

DB Corp

BUY

Price Rs243

Target Price %Upside
Rs295 21↑

Market Capitalisation
Rs44,245mn (US\$985mn)

52 week range H/L (Rs) 275/207

Shares o/s (mn) **Daily vol (mn)**
182 0.17

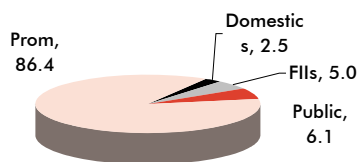
Reuters **Bloomberg**
NA DBCL IN

Perfm(%)	1M	3M	12M	YTD
Absolute	(4.9)	3.2	NA	NA
Relative	(0.2)	(4.7)	NA	NA

BSE Sensex **Nifty**
17,088 5,125

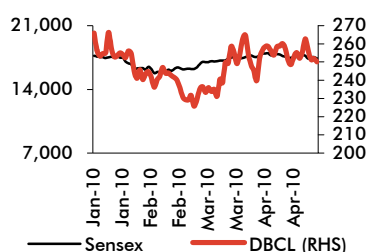
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

Analyst
Amit K. Ahire
Tel.: +91-22-3043 3202
amitahire@ambitcapital.com

Poonam Saney
Tel.: +91-22-3043 3216
poonamsaney@ambitcapital.com



Firmly Entrenched

Initiate coverage with BUY

We initiate coverage on DB Corp (DBCL) with a BUY rating. At its CMP of Rs243 the stock is trading at 16.4x FY12E earnings. We expect the earnings to grow at 19% CAGR over the next two years. Considering its growth prospects, we are valuing DB Corp at 20x FY12E EPS of Rs14.8, in line with Jagaran Prakashan, and arrive at a target price of Rs295, an upside of 21%.

Strong Ad revenue growth ahead

We expect DBCL's ad revenue to grow at a faster pace versus industry average based on: (1) market leadership in states like MP, Chhatisgarh, Haryana and Chandigarh (Union Territory) and key cities of Gujarat, Rajasthan and Punjab; (2) higher dependence on local advertisement (60% local with 300,000 retail advertisers); (3) growing proportion of colour advertisement (70%); and (4) sustainable ad rate hike. As a result, we expect DBCL's ad revenue to grow at 16% over FY10-FY12E.

Comparatively lower newsprint cost

DBCL imports about 20% of newsprint, which could reduce to 18% going forward. This further cushions the company during tough times, as the cost of domestic newsprint is about 5-10% lower versus imported newsprint. The average cost of newsprint during FY10 has been about US\$550/tonne. For our estimates we have factored an increase of 10-12% for FY11E and a similar trend for FY12E.

Expansion in new territories to continue

The company plans to launch its newspaper in Bihar, Jharkhand and J&K in a phased manner during CY10 and CY11. Historically, the company has successfully launched newspapers in states like Gujarat, Rajasthan and Punjab and has managed to emerge as a market leader. This provides comfort, and in our view, this launch would help improve the revenue growth further. However, we have not included Bihar and Jharkhand operations in our valuation analysis.

Key risks

Increase in newsprint prices versus expectation, high level of competition, slow down in economic growth and inability to make significant revenues in new markets are key risks, in our view.

Exhibit 1: Key financials

Y/E Mar (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Operating income	8,506	9,490	10,341	11,746	13,442
EBITDA	1,709	1,353	3,491	3,903	4,429
EBITDA mgn (%)	20.1	14.3	33.8	33.2	32.9
PAT	759	477	1,901	2,358	2,683
PAT mgn (%)	8.9	5.0	18.4	20.1	20.0
EPS (Rs)	4.5	2.8	10.5	13.0	14.8
P/E (x)	54.0	86.0	23.2	18.7	16.4
EV/EBITDA (x)	25.4	33.8	12.9	11.1	9.4
EV/Sales (x)	5.1	4.8	4.4	3.7	3.1

Source: Company, Ambit Capital research

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Company Financial Snapshot

Profit and loss (Rsmn)

	FY10E	FY11E	FY12E
Net Sales	10,341	11,746	13,442
Operating Exp	(6,850)	(7,842)	(9,013)
EBITDA	3,491	3,903	4,429
Depreciation	(372)	(414)	(447)
Interest Exp	(310)	(107)	(63)
PBT	2,909	3,493	4,040
Tax	(1,076)	(1,160)	(1,342)
PAT	1,901	2,358	2,683

Profit and loss ratios

EBITDA Margins (%)	33.8	33.2	32.9
PAT Margins (%)	18.4	20.1	20.0
P/E (X)	23.2	18.7	16.4
EV/ EBITDA (X)	12.9	11.1	9.4
Dividend Yield (%)	0.4	0.6	0.6

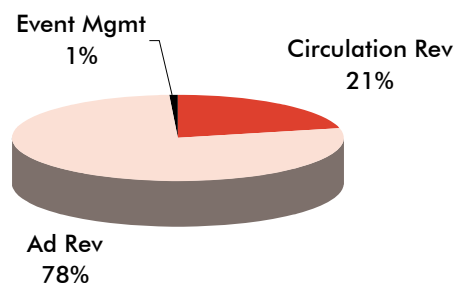
Balance sheet (Rsmn)

	FY10E	FY11E	FY12E
Total Assets	10,110	11,149	12,764
Fixed Assets	6,699	6,785	6,838
Current Assets	4,831	6,001	7,819
Other Assets	-	-	-
Total Liabilities	10,110	11,149	12,764
Total Net Worth	6,963	9,002	11,366
Total Debt	2,412	1,412	662
Current Liabilities	1,874	2,091	2,348
Minority Interest	124	124	124

Balance sheet ratios (%)

RoE	27.3	26.2	23.6
RoCE	35.9	35.3	35.5
Net Debt/ Equity	0.2	(0.0)	(0.2)
Total Debt/ Equity	0.3	0.2	0.1
P/BV (X)	6.3	4.9	3.9

Revenue breakup (FY10 : Rs 10,341 mn)



Source: Company, Ambit Capital research

Cash flow (Rsmn)

	FY10E	FY11E	FY12E
EBIT	3,119	3,490	3,982
Other income (expenditure)	100	110	121
Depreciation	(372)	(414)	(447)
Interest	(310)	(107)	(63)
Tax	(1,076)	(1,160)	(1,342)
Incr (decr) in net working capital	483	286	366
Cash flow from operating activities	1,790	2,485	2,764
Incr (decr) in capital expenditure	627	525	520
Inc/(Decr) in Intangible	(27)	(25)	(20)
Cash flow from investing activities	(600)	(500)	(500)
Incr (decr) in borrowings	(3,000)	(1,000)	(750)
Issuance of equity	2,698	-	-
Dividend paid	(212)	(319)	(319)
Cash flow from financing activities	(515)	(1,319)	(1,069)
Net change in cash	675	667	1,195
Closing cash balance	1,127	1,794	2,989

Company snapshot

Ratings

	Low	1	2	3	4	High
Quality of earnings						
Net debt/Equity						
Working cap. req.						
Quality of mngmnt						
Depth of mngmnt						
Prom shareholders						
Corporate governance						

Valuation

We remain positive on the growth prospects of the Indian print media sector. Growth of the print sector is correlated to GDP growth. At present, the ad spend is on a rising trajectory. Going forward, strong growth in GDP is expected to result in higher ad spend by corporates leading to increased ad revenue for media companies. According to Pitch-Madison, the ad revenue of Indian print industry is expected to grow by 9% during CY10. The growth in ad revenue of regional print media is expected to be higher than the national average. This coupled with growing per capita income in tier II and tier III cities and the increasing literacy rate is expected to fuel print media penetration in the country.

DB Corp. Ltd. is one of the leading print media companies in India, publishing 7 newspapers, 48 newspaper editions and 128 sub-editions across 11 states.

We expect DBCL's ad revenue to grow at a faster pace than the industry average due to: (1) diversified revenue stream; (2) market leadership in states like MP, Chhatisgarh, Haryana and Chandigarh and key cities of Gujarat, Rajasthan and Punjab; (3) higher dependence on local advertisement; (4) growing proportion of colour advertisement (70%); and (5) sustainable ad rate hike. The lower growth in newsprint prices will help maintain margins at current levels.

Based on this, we expect DBCL's earnings to grow at a CAGR of 19%. At its CMP of Rs243 the stock is trading at 16.4x FY12E earnings. We value DB Corp at 20x FY12E EPS and arrive at a target price of Rs295, an upside of 21%. We initiate coverage on DB Corp with a BUY rating.

