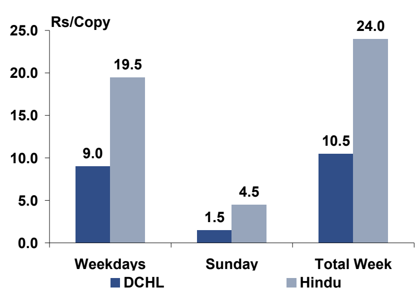
Source: Company Reports

Aggressive entry strategy paid off in Chennai

DCHL entered the state of Tamil Nadu with the launch of *Deccan Chronicle* in Chennai in March 2005. Aggressive pricing strategy, a relatively complacent opponent of *The Hindu* and good quality content drove DCHL's success in the Chennai market. DCHL is now the No. 2 player in Chennai.

Chennai is one of the strongest growing markets in South-India with a print advertising market of cRs6bn. Chennai market was long-monopolized by *The Hindu*. DCHL launched in Chennai with an aggressive cover price (Rs1/copy vs. *The Hindu's* cover cost of Rs3.25/copy) and heavy discounts to advertisers. Backed by good quality content, this strategy paid off as DCHL quickly ramped-up its circulation from 100,000 at entry to 298,822 at Jun -2007 (source: ABC data). In the past year, DCHL has gained at the expense of its competitor *The Hindu*. After the price hike in April 2006, circulation temporarily came down but have now stabilised to mid-2006 levels.

Figure 5. Cover Prices in Chennai



Source: Company Reports

Figure 6. Circulation Data in Chennai

	1H2006	2H2006	1H2007
Hindu	331,994	365,184	341,610
DC	298,326	277,185	298,822

Source: ABC Circulation and Company Data

Tougher competition ahead in Bangalore

Bangalore market size is estimated to be Rs5.5bn.

After Chennai, DCHL's next target in South-India is the Bangalore market where it will launch in January 2008. Bangalore, which is the IT hub in India, is the largest and fastest growing market in India after Mumbai and Delhi. Industry sources peg the size of the Bangalore market at Rs5.5bn.

Due to IT industry, Bangalore has a young cosmopolitan population with high purchasing power, an excellent target for advertisers.

We believe Bangalore is very important strategically for any publisher operating in South India. The IT and BPO industry in Bangalore has led to the influx of a young and well-earning non-local and non-ethnic population in the city. The resultant existing demographic profile of Bangalore is a young and cosmopolitan city with good purchasing power, which is an excellent target audience for advertisers.

Bangalore market is dominated by ToI having 80-85% advertising share

The Bangalore market is dominated by Bennett & Coleman's flagship English newspaper *Times of India* (*ToI*) which consolidated its position further by acquiring two titles from the Vijay Karnataka group – *Vijay Times*, the third largest English daily in Bangalore and *Vijay Karnataka,* the Kannada Daily ,the largest selling newspaper in Bangalore. Currently, 80-85% of the advertising market is dominated by *ToI*.

DCHL might repeat its Chennai strategy in Bangalore, but the content niche will be the key differentiator

We reckon DCHL's entry in Bangalore will not be as smooth as it was in Chennai as Bangalore has strong and well-entrenched incumbents. In terms of pricing and entry volumes of circulation, DCHL might repeat its Chennai strategy, but it will be important for DCHL to get its content right. In Chennai, content targeted the youth who were perceived to be underserved at the time. It will be interesting to see the content niche that DCHL will identify and differentiate itself upon.

Other publications have smaller circulation

***Asian Age* has circulation of 70,000 while *Andhra Bhoomi* has 110,000**

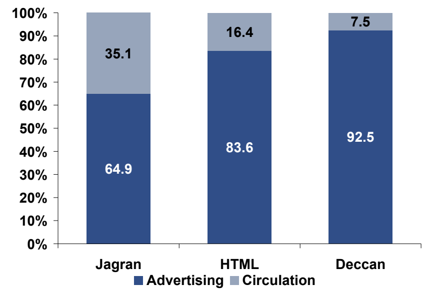
Other publications of DCHL include: 1) *Andhra Bhoomi*, which is a Telugu daily (also published as a weekly and monthly) with circulation of over 110,000 copies; and 2) *Asian Age*, which is a premium English daily published in the cities of Delhi, Mumbai, and Calcutta and is the only Indian newspaper published out of London. *Asian Age*, with circulation of about 70, 000 copies, has a cover price in the range of Rs2.5-5/copy. In June 2005, DCHL hiked its stake in the Asian Age Holdings by 67% to 90% for a consideration of Rs171m (at 1.36x FY07 sales). The remaining 10% is held by the editor-in-chief and CEO of *Asian Age*, M J Akbar.

Superior Business Model

High advertising skew translates to higher profitability…

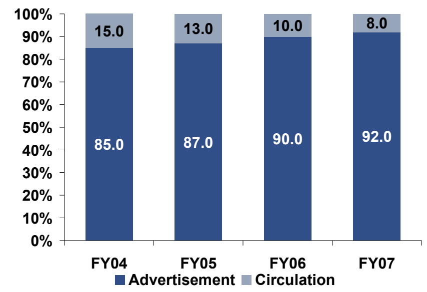
After its successful entry into new markets and subsequent price hikes across its editions (35% in April 07), DCHL posted the strongest advertising revenue growth in the last two to three years among listed Indian publishers. 92.5% of its revenues came from advertising in FY07. Given the nature of the publishing business where advertising revenues directly contribute to the bottom-line, DCHL has the strongest profitability among its Indian and regional peers.

Figure 7. India Print Media: FY07 Revenue Mix Comparison



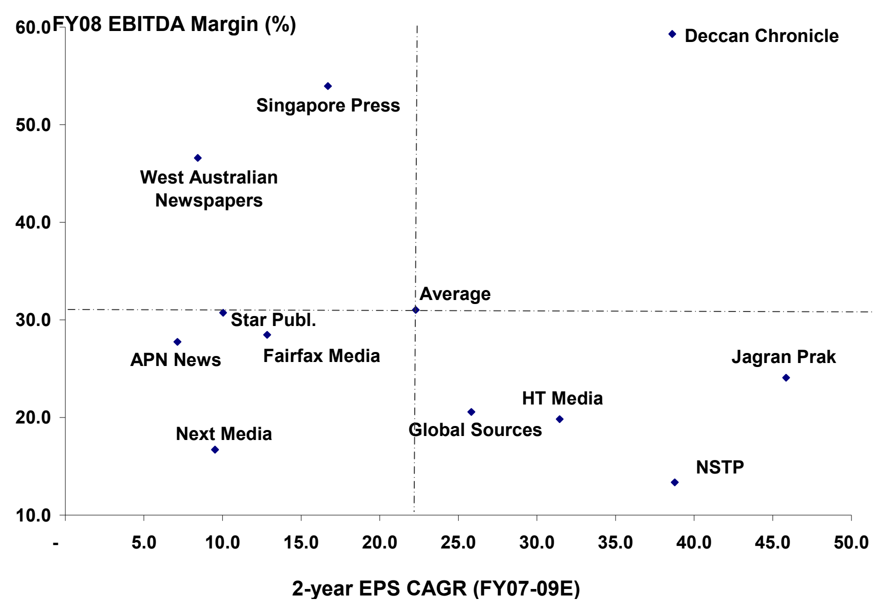
Source: Company Reports, Citi Investment Research
Jagran 35.1% are the Non Advertising Revenues

