

May 26, 2010

### BUY

Price	Target Price
Rs 117	Rs180
Sensex	16,388

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(19)	(16)	(18)	66
Rel. to Sensex	(12)	(17)	(14)	38

Source: Bloomberg

### Stock Details

Sector	Media
Reuters	DCHL.BO
Bloomberg	DECH@IN
Equity Capital (Rs mn)	484
Face Value(Rs)	2
No of shares o/s (mn)	242
52 Week H/L	180/55
Market Cap (Rs bn/USD mn)	30/632
Daily Avg Volume (No of sh)	603868
Daily Avg Turnover (US\$m)	2.0

### Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	63.7	63.7	63.7
FII/NRI	15.5	15.4	12.8
Institutions	12.7	11.7	12.0
Private Corp	4.0	5.1	5.8
Public	4.1	4.1	5.8

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DCHL reported Q4FY10 results below our estimates primarily on account of lower than expected revenue growth. Net sales increased by 6% YoY to Rs 1.9bn (v/s our estimate of Rs 2.1bn). While the advertisement volume continued to decrease, the revenue growth was fully driven by rate hike. EBIDTA grew by 93% YoY to Rs 813 mn (v/s our estimate of Rs 1086mn) on lower news print cost. PAT declined by 20% YoY to Rs 65mn (v/s our estimate of Rs 345mn) on higher tax provisions. PAT is not comparable since DCHL provides lower tax in first three quarters and adjusts the same in last quarter. PBT (the right comparable) increased by 128% YoY to Rs 644mn (v/s estimate of Rs 1.1bn). While the operating expenses have largely been stable and in-line with estimates, the revenue shortfall resulted in below estimated profits.

Post below estimated results, we cut our earning estimates by 9.2% and 9.4% to Rs12.9 and Rs15.9 for FY11E and FY12E respectively. We highlight that the advertisement volume recovery continues to remain challenging and would be the key to valuation re-rating, in our view. We retain BUY rating on the stock with reduced target price of Rs180 (v/s Rs210 earlier).

### Results disappoint on revenue shortfall

DCHL's 4QFY10 results were below estimates primarily led by the revenue shortfall. While the operating costs (largely fixed) were in-line with estimates, lower than expected revenues of Rs1.9bn v/s our estimate of Rs2.1bn resulted in profit disappointment. PAT decline of 20% YoY to Rs65mn was significantly below estimate of Rs345mn due to the full tax provision during the quarter. PBT, the right comparable, grew by 128% YoY to Rs644mn (below our estimate of Rs1.1bn) mainly due to revenue shortfall.

### Earning estimates cut by 9% for FY11E & FY12E

The advertisement volumes continued to decline during the quarter while the rate hike led to 6.3% YoY revenue growth. Considering the lack of ad-volume recovery, we have cut our revenue estimates by 4.9% and 5.5% for FY11E and FY12E respectively. Our revised estimates imply revenue CAGR of 12.2% over FY10-12E v/s 14.1% earlier. Our revised EPS estimates of Rs12.9 and Rs15.9 for FY11E and FY12E respectively imply earnings CAGR of 22% over FY10-12E.

### Advertisement volume recovery – key to valuation re-rating

Despite economic recovery and increased ad-spends, DCHL continued to report advertisement volume decline primarily due to ad-rate hike taken at the beginning of the FY10 and regional issues in AP, DCHL's key market. Our revenue estimate cut of 4.9% and 5.5% for FY11E and FY12E is primarily due to lack of volume growth recovery. We continue to highlight that volume growth recovery remains the key to revenue growth and also the re-rating of the stock.

### Cut target price to Rs180 – Retain BUY

Post lower than expected results, we have cut our EPS estimates by 9.2% and 9.4% to Rs12.9 and Rs15.9 for FY11E and FY12E respectively. We have revised our target price on the stock to Rs180 (from Rs210 earlier) based on value of core business at Rs155/ share (12x FY11E EPS of Rs12.9) and value of IPL franchise at Rs25/ share based on 50% discount to the recent auction price (v/s 20% discount earlier). At CMP of Rs117 the stock trades at attractive valuations of 9x and 7.4x our estimated earnings for FY11E and FY12E respectively. We retain BUY rating on the stock with revised target price of Rs180 (v/s Rs210 earlier).