Exhibit 2A: Comparison between DB Corp and Jagran Prakashan

FY09	Unit	DB Corp	Jagran
Total Readership	mn	33.6	54.6
Average Readership	mn	15.5	16.1
Daily Circulation	mn	3.7	2.9
Total Revenue	Rs mn	9,490	8,234
Advertising Revenue	Rs mn	6,955	5,517
% of Total Revenue	%	73.3	67.0
Circulation Revenue	Rs mn	2,159	1,971
Editions	No.	48	37
Present in no. of States	No.	11	12

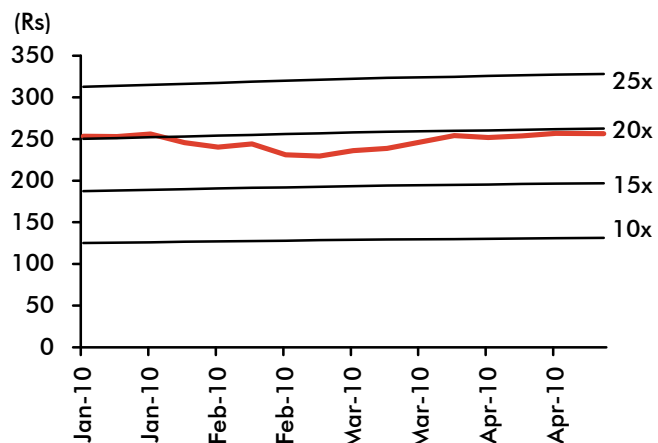
Source: Company, IRS 2009 and Ambit Capital research

Exhibit 2B: Financial and Valuation Comparison

Rsmn	Dainik Bhaskar				Jagran Prakashan			
	FY09	FY10E	FY11E	FY12E	FY09	FY10E	FY11E	FY12E
Revenue	9,490	10,341	11,746	13,442	8,234	9,458	11,038	13,054
EBITDA	1,353	3,491	3,903	4,429	1,567	2,920	3,383	3,974
EBITDA margin (%)	14.3	33.8	33.2	32.9	19.0	30.9	30.6	30.4
PAT	477	1,901	2,358	2,683	916	1,812	2,103	2,472
PAT margin (%)	5.0	18.4	20.1	20.0	11.1	19.2	19.1	18.9
EPS (Rs)	2.8	10.5	13.0	14.8	3.0	6.0	7.0	8.2
Growth (%)		271	24.1	13.8		97.8	16.1	17.6
P/E		23.2	18.7	16.4		19.9	17.2	14.6
RoCE (%)	15.9	35.9	35.3	35.5	21.4	36.0	36.1	36.3
RoE (%)	18.5	27.3	26.2	23.6	16.4	27.0	26.0	25.0

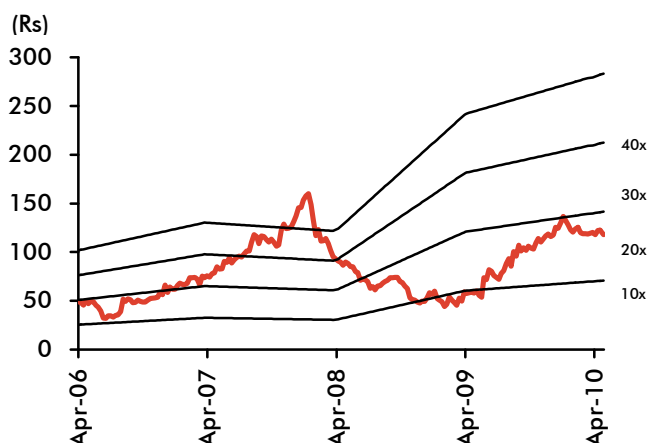
Source: Company, Ambit Capital research

Exhibit 3: DB Corp - 1 year forward PE band



Source: Bloomberg, Ambit Capital research

Exhibit 4: Jagran - 1 year forward PE band



Source: Bloomberg, Ambit Capital research

Exhibit 5: Total readership IRS R2 2009

State wise - Area Share (%)	DB	HH	DJ	AU
UP	2%	29%	56%	81%
Uttaranchal	0%	1%	4%	9%
Bihar	0%	47%	18%	0%
Jharkhand	0%	14%	5%	0%
Punjab	4%	0%	3%	1%
Chandigarh	1%	0%	0%	1%
Haryana	13%	1%	5%	3%
HP	1%	0%	0%	4%
J&K	0%	0%	0%	1%
Delhi	0%	7%	3%	1%
MP	27%	0%	3%	0%
Chhattisgarh	10%	0%	0%	0%
Rajasthan	38%	0%	0%	0%
Others (residual)	4%	1%	1%	0%
Total	100%	100%	100%	100%

Source: IRS 2009, Ambit Capital research

Key Risks

Slowdown in the economy

In the event of the slowdown in the economy, revenues of the company may be affected primarily on the advertisement front (forms about 75% of total revenues).

Newsprint prices

Newsprint prices are linked to the movement in international newsprint prices and thereby the financials of the company may get affected in accordance with changes in the international price scenario.

Business expansion

The company plans to expand in the states of Bihar in the coming months and in the state of Jharkhand by CY2011. *Hindustan* has a strong foothold in both these states. As a result, the company may face stiff competition in both these states thereby resulting in increased losses in the initial years of expansion.

The PRB Act prohibits DB Corp from publishing its flagship newspaper *Dainik Bhaskar* in western UP, Maharashtra and 20 districts of MP. This may restrict the future growth prospects of the company and we believe that incremental growth will be realised from penetration in the existing states. However the company can launch its DB newspaper in a JV with existing players or as an independent firm with any other name.

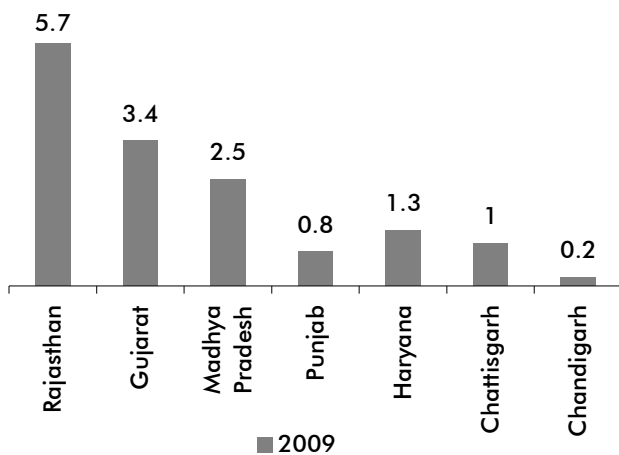
Investment Rationale

DB Corp is a leading Indian Print Media company with readership of about 15.5mn and presence in 11 states in three languages. The primary source of revenue for the company is the print business, and as of 9MFY10 the company earned total revenues of Rs8,058mn and PAT of Rs1,461 mn. The advertisement income forms about 75% of total revenues and income from newspaper sales/circulation constitutes about 21% of the total revenue. The company also generates revenue from event management.

Revenues: Well diversified geographically

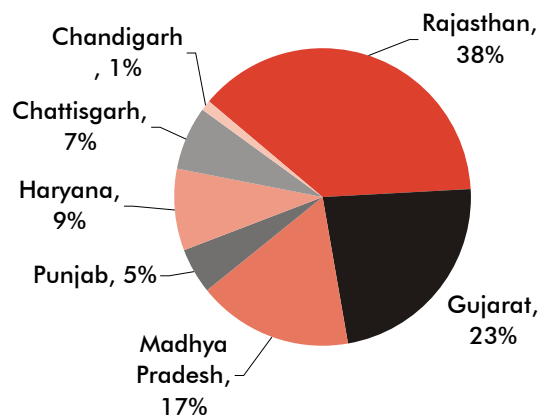
DB Corp is a leading print media company in the country. In terms of ad revenues and circulation revenues, it is the largest diversified play in the Indian print sector deriving the benefits of scale as well as the expected growth emanating from the regional markets in the tier II and tier III cities of India.