Figure 8. DCHL: Revenue Mix Trend



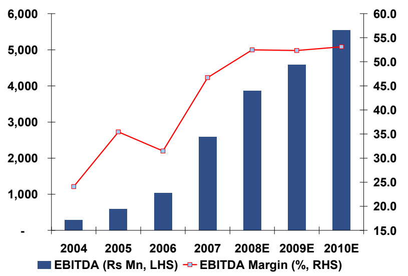
Source: Company Reports, Citi Investment Research

Figure 9. Relative Operating Profile



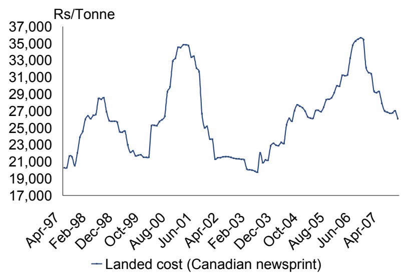
Source: Company Reports, Citi Investment Research

Figure 10. DCHL: Operating Profit & Margins



Source: Company Reports, Citi Investment Research

Figure 11. Newsprint Costs Trend



Source: DataStream

Color ads are at 30-60% to B & W rates. Increasing proportion of color ads will boost margins

...which is sustainable

EBITDA margins for DCHL are the strongest amongst its peers and were as high as 61% in 1H07. Though the operating margins attained in 1H07 would be difficult to maintain, we expect it to remain around 57-59% owing to the factors discussed below.

We are building in a slight drop in margins in FY09E to account for circulation losses in initial years after DCHL's Bangalore entry in 2008.

1. Ad rate hike

DCHL has taken 35% price hikes in the last one year. Given the strong macro economic environment and growing spend on print media by advertisers; management is upbeat about its ability to enforce further price hikes in future. Management has stated that ad-rate hikes of 20-25% can be sustained over the next few years.

2. Strong rupee & benign newsprint costs should further aid margins

Margins are likely to be further boosted by:

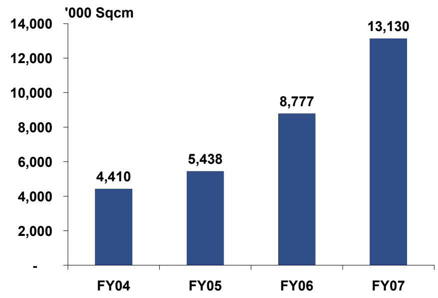
1) Declining newsprint prices: Newsprint costs have been benign for the past few quarters after peaking in June 06. Our discussion with various industry players reveals that this down cycle may last for a couple of more quarters. Newsprint is a key parameter governing the profitability of the print companies and accounts for 40-45% of the total sales; and

2) Weak dollar: DCHL uses fully automated imported machinery, which necessitates the use of imported newsprint. As a result, it imports c90% of its newsprint requirement. With the strengthening of the rupee vs. the dollar, newsprint costs have been significantly low in the past few quarters. Margins in 1H07 peaked at 61%.

3. Increasing share of color advertising

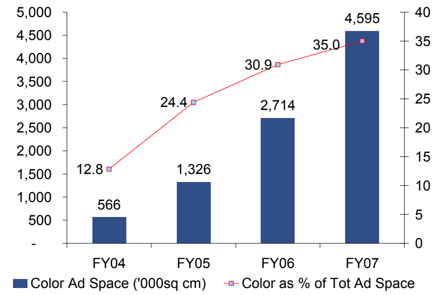
We see the share of color advertising for DCHL increasing in the total print advertising space, driven by increasing demand and increase in color print capacity at DCHL. As can be seen from the chart, DCHL's color advertising as a percentage of total advertising space increased from 13% in FY04 to 35% in FY07. Color advertising rates are at a 30-60% premium to black and white rates. Yields on color advertising are thus very high as the incremental cost for color advertising is not proportionate to the advertising rates.

Figure 12. Total Advertising Space ('000 Sq cm)



Source: Company, Citi Investment Research

Figure 13. Colour-Ads As % of Total Ad Space



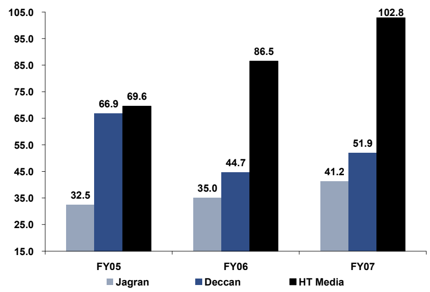
Source: Company, Citi Investment Research

4. Lower fixed costs

Lower employee costs due to highly automated machinery

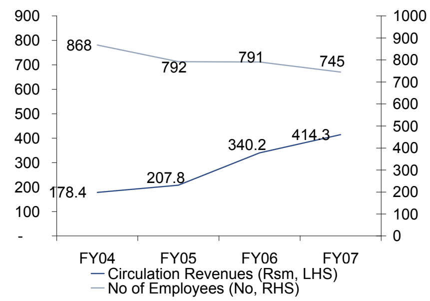
DCHL has invested in state-of-art publishing facilities which are highly automated. This has resulted in a significant decline in number of employees and subsequently in manpower costs over the last few years, despite expansion in new markets. DCHL has the lowest fixed costs in our India publishing universe, which contributes additional 800-1000 bps to operating margins vis-à-vis its competitors, such as Jagran Prakashan and HT Media.