### Financial Snapshot

Rsmn	Net Sales	EBITDA (Core)	EBITDA %	PAT	ROCE (%)	EV/ EBITDA	P/BV	EPS (Rs)	P/E
FY09	8,149	2,683	32.9	1,401	17.6	10.7	2.5	5.7	20.5
FY10	8,925	4,525	50.7	2,611	25.7	6.3	2.2	10.7	11.0
FY11E	9,935	5,281	53.2	3,170	27.7	5.1	1.9	12.9	9.0
FY12E	11,229	6,258	55.7	3,883	29.8	3.1	1.7	15.9	7.4

**Cut earning estimates by 9% for FY11E and FY12E**

Considering lower than expected ad-revenue growth due to lack of ad-volume recovery, we have cut our advertisement volume estimates resulting in revenue estimate cut of 4.9% and 5.5% for FY11E and FY12E respectively. Since the operating costs are largely fixed, we have reduced our EBIDTA estimates by 8.4% and 8.9% and PAT estimates by 9.2% and 9.4% for FY11E and FY12E respectively. Our revised EPS estimates of Rs12.9 and Rs15.9 for FY11E and FY12E respectively imply EPS CAGR of 22% over FY10-12E.

Particulars	FY10A	FY11E			FY12E		
		Old	New	Chg %	Old	New	Chg %
Net sales	8,924.9	10,450.3	9,935.3	-4.9%	11,876.9	11,228.7	-5.5%
EBIDTA	4,525.4	5,767.8	5,281.1	-8.4%	6,870.9	6,258.3	-8.9%
EBIDTA %	50.7	55.2	53.2	(204)	57.9	55.7	(212)
PAT	2,610.9	3,491.3	3,170.1	-9.2%	4,287.5	3,883.1	-9.4%
EPS	10.7	14.3	12.9	-9.2%	17.5	15.9	-9.4%

**Key Financials**

Particulars (Rsmn)	Q4FY09	Q4FY10	YoY chg	Q3FY10	QoQ Chg	FY09	FY10	YoY chg
Net sales	1,803	1,917	6%	2,334	-18%	8149	8925	10%
Employee Cost	125	181	44%	177	2%	494	655	33%
Production Cost	1,199	747	-38%	735	2%	4427	3171	-28%
Admin & other Costs	56	176	212%	156	13%	546	573	5%
Total optg exp	1,381	1,104	-20%	1,067	3%	5467	4400	-20%
EBIDTA	422	813	93%	1,266	-36%	2682	4525	69%
Depreciation	95	126	33%	102	24%	321	429	34%
EBIT	327	687	110%	1,165	-41%	2362	4097	73%
Other Income	77	73	-5%	75	-2%	427	294	-31%
Interest	123	116	-5%	113	3%	709	451	-36%
PBT	282	644	128%	1,127	-43%	2079	3940	89%
Tax	200	579	189%	350	65%	679	1329	96%
Net Profit	82	65	-20%	777	-92%	1401	2611	86%
EPS	0.33	0.27	-20%	3.2	-92%	5.7	10.7	86%
<b>% of sales</b>			<b>chg bps</b>		<b>chg bps</b>			<b>chg bps</b>
Employee Cost	7%	9%	247	8%	183	6%	7%	128
Production Cost	67%	39%	-2752	31%	752	54%	36%	-1879
Admin & other Costs	3%	9%	604	7%	250	7%	6%	-28
Total optg exp	77%	58%	-1900	46%	1185	67%	49%	-1779
EBIDTA	23%	42%	1900	54%	-1185	33%	51%	1779
Depreciation	5%	7%	132	4%	222	4%	5%	87
EBIT	18%	36%	1769	50%	-1407	29%	46%	1692
Other Income	4%	4%	-45	3%	62	5%	3%	-194
Interest	7%	6%	-73	5%	122	9%	5%	-365
PBT	16%	34%	1797	48%	-1468	26%	44%	1863
Tax	11%	30%	1909	15%	1521	8%	15%	656
Net Profit	5%	3%	-113	33%	-2989	17%	29%	1207