Exhibit 6: DB avg. readership/day 2009 (mn)



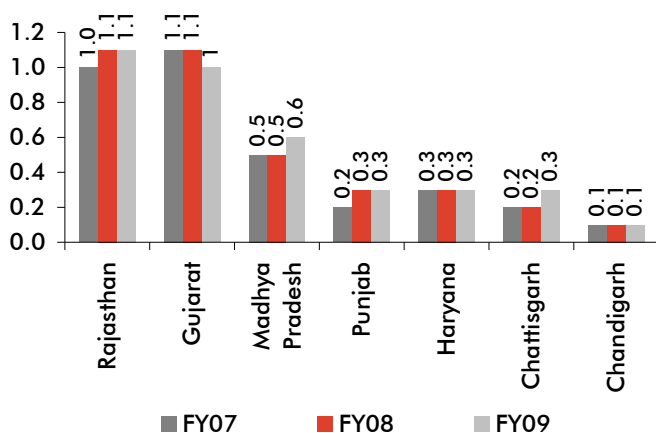
Source: Company, IRS 2009 and Ambit Capital research

Exhibit 7: DB avg. readership/day 2009 (%)



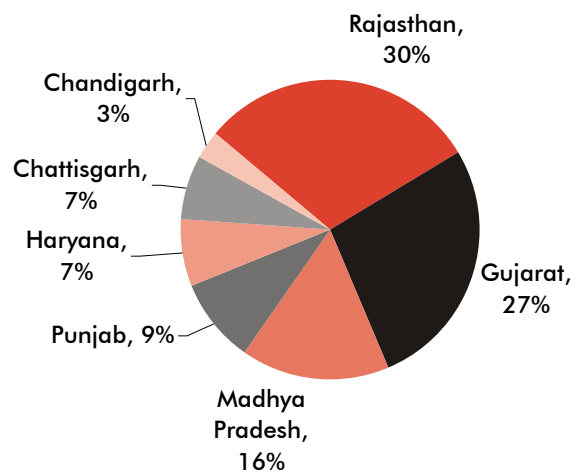
Source: Company, IRS 2009 R2 and Ambit Capital research

Exhibit 8: DB avg. Circulation/day (Mn)



Source: Company, IRS 2009 R2 and Ambit Capital research

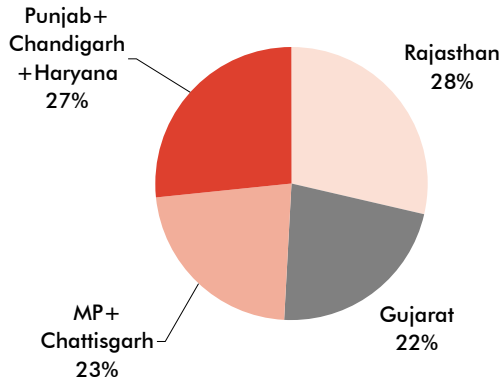
Exhibit 9: DB avg. Circulation/day FY09 (%)



Source: Company, IRS 2009 and Ambit Capital research

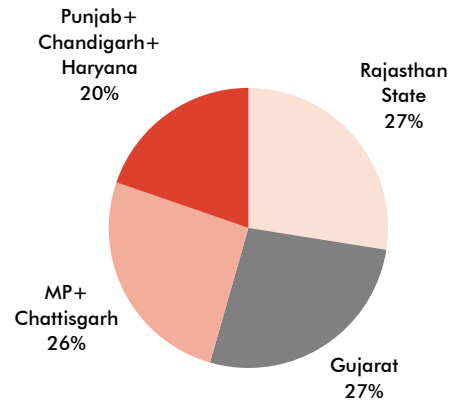
The company has a presence in the key states of MP, Rajasthan, Gujarat, Haryana, Chattisgarh, Punjab and Chandigarh(Union territory). All these states have good prospects for economic growth, which makes DB Corp a play on the regional growth in the Indian Print sector.

Exhibit 10: DB statewise Ad revenues FY10E



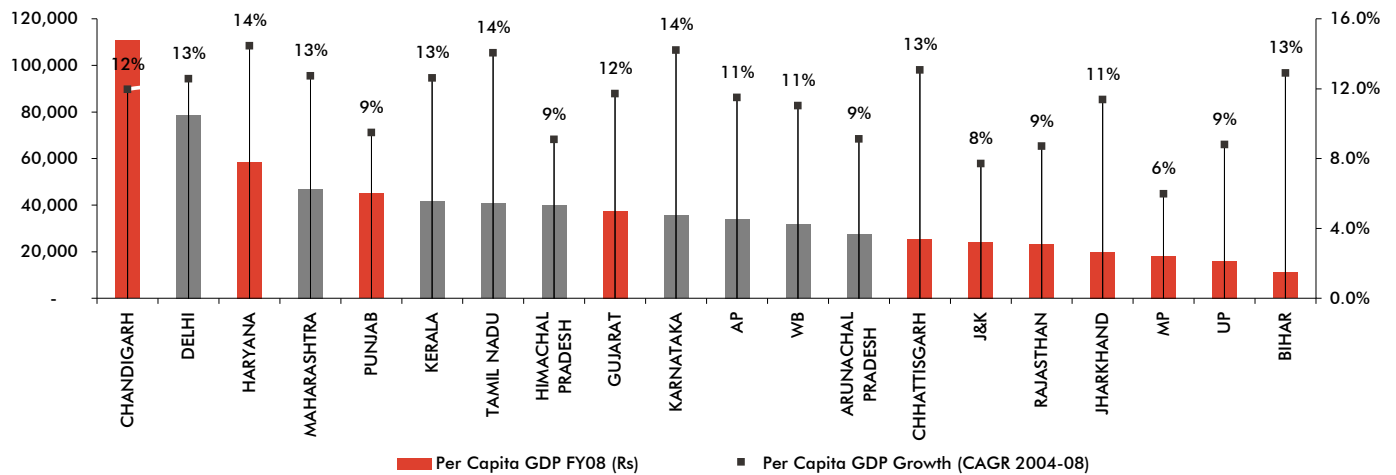
Source: Company, Ambit Capital research

Exhibit 11: DB statewise circulation revenues FY10E



Source: Company, Ambit Capital research

Exhibit 12: Statewise per capita GDP and growth rates



Source: RBI, Ambit Capital Research

Leading player in all its major markets

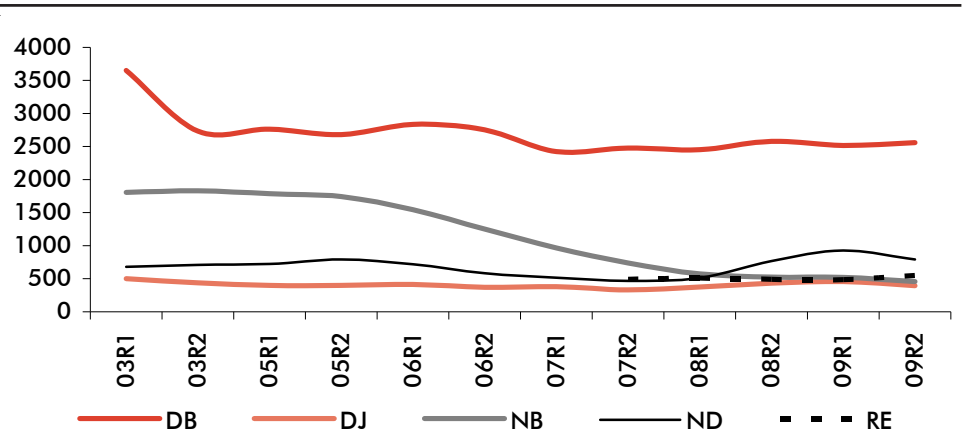
In terms of average readership per day, DB is a market leader in the states of MP (2.5mn), Chandigarh (0.2mn), Chhattisgarh (1mn) and Haryana (1.3mn). Apart from that, it is also a market leader in the urban areas of Gujarat, Rajasthan and Punjab.

Exhibit 13: Dainik Bhaskar statewide presence

Dainik Bhaskar	Avg Circulation/day (in Mn) Apr-Mar FY09	Avg Readership /day (mn) 2009	Competition	Rank of DB in terms of Readership/day
MP	0.6	2.5	Nav Bharat	DB: Market leader
Haryana	0.3	1.3	Dainik Jagran	DB: Market leader
Chattisgarh	0.3	1.0	Nav Bharat	DB: Market leader
Chandigarh	0.1	0.2	Tribune, Kesri	DB: Market leader
Rajasthan	1.1	5.7	Rajasthan Patrika	DB: Leading player
Gujarat*	1.0	3.4	Gujarat Samachar	DB: Leading player
Punjab	0.3	0.8	Punjab Kesari & Jagran	DB: Leading player
Total	3.7	15.0		

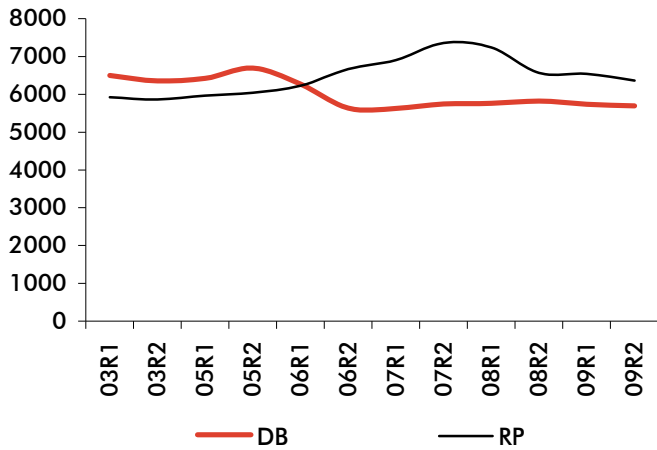
Source: Company, IRS 2009, Ambit Capital research. Note:* Published by the name of Divya Bhaskar.