Figure 14. Employee Cost As a % of Circulation Revenues



Source: Citi Investment Research

Figure 15. Reducing Employee Strength



Source: Citi Investment Research

Subsidiaries Can Add Value

Odyssey retail

Odyssey is a leisure retail chain that sells books, multimedia, etc with presence in 19 cities

In September 2005, DCHL acquired a 100% stake in the South-based retail chain Odyssey for Rs613m (2.4x FY06 sales). Odyssey is a leisure retail chain that sells books, music, cards, stationary, multimedia and magazines. It has 19 stores across 10 cities, spanning c98, 000m sqft.

Further expansion will depend on fundraising and pace of real estate development

While management is planning an aggressive store roll-out over the next three years, much will depend on the company's planned fundraising. Odyssey's IPO was planned followed by aggressive new store launches. However, delays in real-estate development at store locations and lack of funds have held up the expansion. As a result, sales growth in FY07 was only 3.4% to Rs265m.

Sieger Solutions

Sieger Solutions sells advertising space in its publications

Sieger is a 100% subsidiary of DCHL which was carved out as a separate company in July 2006 to sell advertising space in its newspapers and other publications. Most of the advertising space for DCHL gets sold through Sieger at a 5% commission.

Targeting media convergence, Sieger will also be engaged in the following activities:

Sieger runs a portal for school and college students

1) DCHL has started a portal called 'PapyrusClubs' (www.papyrusclubs.com) targeted at school and college students. This is a platform for students and institutes to share news and views online. Presently, 100 schools in South-India are registered on this portal with a two-year target of 1,000-1,500 schools. Sieger can start monetizing the portal through online advertisements after acquiring a critical mass of school students over time. This is a unique model, which can be a preferred advertising medium for advertising targeted at the youth. Presently, both *Times of India* and *Hindustan Times* run similar student newspapers but none have electronic versions with value-added services.

Sieger will also explore event management opportunities

2) Sieger will also explore event management opportunities and monetize and develop other portals in DCHL's portfolio, namely the e-paper sites of *Deccan Chronicle*, *Asian Age* and *Andhra Bhoomi*. The latter is likely to include a host of e-commerce activities.

Though online advertising presents a huge opportunity in India, we believe it will be some time till DCHL reaches sizeable mass in this business to meaningfully contribute to the core publishing business.

Earnings and Financial Analysis

EPS CAGR of 35% over FY07-FY10E

Ad rate hike, more color advertisements and lower raw material prices should contribute towards a 3-year EPS CAGR of 35%

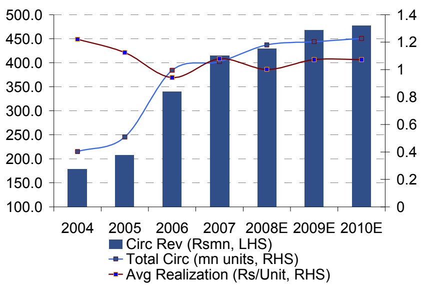
We forecast 35% EPS CAGR over FY07-10E, driven by 24% revenue growth and 33% growth in EBITDA. Sustained ad-rate hikes, increased contribution from color advertising, growth in advertising space after expansion in the Bangalore market and a favorable raw material price environment will be the key factors driving EBITDA growth, in our view.

Advertising growth driven by rate hikes and shift to color

Increased color advertising should improve advertising yields for DCHL and be a key driver for advertising revenue growth

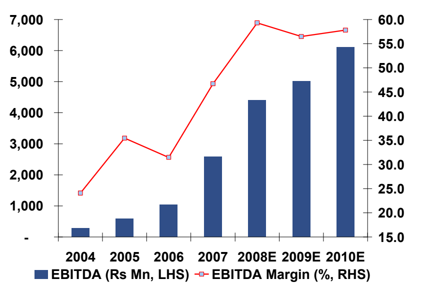
We forecast an advertising growth CAGR of 25% over FY07-10E. Bangalore entry should increase the advertising space. We are building in a 15% price hike in ad-rates. DCHL has been able to consistently take price hikes in the range of 25-35% over the last two years. Increased color advertising should also improve advertising yields. Presently 35% of DCHL ad space is taken by color advertising. We expect this to significantly rise with increasing demand for color and DCHL's enhanced color capacity.

Figure 16. Circulation: Sales, Units & Real. (%)



Source: Company Reports and CIR

Figure 17. EBITDA Growth and Margin Trend



Source: Company Reports and Citi Investment Research Estimates

Expansion in new markets to drive circulation revenues

We estimate circulation revenues to grow at a 5% CAGR over FY07-10E, led by a 5% increase in print order over the same period. We expect the Bangalore launch will be the prime driver of circulation copies. We are building a marginal decline in the average realizations as: 1) DCHL had taken a 50% hike in cover prices in April 2006 in Chennai, and given the competitive scenario, we rule out any further cover price increases in Chennai as well as Hyderabad; and 2) Bangalore entry in 4Q08E will be aggressively priced and will keep average realizations at around Rs1.1/copy till FY10E.

Near-term margins should moderate post Bangalore entry

DCHL's operating margins are 2x that of its Indian peers. Softening of newsprint prices combined with a strong rupee led to a record EBITDA margin of 61% in 1H07. These levels are not sustainable, in our view, especially given the impending Bangalore edition launch which will likely report some circulation losses in the initial months.

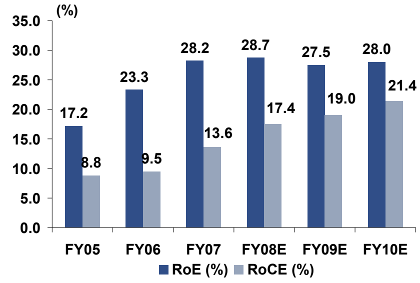
Given the strong 1H performance, we are forecasting FY08E margins at 59.3%. We estimate FY08E to contract marginally to 56.5% and then recover again at 57.8% in FY10. We note that we have incorporated only the Bangalore edition in our forecasts. Any new editions in Tamil Nadu (Trichy, Coimbatore, etc) might dilute the margins further.

We are estimating an EBITDA CAGR of 33% over FY07-10E.

Improving capital efficiency

DCHL has the strongest capital efficiency ratios among the listed print media companies in India, which stems from its strong profitability (DCHL's operating margins are twice that of its listed peers). Its FY07 ROE was 28%. With continuing advertising growth and sustainable profitability, ROE is likely to remain stable over FY08-10E. ROCE is likely to improve from 13.6% to 21.4% from FY07-10E.