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>8,149</b>	<b>8,925</b>	<b>9,935</b>	<b>11,229</b>
Growth (%)	4.2	9.5	11.3	13.0
RM cost	4,427	3,171	3,416	3,578
% of Sales	54.3	35.5	34.4	31.9
Staff Cost	494	655	692	774
% of Sales	6.1	7.3	7.0	6.9
Other expenses	546	573	546	618
% of Sales	6.7	6.4	5.5	5.5
<b>EBITDA</b>	<b>2,683</b>	<b>4,525</b>	<b>5,281</b>	<b>6,258</b>
Growth (%)	-44.8	68.7	16.7	18.5
EBIDTA %	32.9	50.7	53.2	55.7
Other Income	427	294	304	304
Interest	709	451	301	183
Depreciation	321	429	481	495
PBT	2,079	3,940	4,803	5,884
Tax	679	1,329	1,633	2,000
ETR %	33.0	34.0	34.0	34.0
<b>PAT</b>	<b>1,401</b>	<b>2,611</b>	<b>3,170</b>	<b>3,883</b>
Growth (%)	-48.5	86.4	21.4	22.5

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity Capital	490	490	490	490
Reserves	11,009	12,474	14,212	16,376
Net worth	11,499	12,964	14,701	16,866
Total Debt	3,680	3,180	2,545	2,045
Deferred Tax Liabilities	697	923	1,163	1,457
<b>Capital Employed</b>	<b>15,875</b>	<b>17,066</b>	<b>18,409</b>	<b>20,368</b>
Gross Block	8,410	8,910	9,410	9,910
Less Depreciation	1,035	1,463	1,945	2,440
Net Fixed Assets	7,375	7,447	7,465	7,470
CWIP	856	856	856	856
Investments	2,409	2,409	2,409	2,409
Inventory	1,299	318	381	461
Debtors	1,942	2,445	2,722	3,076
Cash and Bank	3,597	3,154	4,198	5,820
Loans & Advances	985	1,100	1,200	1,300
Cur Liab & Provisions	2,588	663	823	1,026
Net Current Assets	5,235	6,354	7,679	9,632
<b>Total Assets</b>	<b>15,875</b>	<b>17,066</b>	<b>18,409</b>	<b>20,368</b>

## Cash Flow Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Profit Before Tax	2,079	3,940	4,803	5,884
Depreciation	321	429	481	495
Interest Expenses	709	451	301	183
(Inc)/Dec in Inventory	(998)	981	(63)	(80)
(Inc)/Dec in Debtors	504	(503)	(277)	(354)
(Inc)/Dec in loans & Adv	915	(115)	(100)	(100)
Inc (Dec) in Cur Liab	906	(1,925)	160	203
Less:Direct Taxes	582	1,103	1,393	1,706
<b>CFO</b>	<b>2,151</b>	<b>2,154</b>	<b>3,912</b>	<b>4,524</b>
(Pur)/Sale of Fixed Asset	(2,223)	(500)	(500)	(500)
(Pur)/Sale of Investment	(500)	-	-	-
<b>CFI</b>	<b>(2,879)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Incr/(Dec) in Borrowings	(4,382)	(500)	(635)	(500)
Dividend Paid	(573)	(1,146)	(1,432)	(1,719)
Interest Paid	(709)	(451)	(301)	(183)
<b>CFF</b>	<b>(3,622)</b>	<b>(2,097)</b>	<b>(2,368)</b>	<b>(2,402)</b>
Net Inc/(Dec) in Cash	(4,350)	(443)	1,044	1,622
Opening Balance	7,947	3,597	3,154	4,198
<b>Closing Balance</b>	<b>3,597</b>	<b>3,154</b>	<b>4,198</b>	<b>5,820</b>

## Key Ratios

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
EBITDA %	32.9	50.7	53.2	55.7
NPM %	17.2	29.3	31.9	34.6
ROCE (%)	17.6	25.7	27.7	29.8
Adj. ROE (%)	12.2	20.1	21.6	23.0
Adj. EPS (Rs)	5.7	10.7	12.9	15.9
Cash EPS (Rs)	7.0	12.4	14.9	17.9
Book Value (Rs)	47.0	52.9	60.0	68.9
DPS (Rs)	3.0	4.0	5.0	6.0
Inventory days	14.0	13.0	14.0	15.0
Debtors days	110.0	100.0	100.0	100.0
Dividend yield %	2.6	3.4	4.3	5.1
Creditor days	115.9	27.1	30.2	33.3
Net debt/equity	0.0	0.0	(0.1)	(0.2)
PE (x)	20.5	11.0	9.0	7.4
Cash PE (x)	16.6	9.4	7.8	6.5
P/BV (x)	2.5	2.2	1.9	1.7
EV/EBITDA (x)	10.7	6.3	5.1	3.1
EV/Sales (x)	3.5	3.2	2.7	1.7

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