Exhibit 14: Dainik Bhaskar market leader in MP (Readership in '000)



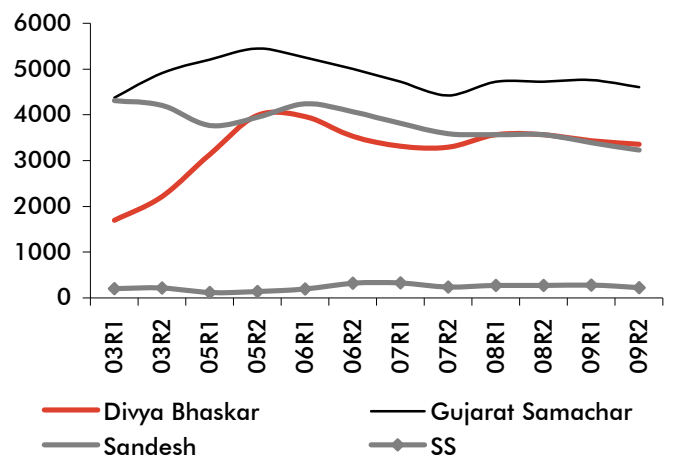
Source: Company, IRS 2009 R2, Ambit Capital research. Note: Readership is in '000

Exhibit 15: DB in close competition with the leader in Rajasthan (Readership in '000)



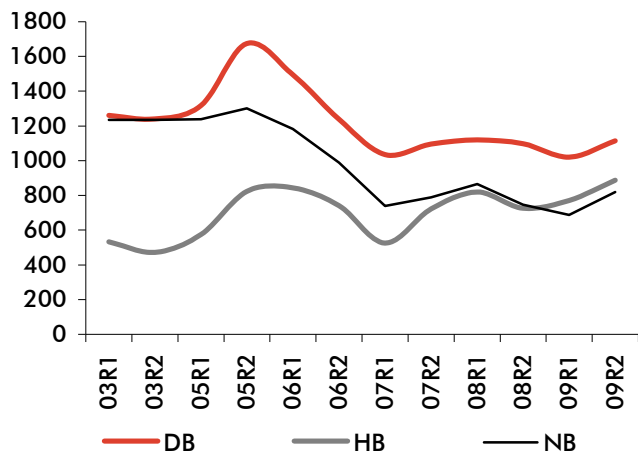
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 16: DB enjoys near second position in Gujarat (Readership in '000)



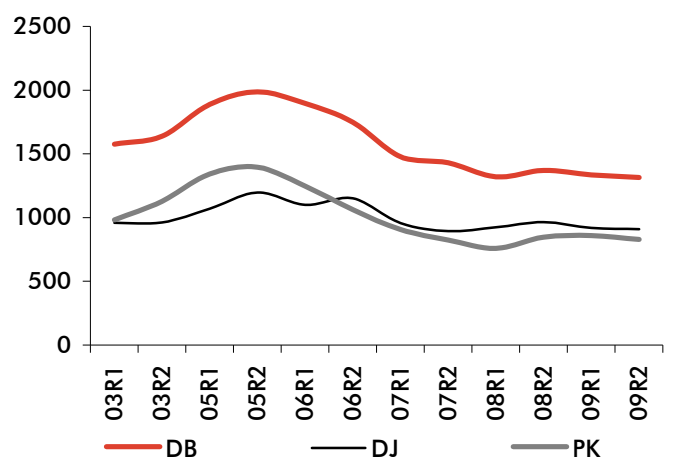
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 17: DB Corp leads in Chhattisgarh with reasonable majority (Readership in '000)



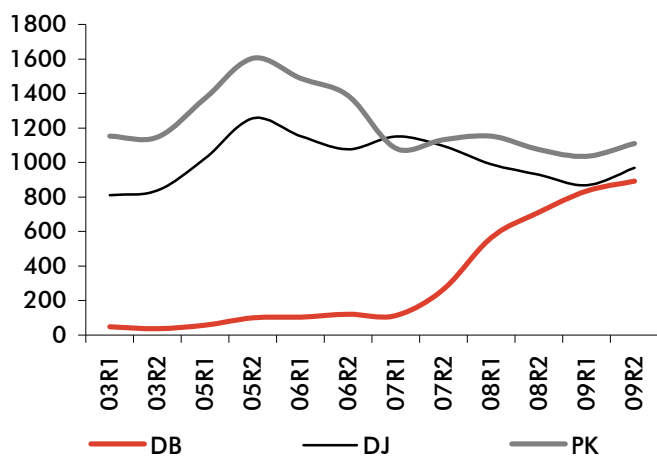
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 18: DB- market leader in Haryana, with significant majority (Readership in '000)



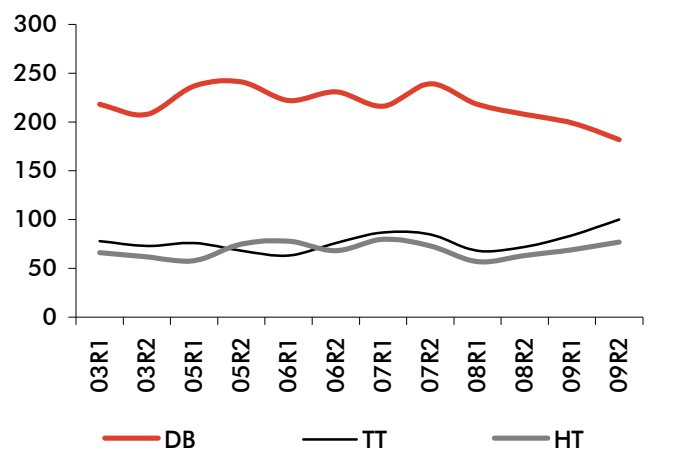
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 19: DB in close competition in Punjab (Readership in '000)



Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 20: DB leads in Chandigarh with significant majority (Readership in '000)



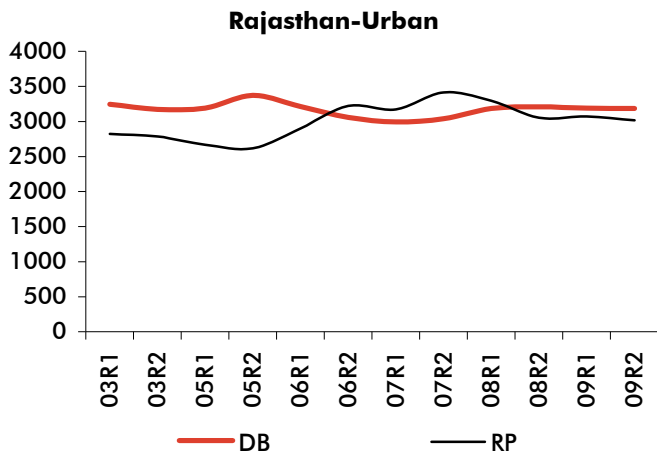
Source: Company, IRS 2009 R2, Ambit Capital research

Rajasthan: Strong in Urban markets, leads in key cities

Though, at a state level DB stands second in terms of readership in Rajasthan, it definitely leads in Urban Rajasthan and in the city of Jaipur, Jodhpur and Kota.

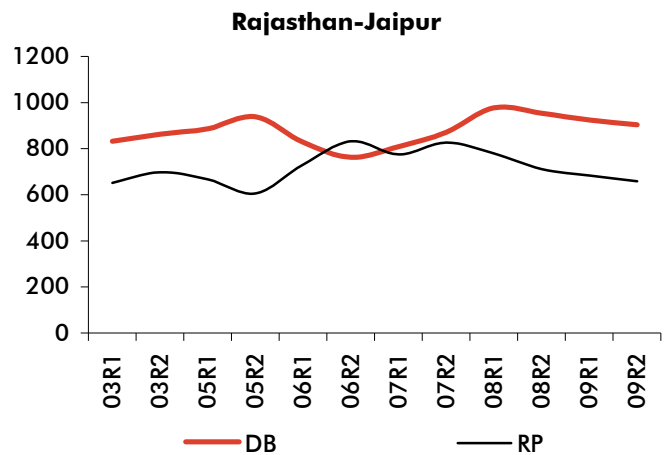
Within the state of Rajasthan, nearly 56% of readers for *Dainik Bhaskar* are from Urban Rajasthan and nearly 16% readers are from the city of Jaipur. While, for its close competitor RP (*Rajasthan Patrika*) in Rajasthan, nearly 47% readers are from Urban Rajasthan and about 10% readers are from the city of Jaipur.