Figure 18. Capital Efficiency Trend



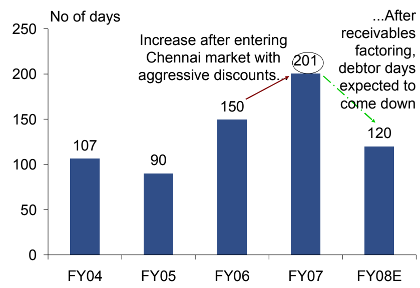
Source: Citi Investment Research Estimates

Pressure on receivables after Chennai entry

DCHL's receivables days have been on the rise in the last two years and are the highest among its peers. After its expansion in the Chennai market, DCHL resorted to heavy discounting and lenient trade terms with advertisers where it entered into long-term advertising contracts with long payback periods. The consequent increase in working capital has been straining cash flows.

Management sold down Rs2bn of outstanding debtors on books in FY07-end to ICICI Bank at 12.5%. DCHL is in the process of factoring another 2bn. Post sale, debtor days are down to 35-40 days. However, with the impending Bangalore launch in 4QFY08, we expect debtor days to rise again to 120-130 days which, though lower than FY07 levels, would be higher than industry standards and DCHL's historical numbers.

Figure 19. DCHL – Debtors Days Trend



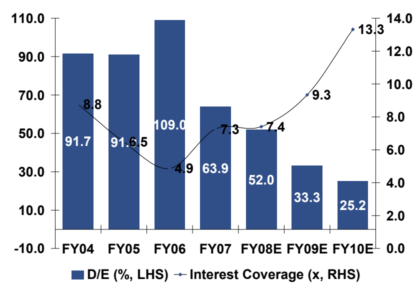
Source: Company Reports and Citi Investment Research Estimates

Comfortable gearing position

DCHL raised FCCB of Rs827m which led to an increase in the debt/equity ratio in FY06. With most of the FCCB already been converted, we see an improvement in the debt/equity ratio in coming years. With improving cash flows and further debt pay down, we estimate the debt/equity ratio to be a comfortable 0.52 in FY08E and improve to 0.33 in FY09E and 0.25 in FY10E.

Interest coverage ratio has historically remained healthy, and we expect it to further improve in future as DCHL's cash flows improve.

Figure 20. DCHL: D/E and Interest Coverage



Source: Company Reports and Citi Investment Research Estimates

Dilution post fundraising

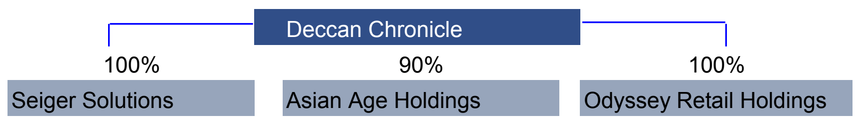
DCHL raised funds through FCCB of Rs827m and QIB placement worth Rs2.24bn in FY06-07 to fund its capex program and expansion in new markets. We forecast a fully diluted equity base of Rs478m in FY08E post the FCCB conversion. We are incorporating the equity dilution in our estimates; our EPS calculations are based on the expanded equity base.

Stock Price Catalysts

Value unlocking in subsidiaries

DCHL has three subsidiaries. While Seiger Solutions and Odyssey Retail are 100% subsidiaries, Asian Age Holdings is a 90% subsidiary. Management has made efforts to unlock value in Odyssey and Sieger Solutions.

Figure 21. Deccan Chronicle's Subsidiaries



Source: Company Reports

Induction of private equity player in Sieger Solutions

Management is looking at private placement in Sieger with floor EV of Rs15bn. This works out to a per share value of Rs60.9 for DCHL.

Sieger has been set up with the intention of maximizing advertising sales and exploring the digital medium. Recently management has sought board approval for inducting private equity players in this business, up to 24% with a floor EV of Rs15bn which translates into a per share value of Rs60.9 for DCHL shareholders. However, since there is very little visibility on this event, we refrain from ascribing any value to this business at this stage.

Figure 22. Potential Value Unlocking in Sieger Solutions

	Base Case	Best Case
EV (Rsm)	15,000	18,000
Net Debt (Rsm)	-	-
Market Cap (Rsm)	15,000	18,000
No of Shares (m)	246	246
Value to DCHL Shareholders (Rs/Share)	**60.9**	**73.1**

Source: Company Reports and Citi Investment Research

Scouting for financial investors in Odyssey

DCHL is looking for financial partners in Odyssey for funding its expansion.

Management had initiated the process of publicly listing Odyssey, but for now the management seems to have abandoned thoughts of a public listing and appears keen to first induct a financial partner. Given the past track record in executing such funding moves and the lack of clarity on timing of such an event, we deem it prudent not to ascribe any value to Odyssey. The book value of the investment made by DCHL in Odyssey is Rs630m, which translates into a per share value of Rs2.5 for DCHL shareholders –not very significant to include in our valuation of DCHL.

Share buyback

DCHL has declared a Rs2.5b share buyback program with a maximum price of Rs250/share.

DCHL has recently declared a Rs2.5b share buyback program, which has been approved by the board. The maximum price for the share buyback has been fixed at Rs250/share, which translates into 10m shares that can be bought back under the allotted equity. 10m shares would constitute 4% of the current outstanding equity. The buyback would be executed through open market purchases. DCHL had Rs3.3bn of cash on its books at end-FY07.

We expect marginal 2-4% EPS dilution post buyback.

The buyback process is likely to start once the statutory approvals are in place. Our analysis shows that the buyback might lead to an earnings dilution of 3.7% in FY08E and 2.3% in FY09E. However, given the strong operating performance expected over the next two to three years, we believe the impact of this marginal dilution will be negated.

Buyback will provide downside support. We advise investors not to Sell at Rs250.

Given the 32% underperformance by DCHL vs. the Sensex over last six months, the buyback illustrates management's confidence of DCHL's growth prospects and its belief that the stock is undervalued at current levels. We believe the share buyback will provide downside support to the stock and would advise investors not to sell at Rs250. Our target price on DCHL is Rs286, implies 33% upside from current market price (CMP) and 14% return from the maximum buyback price.

Figure 23. DCHL: Proposed Share Buyback Analysis

	FY08E	FY09E
Total Cash Outlay for Buyback (Rsm)	2,500.0	
Buyback price per share (Rs)	250.0	
Maximum potential no of shares bought-back	10.0	
Old No of shares (m)	246.2	246.2
No of shares post buyback (m)	236.2	236.2
Post tax yield on cash	7%	7%
Potential Loss of non-operating income due buyback	175.0	175.0
2007 Pre-Buyback Net Profit (Rsm)	2,330.5	2,822.4
Pre-buyback EPS (Rs)	9.5	11.5
Post-buyback Net Profit (Rsm)	2,155.5	2,647.4
Post-buyback EPS (Rs)	9.1	11.2
% Dilution	3.7	2.3

Source: Company Reports and Citi Investment Research Estimates

Assessing Valuation Discount to Peers

DCHL has underperformed the Sensex in the last six months by 32% and 29% in the last three months. It has underperformed Jagran Prakashan by 53% and 26%, respectively, over the same period.

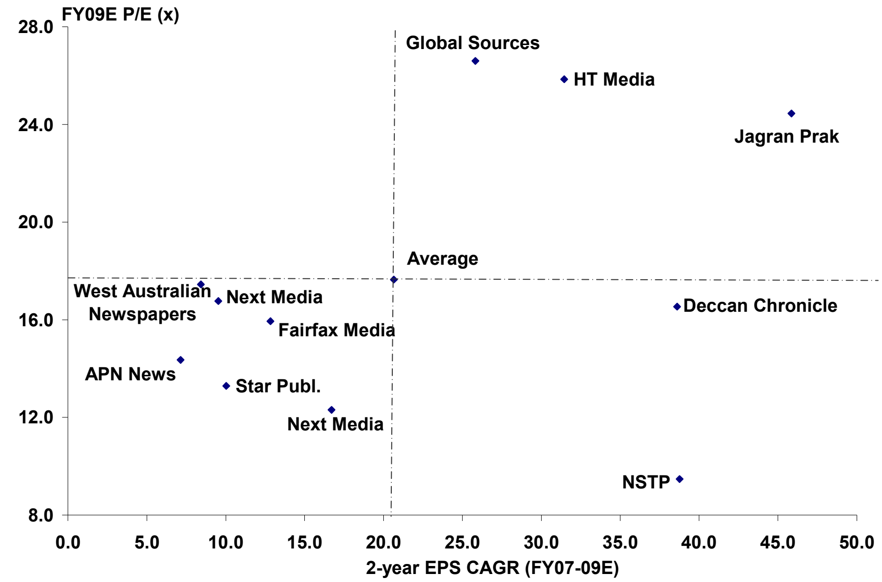
DCHL is trading at a discount to its Indian and regional peers (see figure 25). With earnings CAGR of 35% over FY07-10E, DCHL is trading at 16.6x FY09E P/E.

Figure 24. Performance of DCHL

(%)	3M	6M	12M
Absolute	(8.9)	(3.9)	53.6
Rel. to .BSESN	(28.7)	(32.2)	6.3

Source: Powered by dataCentral

Figure 25. Regional Print Companies - Relative Valuation



Source: Company Reports and Citigroup Investment Research

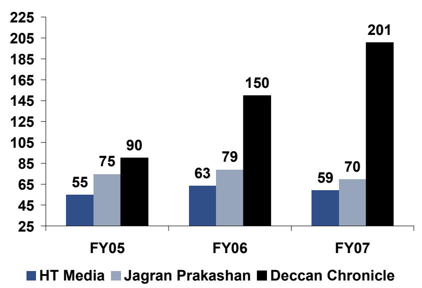
DCHL has de-rated significantly when questions on its balance sheet among other issues surfaced. We discuss each of these issues in detail following our discussion with the management.

Concern#1: Piling A/C receivables & quality of earnings

DCHL's account receivables shot up in FY07 to 200 days (consolidated 246 days). After launching the Chennai edition of *Deccan Chronicle* in March 2005, DCHL aggressively lured advertisers by offering them longer credit periods. Average number of debtor days for DCHL has been between 90-100 days (depending on advertiser's status as accredited or non-accredited agencies).

Capital locked-in receivables led to a negative operating cash flow position in FY06 and a small positive cash flow position in FY07.

Figure 26. Debtors Days Comparison



Source: Company Reports and CIR

Figure 27. DCHL: Operating Cash Flow (Rupees in Millions)

	FY04	FY05	FY06	FY07
Net Profit	**174.7**	**320.5**	**678.6**	**1,613.6**
Change in Deferred Tax Liability	80.5	78.4	84.4	197.4
Depreciation	31.6	59.5	99.6	171.3
Change in Inventories	-129.9	-62.3	-199.8	92.1
Chg in Debtors	-341.7	-67.3	-948.9	-1,679.0
Chg in Loans & Advances & Misc Exp	-36.4	-76.5	-1,065.2	-94.8
Chg in CL & Provisions	303.9	68.4	120.9	-85.9
Change in Working Capital	**-204.1**	**-137.7**	**-2,092.9**	**-1,767.5**
Cash Flow from Operations	**82.8**	**320.7**	**-1,230.3**	**214.8**

Source: Company Reports and Citi Investment Research

Our discussion with the management revealed the following:

Rs2bn worth of receivables 'sold' to ICICI Bank at 12.5% coupon rate.

1) DCHL has 'sold' and not factored, as has been widely reported, its receivables to ICICI Bank. Rs2bn worth of receivables has been sold to ICICI Bank, which is 60% of its outstanding receivables on March 31, 2007.

2) Since it is an outright sale of receivables at 12.5% one-time coupon payment, the receivables have been wiped off DCHL's balance sheet. Hence, the question of recourse or no-recourse to DCHL doesn't arise.

Quarterly balance sheet will be released from 3Q07.

3) To allay investor apprehension around the receivables issue, management plans to release a quarterly balance sheet along with the earnings summary. 3Q07 balance sheet will be released on January 27, 2008.

Creditworthiness is not the issue with the receivables. It's a cash flow problem.

We think that the receivables situation at DCHL is not a credit issue. ICICI Bank's acquisition of these receivables should allay concerns of DCHL's creditworthiness.

However, having said that, we will continue to closely monitor the receivables position. Failure to deliver on the above assurances and to bring receivables in line with industry standards would be perceived negatively by investors and dampen sentiment.

For more details on debtor days, please refer to the Earnings and Financial Analysis section.

Concern#2: Financing advertising revenue growth through balance sheet

This concern emerges almost as a corollary to the account receivables situation and warrants an analysis with respect to the following:

1) Actual cost impact of the receivables financing on the P&L and the advertising revenue growth rate adjusted for the full cost impact of financing.

2) Risk associated with recovering the receivables; we need to understand the creditworthiness of the advertisers.

While analysing 1, we attempt to simplistically quantify the cost incurred by DCHL to fund its advertising revenue growth. More specifically we attempt to quantify the total effective cost:

a) after the sale of receivables (Rs2bn@12.5%) to ICICI Bank; and

b) that was incurred on account of carrying the 'above-normal' receivables on its books.