Exhibit 21: DB leads in the Urban markets of Rajasthan (Readership in '000)



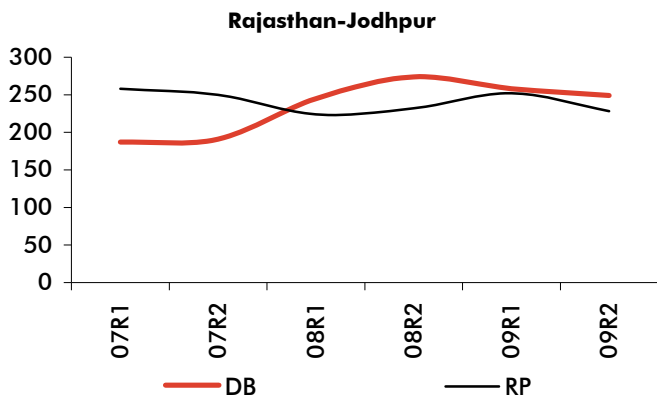
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 22: DB leads in Jaipur city (Readership in '000)



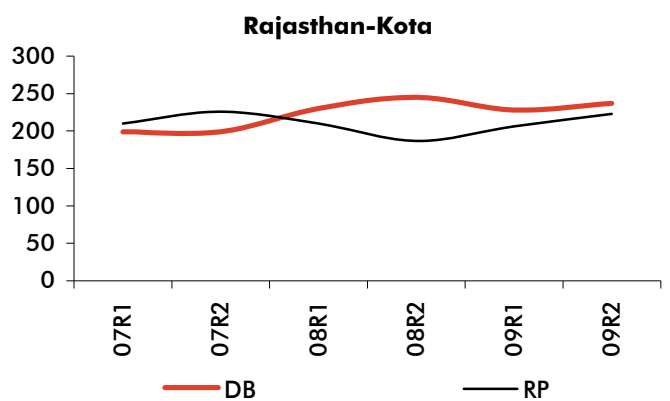
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 23: DB leads in Jodhpur (Readership in '000)



Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 24: DB leads in Kota (Readership in '000)



Source: Company, IRS 2009 R2, Ambit Capital research

Gujarat: Strong in Urban markets, leads in key cities

As per the company, *Divya Bhaskar* leads in Gujarat in terms of circulation. However, in terms of readership there is stiff competition between *Divya Bhaskar*, *Gujarat Samachar* and *Sandesh*. *Divya Bhaskar* has been successful in maintaining second position in readership in Urban Gujarat while it leads in Ahmedabad.

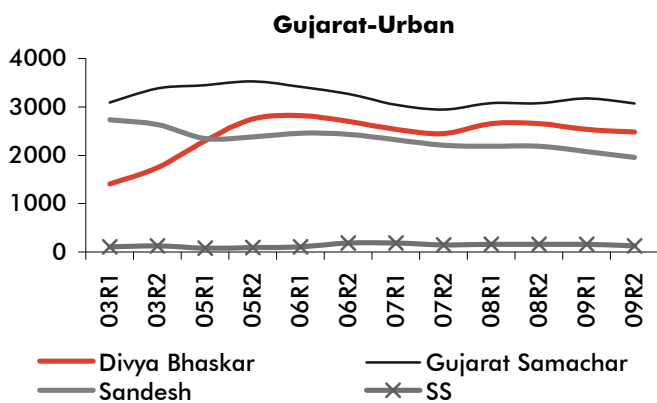
Within Gujarat, nearly 74% readers for *Divya Bhaskar* are from the Urban area and nearly 28%, from the city of Ahmedabad. While, for its close competitor, *GS (Gujarat Samachar)* in Gujarat, nearly 67% readers are from the Urban area and about 18% readers are from the city of Ahmedabad. Similarly for *Sandesh*, 61% of its readers are from the Urban area and 13%, from Ahmedabad.

Exhibit 25 : Gujarat - Comparative readership

IRS 2009 R2	Divya Bhaskar	GS	Sandesh
Urban as % of total readership	73.8	66.7	60.4
Ahmedabad as % of total readership	27.7	17.9	13.6
Vadodara as % of total readership	8.7	7.1	6.3
Surat as % of total readership	11.7	10.5	10.5
Gujarat (Urban+Rural) - (in '000)	3359	4603	3234

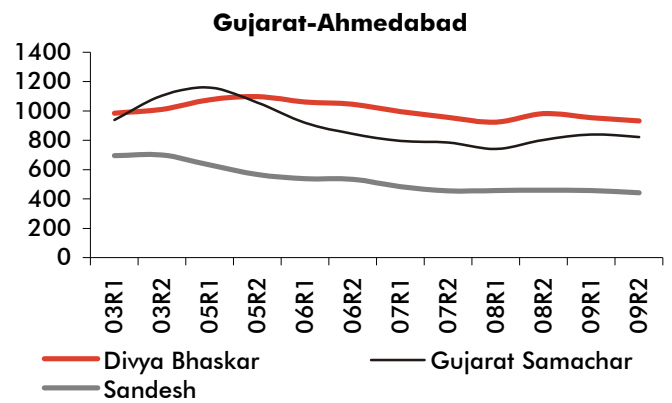
Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 26: Divya Bhaskar stands second in Urban Gujarat (Readership in '000)



Source: Company, IRS 2009 R2, Ambit Capital research

Exhibit 27: Divya Bhaskar leads in the city of Ahmedabad (Readership in '000)



Source: Company, IRS 2009 R2, Ambit Capital research

Ad revenues skewed toward local advertisers

The revenues from local advertisers formed about 60% and 64% during FY09 and 1HFY10 respectively, the remainder arising from national advertisers. At present, the company has strong relationships with about 300,000 advertisers both at the local and national level.

In terms of advertisers from various industries, the top customers are usually from the automobile, education, banking and financial services, electronics and retail sectors. Some of the top customers include Maruti Suzuki India Ltd., LG Electronics India Pvt. Ltd. and Samsung India Electronics Pvt. Ltd.

Higher share of colour leads to increasing yields

With strong GDP growth evident in the overall markets that DB Corp is present in, advertisers are increasingly preferring colour ads over black and white (B/W), as they enhance the visibility of ads. This has resulted in the share of colour to B/W increasing to 70:30 compared with 63:37 two years earlier. Colour ads are at a premium of about 2x versus B/W ads, leading to an increase in overall yields for the company. The continuous increase in colour ads is expected to result in higher revenue growth going forward as well.

Hike in advertising rates effective April 1, 2010

DB Corp has hiked rack rates by about 14% for all its editions (excluding *Divya Bhaskar*) across states with effect from April 1, 2010. We expect this would lead to improved revenue streams and directly improve margins for the company. This is also reflective of: (i) increasing confidence in growth of the economy; and (ii) return of pricing power for the company.

In the past, the average rate hike done on an annual basis has been an average of about 30% for all editions of *Dainik Bhaskar* excluding *Divya Bhaskar*. While this year the rate hike is about 14%, there is possibility of these rates being increased further with expectation of continued buoyancy in economy.

Further, the ratio of colour versus B/W ads is at 70:30; and colour ads command twice the rate versus B/W ads. This will likely result in higher realisation and yields for the company.

Exhibit 28: Hike in ad rates and colour ads at a premium to B/W ad rates

States	B & W			Color		
	2009 1st May'09	2010 1st Apr'10	% of Rate Hike	2009 1st May'09	2010 1st Apr'10	Premium over B&W
MP CG	1,909	2,111	11%	3,818	4,222	100%
Rajasthan	1,630	2,152	32%	3,260	4,304	100%
Chandigarh + Punjab + Haryana + HP	1,252	1,499	20%	2,504	2,998	100%
Chandigarh + Himachal Pradesh	374	424	13%	748	848	100%
Haryana + Chandigarh + National Edition	653	748	15%	1,306	1,496	100%
Punjab	509	536	5%	1,018	1,072	100%
Dainik Bhaskar all Editions	4,456	5,099	14%	8,912	10,198	100%
Divya Bhaskar	1,295	1,310	1%	2,590	2,620	100%
Dainik + Divya (All Editions)	5,356	5,999	12%	10,712	11,998	100%

Source: Company, Ambit Capital research

Print Media: Key Drivers

The drivers of print industry in India remain intact with the low level of print media penetration currently, supported by increasing overall media penetration, low level of digital media penetration and tremendous demand scope arising from the tier II and tier III cities. Regional markets (tier II and tier III) are expected to fuel consumption growth and companies are increasingly targeting these markets to grow their businesses. As a result, strong advertising demand would emerge from these cities, across segments such as Print, Television, Radio etc.