Effective cost of financing the ad-revenues growth through balance sheet is Rs378m.

Rs2bn worth of receivables have been sold to ICICI Bank at 12.5% interest rate, implying a one-time interest payment of Rs250m. DCHL's debtor days in FY07 were 200 days, while historically the debtor days have remained at an average level of 95 days. This implies that 105 days were actually financed by the balance sheet. At 8% cost of borrowing, we estimate this works out to Rs128m, which takes the total effective cost of financing the receivables to Rs378m.

Adjusted advertising growth rate is 59% compared to 72% reported.

Adjusted for this cost, advertising revenue growth would have been 59% instead of the 72% reported by DCHL in FY07.

For 2, while we concede it is difficult to quantify the number of receivables accounts going bad, we estimate it to be between 2-5% based on discussion with industry players. Since 60% of outstanding (FY07-end) of receivables have been bought by ICICI bank, we don't think creditworthiness is suspect.

Figure 28. Impact of Financing Receivables on Profitability (Rupees in Millions)

	FY07	FY07 Adjusted for Financing
Advertising Revenues	**5,113.5**	**4,735.7**
% Growth	72.3	59.5
Circulation Revenues	414.3	414.3
% Growth	21.8	21.8
Total Revenues	**5,527.8**	**5,150.0**
% Growth	67.1	55.6
Actual Account Receivables	**3,036.9**	
Debtor Days	200.5	
Account Receivables at normal credit terms		**1,438.8**
Debtor Days		95
"Financed" Account Receivables		**1,598.1**
Debtor days		105.5
Costs		
Capital Blocked in Receivables		
Cost Incurred Due to Capital Blocked in Receivables		127.8
Cost of Borrowing		8.0%
Sale of Receivables to ICICI Bank		
One-time interest payment to ICICI Bank		250
Receivables Sold To ICICI Bank		2,000.0
Interest Rate Charged		12.50%
Total Cost of 'Funding' Advertising Revenues		**377.8**
PAT	**1,613.6**	**1,409.2**
% Change	137.8	107.7

Source: Company Reports and Citi Investment Research

Even after balance sheet clean-up, receivables are likely to go up to 120-125 days post the Bangalore launch.

We have not come across any other publishing company that has entered a new market with such aggressive advertising credit terms. Management has indicated that after its recent balance sheet clean-up, debtor days will be maintained at 120-125 days levels going forward. These levels are significantly higher than 95 days seen historically. However, with DCHL entering Bangalore market early next year, we view this as a significant improvement over FY07.

We would like to see the strong profit growth flowing through to generate strong cash flows.

While revenue financing can be defended as an aggressive 'seeding strategy' when entering new markets, this has led to serious deterioration of DCHL's cash flows in FY06 and FY07. We would like to see strong profit growth flow through to generate strong free cash flows. As DCHL's circulation improves in Chennai and as it accumulates a loyal readership base, we believe DCHL will return to offering normal credit terms to its advertisers.

Concern#3: Decline in promoter ownership

Improving liquidity is management's stated objective for reducing its stake in DCHL.

Promoter holding in DCHL has declined from 77.8% in Sep-06 to 61% in FY07. After accounting for the dilution post issues, the promoters have effectively sold 3.8% in December 2006 quarter, 4.37% in March 2007 quarter and 1.1% in June 2007 quarter, for a total of 9.3% decline in promoter ownership. The promoters have recently *gifted* 20.4% of their equity to the managing director Mr. P K Iyer. The company announced a share buyback at Rs250; if the promoters do not sell stock in the buyback, their shareholding position can increase again.

Improving liquidity is management's stated objective for reducing its stake in DCHL. DCHL's promoter ownership is among the highest among listed publishing companies, thereby impacting its floating stock and liquidity. A 26% limit on foreign ownership puts further constraints on investments by FII's. Peers such as Jagran Prakashan and HT Media have promoter holdings of 52% and 68%, respectively.

Concern#4: Margin decline post Bangalore entry

***ToI* is the market leader in Bangalore with 85% ad-revenue share.**

DCHL is set to enter the Bangalore market in 4Q08. Bangalore's print market has a very well-entrenched incumbent and formidable competitor, *Times of India,* which has 85% share of the advertising market. It recently bought *Vijay Times*, the No. 4 English newspaper in Bangalore market to consolidate its position.

We forecast circulation loss of Rs200m in FY09E in Bangalore.

There are concerns that operating margins might be hit due to initial circulation losses in this market. We do not rule out circulation losses in the initial few years till DCHL is able to amass critical circulation revenues to attract advertisers. We are forecasting circulation losses of around Rs30m in FY08E and Rs200m in FY09E.

With an estimated Rs3bn of free cash flow in FY09E, DCHL can absorb Bangalore losses

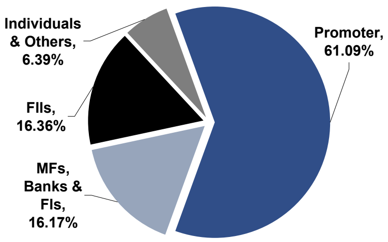
Our contention is, however, hinged on DCHL's ability to absorb these losses. We estimate DCHL will generate free cash flow of Rs3bn in FY09E and will be able to absorb these losses without any significant impact on the bottom-line. However, we believe it will be difficult for DCHL to maintain peak margins of 61% (1H07), and post its entry into newer markets, we estimate margins will moderate. After incorporating Bangalore losses, we are forecasting an EPS CAGR of 35% for DCHL over FY07-10E with a moderate margin contraction.

Management and Shareholding

Shareholding pattern

Deccan Chronicle Holdings is promoted by the Reddy family. Mr. Venkattram Reddy and Mr. Vinayak Reddy together hold a 61.09% stake in the company. Mutual funds and other domestic financial institutions hold 16% while FIIs hold 16%. According to regulations of the Government of India, Foreign Direct Investment (FDI) in entities dealing in current affairs and news are at 26% of the paid-up capital. The promoters have recently gifted 20.4% of their equity to the managing director Mr. P K Iyer. The board of directors comprises of three non-independent and three independent directors (see figure 30).

Figure 29. DCHL: Shareholding Pattern



Source: BSE Website

Figure 30. DCHL: Composition of Board of Directors

Name	Designation	Category
T Venkattram Reddy	Chairman	Executive Non-Independent
T Vinayak Ravi Reddy	Vice Chairman	Executive Non-Independent
P K Iyer	Managing Director	Executive Non-Independent
M Sukumar Reddy	Director	Non Executive Independent
G Kumar	Director	Non Executive Independent
E Venkatram Reddy	Director	Non Executive Independent

Source: Company Reports

Company history and majority shareholders

Deccan Chronicle Holdings (DCHL) is a South India-based print media company with more than 60 years of experience in publishing. It is the fourth largest English daily in India with circulation of 948,311 copies and readership of more than 1.3m readers. It publishes nine editions of its flagship English newspaper *Deccan Chronicle* in the South-Indian states of Andhra Pradesh and Tamil Nadu. *Deccan Chronicle* is the market leader in its genre Andhra Pradesh with circulation of 649,489 (source: ABC Circulation). Other publications in its fold include the *Asian Age* and the Telugu newspaper *Andhra Bhoomi* (also published as a weekly and monthly). DCHL entered the Chennai market in March 2005 and now is a strong No. 2 player in that market with circulation of 298,822 copies (source: ABC Jan-Jun 2007). DCHL made its debut on the Indian stock markets in December 2004 and is promoted by the Reddy family.

Deccan Chronicle was first published as a weekly in 1938. It started as weekly published in Hyderabad in 1947. The present promoters took over the present DCHL in 1977. Subsequently in the same year, *Andhra Bhoomi*, the weekly and monthly magazines, were rolled out. Besides publishing, the promoters have interests in the aviation sector.

Financial Statements

Income statement

Figure 31. Profit and Loss Summary (Rupees in Millions, Percent)

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Advertisement revenues	991.0	1,448.7	2,968.6	5,113.5	7,005.5	8,406.6	10,087.9
% Change YoY		46.2	104.9	72.3	37.0	20.0	20.0
As a % of Total Sales	84.7	87.5	89.7	92.5	94.2	94.7	95.5
Circulation revenues	178.4	207.8	340.2	414.3	429.0	468.4	477.7
% Change YoY		16.5	63.7	21.8	3.5	9.2	2.0
As a % of Sales	15.3	12.5	10.3	7.5	5.8	5.3	4.5
Total Revenues	1,169.4	1,656.5	3,308.8	5,527.8	7,434.5	8,875.0	10,565.7
% Change YoY		41.7	99.7	67.1	34.5	19.4	19.1
Raw Materials Consumed	-482.0	-684.2	-1,582.0	-2,039.2	-2,005.6	-2,387.2	-2,627.4
Gross Profit	687.4	972.2	1,726.7	3,488.7	5,428.9	6,487.8	7,938.3
Gross Profit Margin (%)	58.8	58.7	52.2	63.1	73.0	73.1	75.1
Other Operating Expenses	-157.2	-125.4	-320.9	-366.7	-401.3	-498.0	-519.3
Personnel Expenses	-111.5	-139.0	-152.0	-215.0	-258.0	-348.3	-470.2
Selling, Administrative & Other expenses	-129.5	-118.5	-188.3	-295.7	-323.6	-586.5	-791.0
Total Expenditure	-405.7	-384.9	-685.3	-906.3	-1,020.1	-1,477.1	-1,833.3
EBITDA	281.7	587.3	1,041.4	2,582.3	4,408.8	5,010.7	6,105.0
EBITDA Margin (%)	24.1	35.5	31.5	46.7	59.3	56.5	57.8
Other Income	54.4	46.5	213.3	324.1	405.3	526.9	658.6
% Change		-14.6	359.2	51.9	25.1	30.0	25.0
Interest and Other financial charges	-28.5	-81.5	-193.5	-331.9	-560.1	-508.0	-438.1
% Change		185.7	137.6	71.5	68.7	-9.3	-13.8
Depreciation	-31.6	-59.5	-99.6	-171.3	-259.0	-264.8	-269.5
% Change		88.1	67.3	72.0	51.2	2.2	1.8
Profit before exceptional items & taxes	275.9	492.8	961.7	2,403.2	3,995.0	4,764.8	6,056.0
Less: Provision for taxation	-100.9	-172.3	-283.0	-789.6	-1,318.3	-1,572.4	-1,998.5
Tax Rate (%)	36.6	35.0	29.4	32.9	33.0	33.0	33.0
PAT and after exceptionals	174.7	320.5	678.6	1,613.6	2,676.6	3,192.4	4,057.5
% Change		83.4	111.8	137.8	65.9	19.3	27.1

Source: Company Reports and Citi Investment Research Estimates

Balance sheet

Figure 32. Balance Sheet (Rupees in Millions)

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Sources of Funds							
Common Equity	44.0	412.3	412.3	478.1	492.3	492.3	492.3
Reserves and Surplus	1,035.5	2,237.9	2,764.6	7,791.3	9,866.4	12,380.0	15,628.9
Shareholders Funds	**1,079.5**	**2,650.2**	**3,176.8**	**8,269.4**	**10,358.7**	**12,872.3**	**16,121.2**
Secured Loans	990.0	2,412.3	2,964.2	5,280.5	5,388.3	4,288.3	4,055.8
Deferred Tax Liability	80.5	158.9	243.3	440.7	440.7	440.7	440.7
Foreign Currency Convertible Bonds	0.0	0.0	2,423.4	770.4	0.0	0.0	0.0
Total Liabilities	**2,150.1**	**5,221.4**	**9,307.8**	**14,761.0**	**16,187.8**	**17,601.3**	**20,617.7**
Application of Funds							
Gross Block	1,359.1	2,174.5	3,508.5	6,091.8	6,241.8	6,366.8	6,466.8
Less: Depreciation	-74.9	-132.0	-228.1	-393.8	-652.8	-917.6	-1,187.1
Net Block	1,284.1	2,042.4	3,280.4	5,698.0	5,589.0	5,449.2	5,279.7
Total Fixed Assets	**1,389.5**	**2,358.4**	**3,686.1**	**5,822.7**	**6,339.0**	**5,749.2**	**5,579.7**
Investments	88.2	318.8	1,151.9	1,403.0	1,403.0	1,403.0	1,403.0
Current Assets, Loans and Advances							
Inventories	129.9	192.1	391.9	299.8	407.4	486.3	578.9
Sundry Debtors	341.7	409.0	1,357.9	3,036.9	2,444.2	2,917.8	3,473.7
Cash and Bank Balance	468.3	2,202.4	2,035.2	3,333.2	4,497.2	5,815.4	8,133.7
Other Current Assets	7.5	7.3	109.3	148.2	223.0	266.2	317.0
Loans and Advances	17.2	36.5	904.8	989.7	1,324.0	1,507.5	1,736.8
Total Current Assets, Loans & Advances	964.6	2,847.4	4,799.2	7,807.8	8,895.8	10,993.3	14,240.1
Less: Current Liabilities and Provisions							
Current Liabilities	240.6	291.7	366.2	339.7	460.2	556.4	619.5
Provisions	63.3	80.6	127.1	67.6	91.7	109.4	130.3
Total Current Liabilities and Provisions	303.9	372.3	493.2	407.3	551.9	665.8	749.8
Net Current Assets	**660.7**	**2,475.1**	**4,306.0**	**7,400.4**	**8,343.9**	**10,327.5**	**13,490.3**
Total Assets	**2,150.1**	**5,221.4**	**9,307.8**	**14,761.0**	**16,187.8**	**17,601.3**	**20,617.7**