Pitch-Madison advertising outlook for CY2010

According to Pitch-Madison the Indian ad industry is expected to hit a market size of Rs212bn, a growth of 13.3% during CY2010. This comes on the back of negative growth of 10% last year. TV is expected to grow at 15% in CY10 with its share rising marginally to 46.2%. Print media is expected to grow at 9% after clocking negative growth rate of 21% in CY2009.

- The regional print segment is expected to grow at a faster pace whereas growth in the English print segment is expected to be subdued.
- Tier II and tier III cities are expected to be the growth areas for Print Media. Sectors such as Real Estate, BFSI, are expected to make a comeback while Telecom and Auto would continue to be strong spenders.
- During CY2009, Education was the only sector reporting double-digit share in print ads at 17.3%. Sectors such as BFSI, FMCG, Auto, Real Estate and Retail contributed an avg. 7% each to ad revenues. Share of Retail is at 6%.
- In terms of languages, the share of English has declined to 33% in 2009 from 35% and share of Hindi has increased to 30% in 2009 from 27%.

FICCI Frames advertising outlook

According to KPMG, the Indian Media and Entertainment (M&E) industry stood at Rs587bn in 2009 and is expected to grow at a 5-year CAGR of 13.2% to reach Rs1,092bn by 2014, higher than the CAGR of ~10% witnessed during 2006-09. The ad spend stood at Rs220bn in 2009 and is expected to grow at a 5-year CAGR of 14% to reach Rs427bn by 2014 (Vs 10% CAGR during 2006-09).

The projected growth rates are propped by the following factors: Favourable demographics, expectation of a recovery in GDP growth rate, rise in the advertising to GDP ratio and increasing media penetration. Some key trends to watch for: digitalisation, regionalisation, convergence, impact of new media and innovation.

Television is expected to increase its share in the M&E space to ~48% from the current ~44%, by growing at a CAGR of ~15% (2009-14). TV ad revenue is estimated to grow at a CAGR of 15.6% over the next five years to reach Rs182bn by 2014P from Rs88bn in CY2009.

Print is expected to grow at a sub-industry rate of 9% CAGR (2009-2014) to reach Rs269bn by 2014. This segment is expected to witness ad revenue growth of 11.4% over next 5 years to reach Rs176bn by 2014P from Rs103bn in CY2009. For CY2010, the ad revenue of industry is estimated to grow at 11%.

Expanding In New Territories: Competitive Landscape

Besides consolidating its presence in the existing market, DB Corp also plans to foray into the states of Bihar, Jharkhand and Jammu & Kashmir (only 2 cities). It is believed that the new launches will be in two states during CY2010, whereas it would be in the remaining circles, the next year.

Exhibit 29: Key statistics of Bihar and Jharkhand

	Bihar	Patna	Jharkhand	Ranchi	Jamshedpur	Dhanbad
Base population (mn)	66.0	1.8	21.9	0.9	1.1	1.0
Literacy (%)	52.0	78.0	59.0	84.0	85.0	79.0
Literacy (mn)	34.0	1.4	12.9	0.7	0.9	0.8
CRH	33.0	1.4	12.0	0.7	0.9	0.7
AHD	5.8	0.6	2.4	0.3	0.3	0.2
Penetration gap (%)	82.0	60.0	80.0	54.0	64.0	71.0

Note: CRH: Can read Hindi, AHD: Any Hindi daily;
Source: Company, Ambit Capital research

As indicated in the above table, the penetration level in both the states is at a low level indicating the available potential for growth in those markets. Also, Bihar is one of the fastest growing states in the country. Bihar's average GDP grew by 11.03% between 2004-05 to 2008-09 compared with the national GDP growth of 8.49%, which is second only to Gujarat. Further, in Bihar, agriculture growth is pegged at 7.5% which is substantially higher than most other places. Industrial growth is also on an upswing and has jumped to 22% from negative growth earlier. Jharkhand also exhibited a higher growth rate where its average GDP grew by 8.45% between 2004-05 to 2008-09.

Also, the average cover price in the states of Bihar and Jharkhand at present is in the range Rs3.50 to Rs4.00 per copy. This provides a good entry point to DB Corp as it has an average cover price of Rs2.50 in most of the areas in which it operates. Coupled with the low penetration levels, this makes expansion in these markets attractive.

HT Media's Hindi daily, *Hindustan* and Jagran Prakashan's Hindi daily, *Dainik Jagran* are the leading players in Bihar, which together account for more than 80% market share in terms of readership. The Jharkhand market, on the other hand, is dominated by *Hindustan*, *Prabhat Khabhar* and *Dainik Jagran*.

We therefore believe that unlike the company's previous successful launches in the states of Gujarat and Rajasthan, DB Corp may face stiff competition from *Hindustan* while making an entry in these states.

An upcoming event in Bihar is the state assembly elections scheduled for October 2010, and in our view, this would be a good time for newspapers to thrust circulation. Also, advertising revenue tends to be higher during the election period. As a result, we expect DB Corp to launch its Bihar and J&K operations in this year, and in Jharkhand, the next year. However, the lack of details makes us cautious and hence we are not including the Bihar and Jharkhand operations in our valuation.

We have tried to build in a sensitivity to understand the probable impact on the financials of the company.

Exhibit 30: Estimates of P&L of Bihar and Jharkhand market

(Rsmn)	2010-11E	2011-12E	2012-13E	2013-14E	2014-15E
Circulation (mn)	0.25	0.45	0.6	0.75	0.85
Effective Cover Price (Rs)	1.25	1.25	1.75	1.75	1.75
Ad Revenue	62	313	656	1,192	1,688
Circulation Revenue	19	119	280	392	468
Total	81	432	936	1,584	2,156
Expenses	283	811	1,123	1,482	1,830
Newsprint Cost	132	546	801	1,102	1,374
Employee Cost	31	85	112	139	179
S,G&A Exp	60	90	105	121	139
Other Opex	60	90	105	121	139
EBITDA	(201)	(379)	(187)	101	326

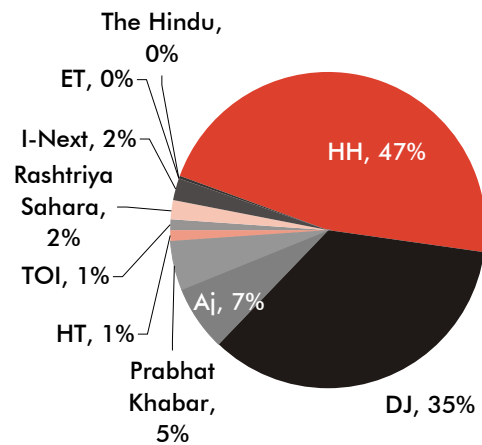
Source: Company, Ambit Capital research, Industry. Note: Launch of Newspaper is estimated to be in 2HFY11.

Exhibit 31: Comparative analysis

	Circulation	Readership
Bihar		
Hindustan	538,059	4,331,000
Dainik Jagran	320,000	2,382,000
Prabhat Khabhar		191,000
Jharkhand		
Hindustan	186,989	1,196,000
Dainik Jagran	118,000	77,600
Prabhat Khabhar	226,000	1,003,000

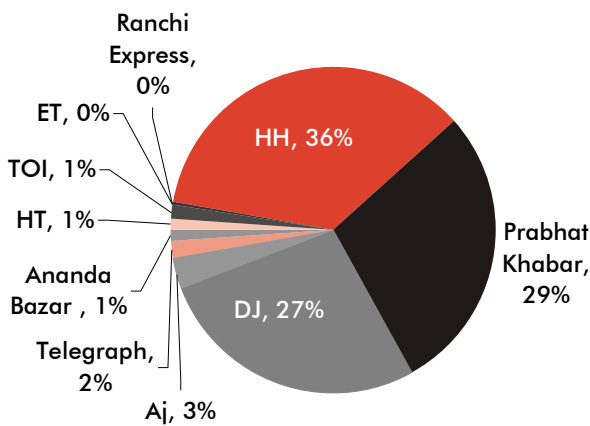
Source: Company, Ambit Capital research

Exhibit 32: Bihar total readership share



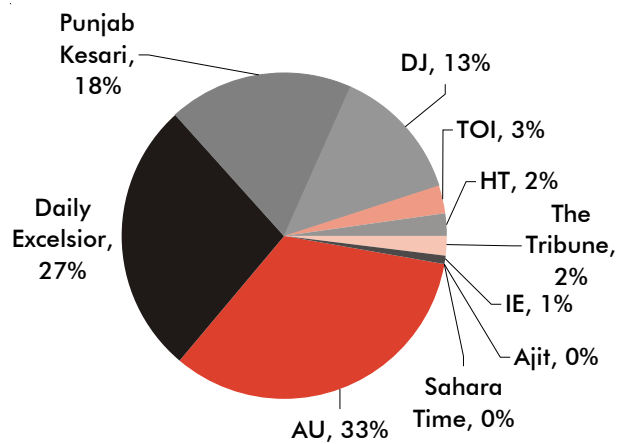
Source: IRS 2009, Ambit Capital research

Exhibit 33: Jharkhand total readership share



Source: IRS 2009, Ambit Capital research

Exhibit 34: J&K total readership share



Source: IRS 2009, Ambit Capital research

Relatively Lower Newsprint Cost

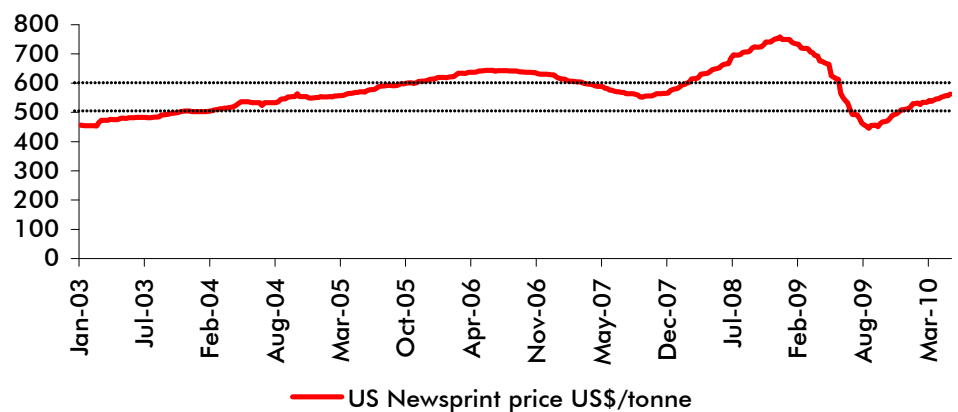
Newsprint is the prime raw material and forms a majority of the operating cost for the company. The company imports 20% of its newsprint, while the balance 80% is sourced domestically. The price of the newsprint depends on changes in the international prices, as a result, raw material cost gets impacted accordingly. Any increase in the cost of newsprint affects profitability of the company adversely. The cost of newsprint to total revenues stood at about 43% for FY09 and 31% for 9MFY10. The cost of newsprint as % of total opex stood at 50% for FY09 and 47% for 9MFY10.

The key domestic suppliers for the company include Rama Newsprint & Papers Ltd., Nepa Ltd., Malu Paper Mills Ltd., Shah Paper Mills Ltd. and N.R. Agarwal Industries Ltd. As of FY09, about 80% of the annual newsprint requirement has been sourced from these producers.

The company also sources newsprint from international producers, such as Norske Skog Pan Asia Co. Pte Ltd. in Singapore, Central National Gottesman Asia Ltd. In China, Jacob Jurgensen Paper and Zellstoff GMBH from Germany and Mayar (HK Ltd.) in Hong Kong, according to its needs; and further, the company takes advantage of any price/quality differential that may exist in these areas.

For FY10 the average cost of newsprint has been about US\$550/tonne. In our financials we have factored in an increase of 10%-12% in the cost of newsprint for FY11 and a similar hike in FY12.

Exhibit 35: Movement in newsprint prices



Source: Bloomberg, Ambit Capital research

Other Businesses

The company has a presence in the radio business under the brand name of MY-FM that is present in 7 states and 17 cities and it also has a strong online presence through internet portals.

Radio business to turn EBITDA positive

The company has a presence in the Radio business through Synergy Media Entertainment Ltd. (SMEL). It operates the radio business under the brand name MY-FM. Through SMEL, the company operates 17 FM radio stations.

MY-FM is an FM radio channel that broadcasts entertainment programs (other than news and news-related programs) in 17 cities in India, namely, Jaipur, Ahmedabad, Chandigarh, Amritsar, Jalandhar, Indore, Bhopal, Gwalior, Udaipur, Ajmer, Surat, Bilaspur Nagpur, Kota, Jabalpur, Raipur and Jodhpur.

SMEL currently operates in areas where DBCL has an established print presence. This helps SMEL cross-sell its advertising space to local advertisers.

During 9M2009, the radio segment generated revenues of Rs284mn compared with Rs220mn in the corresponding period last year, a growth of 29%. The radio segment turned EBITDA positive in 3QFY10 and it is expected to turn EBITDA positive for the full year of FY10.

Internet Business

The company has a presence in internet portals and short messaging service (SMS) portals through its subsidiary, I Media Corp. Ltd. (IMCL). The internet business has been incurring losses since the last three years.

Exhibit 36: Financials of Internet business

Name of Subsidiaries (Rsmn)	FY07	FY08	FY09
IMCL - Internet and SMS portals	(17.8)	(52.4)	(53.1)

Source: Company, Ambit Capital research

Event management

Through DB Activation (a division of DB Corp), the company is engaged in organizing activities such as road shows, mall activities, live entertainment shows, trade shows, conferences, trade meetings, exhibitions and shopping festivals. As of September 2009, we note, about 1% of the company's total net revenue comes from this division.

Strong Financials

Growth in ad revenues at 16% CAGR over FY10-12E

We expect the ad revenues for DB Corp (consolidated level) to grow at a CAGR of 14% over FY09-12E compared with an average growth of 27% witnessed during FY06-09. The ad revenue, however, is estimated to grow at 16% during FY10-12E. This is higher than the industry average ad revenue growth of about 10% over FY10-12E.

Circulation revenues to grow at 6% CAGR over FY10-12E

We expect circulation revenues to grow at a CAGR of 6% over FY10-12E, a tad lower than 8.4% CAGR witnessed during FY07-10E. As a result of the growth in ad revenues and circulation revenues, total revenues are expected to grow at 12% CAGR over FY09-12E (14% over FY10-12E) v/s 16% CAGR over FY07-10E.

EBITDA to grow at 48% CAGR over FY09-12E

For FY10 the average cost of newsprint has been about US\$550/tonne, this is far lower than the high cost of about US\$950/tonne witnessed during 2008-09. In our estimates, we have built in an increase of 10-12% to the cost of newsprint for FY11 and a similar trend for FY12. We have also factored in an increase in the other operating expenses. As a result, total expenditure is expected to grow at 14.5% CAGR over FY10-12E.

On the back of higher growth in revenues and a comparatively lower cost of newsprint, the EBITDA is likely to grow at a CAGR of 48% over FY09-12E (13% over FY10-12E) v/s 22% over FY06-09. We expect EBITDA margin to hover at around 33% during the FY10-12E period.

PAT to grow at a healthy pace

PAT is expected to grow at 77% CAGR over FY09-12E (19% CAGR over FY10-12E) v/s 11% CAGR over FY06-09. PAT margin is expected to be about an average of 20% during the coming years versus an average of 7% during FY06-09. We expect DB Corp to report an EPS of Rs13 for FY11 and Rs14.8 for FY12 respectively.

Return ratios to remain higher

On the back of strong improvement in profitability, the company is expected to report higher return ratios. The return on capital employed (RoCE) is estimated to be 35.3% for FY11E and 35.5% for FY12E. The return of equity is expected to be 27% during FY10 compared with 18% in FY09.

DB Corp: An Overview

DB Corp. operates in three business segments namely Print, Radio (under the subsidiary SMEL) and Internet (under the subsidiary IMCL). Its primary source of revenue is the Print business. The promoters have been engaged in the print media business for over four decades and together with the promoter group currently own 86.3% of DB Corp's equity capital.

Exhibit 37: DB Corp - company structure



Source: Company, Ambit Capital research .Note: 'SMEL' is Synergy Media Entertainment Limited and 'IMCL' is I Media Corp Limited.

Business Overview

DB Corp is one of the leading print media companies in India — it publishes 7 newspapers, 48 newspaper editions and 128 sub-editions across 11 states in India. The newspapers are published in three languages (Hindi, Gujarati and English). Its flagship newspapers, *Dainik Bhaskar*, *Divya Bhaskar* and *Saurashtra Samachar*, have a combined average daily readership of 15.5mn. Through its newspapers the company has a key presence in areas of the north, central and western India. The company also publishes other newspapers such as **Business Bhaskar**, **DB Gold**, **DB Star** and, on a franchisee basis, **DNA** (in Gujarat and Rajasthan). The company has an ISO 9001:2000 certification and is the only Hindi language newspaper to have been awarded such certification.

Dainik Bhaskar has a total average daily readership of 11.7mn readers and is the area leader in terms of readership in the dailies segment in Madhya Pradesh, Chattisgarh, Chandigarh and Haryana. *Divya Bhaskar* is the number one Gujarati daily newspaper in terms of circulation in Gujarat.