Source: Company Reports and Citi Investment Research Estimates

Cash Flow Statement

Figure 33. Cash Flow Summary (Rupees in Millions)

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net Profit	**174.7**	**320.5**	**678.6**	**1,613.6**	**2,676.6**	**3,192.4**	**4,057.5**
Change in Deferred Tax Liability	80.5	78.4	84.4	197.4	0.0	0.0	0.0
Depreciation	31.6	59.5	99.6	171.3	259.0	264.8	269.5
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Inventories	-129.9	-62.3	-199.8	92.1	-107.5	-78.9	-92.6
Chg in Debtors	-341.7	-67.3	-948.9	-1,679.0	592.6	-473.6	-555.8
Chg in Loans & Advances & Misc Exp	-36.4	-76.5	-1,065.2	-94.8	-376.0	-246.5	-303.2
Chg in CL & Provisions	303.9	68.4	120.9	-85.9	144.5	113.9	84.0
Change in Working Capital	-204.1	-137.7	-2,092.9	-1,767.5	253.6	-685.1	-867.6
Cash Flow from Operations	**82.8**	**320.7**	**-1,230.3**	**214.8**	**3,189.3**	**2,772.1**	**3,459.4**
Capex	-1,421.2	-1,028.5	-1,427.2	-2,307.9	-775.4	325.0	-100.0
Change in Investments/Assets	-88.2	-230.6	-833.1	-251.1	0.0	0.0	0.0
Cash Flow from Investing Activities	**-1,509.4**	**-1,259.0**	**-2,260.3**	**-2,559.0**	**-775.4**	**325.0**	**-100.0**
Change in Debt	990.0	1,422.2	3,475.4	163.3	-662.7	-1,100.0	-232.5
Change in Equity	44.0	368.3	0.0	65.8	14.2	0.0	0.0
Change in Reserves	865.1	928.7	-105.0	3,680.8	-601.5	-678.9	-808.6
Dividend and Dividend Tax	-4.3	-46.7	-47.0	-267.7	0.0	0.0	0.0
Cash Flow from Financing Activities	**1,894.8**	**2,672.4**	**3,323.4**	**3,642.2**	**-1,249.9**	**-1,778.9**	**-1,041.2**
Closing Cash and Bank Balance	**468.3**	**2,202.4**	**2,035.2**	**3,333.2**	**4,497.2**	**5,815.4**	**8,133.7**

Source: Company Reports and Citi Investment Research Estimates

Risks

We rate Deccan Chronicle Holdings Medium Risk based on our quantitative risk rating system that tracks 260-day historical share price volatility. Key downside risks to our target price are:

1. Newsprint costs, at 45-55% of sales, are a major part of the cost. Print costs have been benign over the past few years. Any increase in costs will impact margins and may pose as a significant risk to earnings.

2. Advertising revenues, which form 92% of DCHL's total revenues, can be negatively impacted if there is any slowdown in the economic activity.

3. Increase in competitive intensity in Hyderabad and Chennai markets can potentially result in loss of market share and a decline in the advertising and circulation revenues.

4. Aggressive seeding strategy during Bangalore launch offering long credit periods to advertisers can lead to a strain on free cash flows.

5. Continuation of existing credit terms to advertisers in Chennai market will bloat debtor days. Failure to correct receivables to industry standards and to improve transparency on them will be negative for sentiment.

6. There is an expectation build around a private placement of Sieger Solutions, the wholly-owned retail arm of DCHL, which can act as a stock

price catalyst. Any delay on this could dampen sentiment on DCHL's stock.

7. Hyderabad market concentration is a risk with majority of the revenues coming from Hyderabad and Andhra Pradesh.

8. Competition from other media such as broadcasters, magazines, internet, radio as well as other print houses, may affect the advertising revenues for the business and hence may impact the financial earnings.

9. In the event of competition from other newspapers rising, there is a likelihood of cover prices being reduced by the competition which may force DCHL to reduce its cover prices also. This may impact the circulation revenues and profitability of the business as well.

Key upside risks to our target price are:

1. Easing off of the 26% FII limit in newsprint stock could act as a positive trigger for the stock.

2. Further reduction in newsprint costs accompanied by appreciation in rupee will boost margins and lend an upside to our earnings estimates.

3. Private placement of Sieger Solutions, the wholly-owned retail arm of DCHL, which can act as a stock price catalyst.

Appendix A-1

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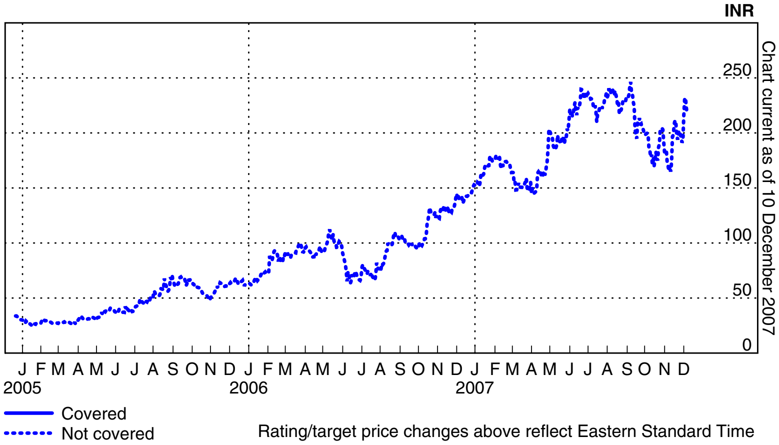
IMPORTANT DISCLOSURES

Deccan Chronicle Holdings (DCHL.BO)
Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

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