The company also publishes a **Hindi business newspaper, Business Bhaskar** which is present across the country in Bhopal, Indore, Raipur, Panipat, New Delhi, Jalandhar and Ludhiana and plans to increase the number of editions to 17 ahead spanning major cities across nine states. The company also publishes 5 periodicals namely **Aha Zindagi**, a monthly magazine published in Hindi and Gujarati, **Bal Bhaskar**, a Hindi magazine for children, **Young Bhaskar**, a children's magazine in English and **Lakshya**, a career magazine in Hindi.

Exhibit 38: DB Corp - flagship newspapers 2009

	Avg Circulation /day (mn)	Avg Readership /day (mn)
<i>Dainik Bhaskar</i>	2.7	11.7
<i>Divya Bhaskar</i>	1.0	3.4
Total	3.7	15.1

Source: Company, IRS 2009, Ambit Capital research .Note: Circulation is Apr-Mar.

Dainik Bhaskar

The first edition of *Dainik Bhaskar* was published in Madhya Pradesh in 1958, and it is now published in 27 editions in 9 states — Madhya Pradesh, Rajasthan, Chattisgarh, Haryana, Delhi, Punjab, Himachal Pradesh, Uttarakhand and the Union Territory of Chandigarh.

It has a total average daily readership of 11.7mn readers and is the area leader in terms of readership in the daily newspaper segment in Madhya Pradesh, Chattisgarh, Chandigarh and Haryana. It is a widely read newspaper in Madhya Pradesh, Chattisgarh, Rajasthan, Haryana, Punjab, and Chandigarh.

Exhibit 39: Dainik Bhaskar statewise breakup

Dainik Bhaskar States	Avg Circulation/day (in Mn) Apr-Mar			Readership (mn) 2009	Competition
	FY07	FY08	FY09		
Madhya Pradesh	0.53	0.52	0.60	2.50	Nav Bharat
Chattisgarh State.	0.23	0.24	0.25	1.02	Nav Bharat
Rajasthan State.	1.02	1.14	1.11	5.74	Rajasthan Patrika
Haryana State.	0.28	0.26	0.26	1.30	Dainik Jagran
Chandigarh.	0.12	0.11	0.11	0.20	Tribune, Kesri
Punjab	0.20	0.33	0.33	0.80	Punjab Kesari and Jagran
Total	2.370	2.599	2.664	11.56	

Source: Company, IRS 2009, Ambit Capital research

Divya Bhaskar

Divya Bhaskar is the number one Gujarati daily newspaper in terms of circulation in Gujarat.

Exhibit 40: Divya Bhaskar and a comparison with its key competitor

Divya Bhaskar (in mn)	FY07	FY08	FY09
Avg Circulation/day	1.120	1.078	1.010
Avg Readership/day	3.31	3.54	3.43
Gujarat Samachar (avg. readership/day)	4.73	4.46	4.76

Source: Company, Ambit Capital research. Note: The readership figures are for Jan-Dec.

Distribution platform

As of September 2009, the company managed and operated 3,447 distributors, 22 sales offices and approximately 515 bureau offices.

Printing infrastructure

The company has one of the largest newspaper production and distribution platforms in India. They produce print products at 31 facilities spread across 31 cities and have a total installed capacity of approx. 1.94mn copies per hour.

Exhibit 41: Snapshot of printing infrastructure

State	No. of Printing Plants	No. of Machines	Installed Capacity copies per hour ('00,000s)	No. of editions printed at the location
Madhya Pradesh	5	12	4.0	9
Chattisgarh	2	3	1.0	5
Rajasthan	12	17	5.4	9
Haryana & Punjab (incl.Chandigarh)	5	12	3.8	10
Gujarat	7	15	5.3	10
Total	31	59	19.4	43

Source: Company, Ambit Capital Research

Exhibit 42: Balance sheet

Y/E Mar (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Cash & Equivalents	808	452	1,127	1,794	2,989
Debtors	1,755	1,774	1,983	2,253	2,578
Inventory	671	711	583	663	773
Loans & Advances	978	1,052	1,138	1,292	1,479
Investments	68	238	238	238	238
Fixed Assets	3,623	6,471	6,699	6,785	6,838
Goodwill					
Other Assets	-	-	-	-	-
Total Assets	6,221	8,724	10,110	11,149	12,764
Current Liabilities & Provisions	1,715	2,189	1,874	2,091	2,348
Debt	3,228	5,412	2,412	1,412	662
Minority Interest	242	124	124	124	124
Deferred Tax Liability	346	393	393	393	393
Other Liabilities					
Total Liabilities	5,531	8,118	4,803	4,020	3,527
Shareholders Equity	1,688	1,688	1,815	1,815	1,815
Reserves & Surpluses	509	889	5,147	7,187	9,551
Total Networth	2,197	2,577	6,963	9,002	11,366
Net Working Capital	2,497	1,799	2,957	3,910	5,471
Net Debt (Cash)	2,420	4,960	1,285	(382)	(2,327)
Total Liabilities & Equities	6,221	8,724	10,110	11,149	12,764

Exhibit 43: Income statement

Y/E Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Operating income	8,506	9,490	10,341	11,746	13,442
% growth	27.9	11.6	9.0	13.6	14.4
Operating expenditure	-6,798	-8,137	-6,850	-7,842	-9,013
EBITDA	1,709	1,353	3,491	3,903	4,429
% growth	102.3	-20.8	158.0	11.8	13.5
Depreciation	-220	-290	-372	-414	-447
EBIT	1,488	1,063	3,119	3,490	3,982
Interest expenditure	-281	-402	-310	-107	-63
Non-operational income / Exceptional items	121	120	100	110	121
PBT	1,328	782	2,909	3,493	4,040
Tax	-630	-423	-1,076	-1,160	-1,342
PAT / Net profit	759	477	1,901	2,358	2,683
% growth	37.2	-37.1	298.4	24.1	13.8

Source: Company, Ambit Capital Research

Exhibit 44: Cash flow statement

Y/E Mar (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
EBIT	1,488	1,063	3,119	3,490	3,982
Other income (expenditure)	121	120	100	110	121
Depreciation	(220)	(290)	(372)	(414)	(447)
Interest	(281)	(402)	(310)	(107)	(63)
Tax	(630)	(423)	(1,076)	(1,160)	(1,342)
Incr (decr) in deferred tax liability	70	47	-	-	-
Incr (decr) in net working capital	(1,058)	(342)	483	286	366
Cash flow from operating activities	529	855	1,790	2,485	2,764
Incr (decr) in capital expenditure	1,100	3,197	627	525	520
Inc/(Decr) in Intangible	(21)	(60)	(27)	(25)	(20)
Incr (decr) in investments	68	170	-	-	-
Inc/(Decr) in Goodwill	-	-	-	-	-
Cash flow from investing activities	(1,147)	(3,308)	(600)	(500)	(500)
Incr (decr) in borrowings	(341)	2,195	(3,000)	(1,000)	(750)
Issuance of equity	1,667	(0)	2,698	-	-
Dividend paid	(99)	(99)	(212)	(319)	(319)
Others					
Cash flow from financing activities	1,227	2,096	(515)	(1,319)	(1,069)
Net change in cash	609	(356)	675	667	1,195
Closing cash balance	808	452	1,127	1,794	2,989

Exhibit 45: Ratio analysis

Y/E Mar (%)	FY08	FY09	FY10E	FY11E	FY12E
EBITDA margin	20.1	14.3	33.8	33.2	32.9
EBIT margin	17.5	11.2	30.2	29.7	29.6
Net profit margin	8.9	5.0	18.4	20.1	20.0
Return on capital employed	27.9	15.9	35.9	35.3	35.5
Return on equity	34.5	18.5	27.3	26.2	23.6
Dividend payout ratio	11.1	17.7	9.6	11.5	10.1
Current ratio (x)	2.5	1.8	2.6	2.9	3.3

Exhibit 46: Valuation parameters

Y/E Mar	FY08	FY09	FY10E	FY11E	FY12E
EPS (Rs)	4.5	2.8	10.5	13.0	14.8
Diluted EPS (Rs)	4.5	2.8	10.5	13.0	14.8
Book value per share (Rs)	13.0	15.3	38.4	49.6	62.6
P/E (x)	54.0	86.0	23.2	18.7	16.4
P/BV (x)	18.7	15.9	6.3	4.9	3.9
EV/EBITDA (x)	25.4	33.8	12.9	11.1	9.4
EV/Sales (x)	5.1	4.8	4.4	3.7	3.1

Source: Company, Ambit Capital Research

**Ambit Capital Pvt. Ltd.**

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower Parel,
Mumbai 400 013, India.
Phone : +91-22-3043 3000
Fax : +91-22-3043 3100

Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
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