

May 22, 2008

Rating	Market Performer
Price	Rs136
Target Price	Rs163
Implied Upside	19.5%
Sensex	16,907

(Prices as on May 22, 2008)

Trading Data

Market Cap. (Rs bn)	33.4
Shares o/s (m)	234.2
Free Float	31.3%
Avg. Daily Vol ('000)	148.5
Avg. Daily Value (Rs m)	22.2

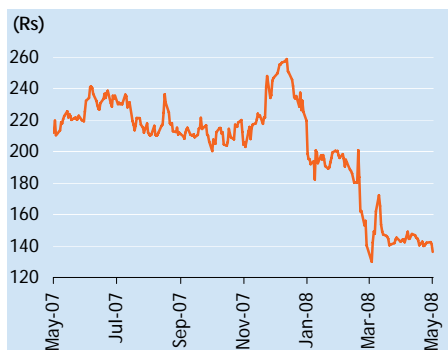
Major Shareholders

Promoters	68.7%
Foreign	17.8%
Domestic Inst.	9.4%
Public & Others	4.1%

Stock Performance

(%)	1M	6M	12M
Absolute	(4.9)	(33.7)	(35.7)
Relative	(5.6)	(25.0)	(52.6)

Price Performance (RIC: HTML.BO, BB: HTML IN)



Source: Bloomberg

- **Results:** HT Media's (HTM) Q4FY08 results were above our expectations due to higher than expected earnings. Revenue grew by 14% YoY to Rs3,134m. Lower newsprint costs YoY, enabled to set off any increase in newsprint consumption due to increased circulation, thus expanding margins by 400 bps to 19.2%. Earnings grew by 74% YoY to Rs416m, due to lower tax provisioning.

For FY08, the company reported a revenue growth of 14% YoY from Rs10.4bn to Rs11.9bn, operating margins expanded by 50 bps from 18.3% to 18.8%; earnings recorded a growth of 26% YoY from Rs1.15bn to Rs1.45bn.

- **Hindi business drives growth:** HTM's Hindi business that contributes ~20% of ad. revenues continued its robust performance by growing at 35% YoY, as against the English business that grew by ~18%.

- **Newsprint prices continue to spiral upwards:** Newsprint costs which constitute ~50% of raw material costs and ~40% of revenues, have risen by 16% YTD, and are currently ruling at \$800/tn, whereas the company closed FY08 with average newsprint costs of \$625/tn. The company managed to maintain their margin due to higher inventory levels, the impact of which is likely to wear off by Q2FY09E. We have built in \$750/tn for FY09E.

- **Outlook & valuation:** We expect HTM to post a 15% CAGR FY08-10E in revenues, flat operating margins (40 bps expansion) and a 10% CAGR in earnings. Also with an increase in newsprint costs the landscape for FY09E looks negatively skewed. Even newer business initiatives such as radio and internet will continue to remain in the ramp up phase over the next 18 months. We therefore, downgrade the stock from an Outperformer to a Market performer with a view of no evident positive catalysts for the company, and cut our target price by 34% from Rs247 to Rs163.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	10,393	11,862	13,731	15,690
Growth (%)	26.6	14.1	15.8	14.3
EBITDA (Rs m)	1,905	2,229	2,612	3,018
PAT (Rs m)	1,151	1,445	1,534	1,735
EPS (Rs)	4.9	6.2	6.5	7.4
Growth (%)	(38.3)	25.6	6.2	13.1
Net DPS (Rs)	0.3	0.4	0.5	0.6

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	18.3	18.8	19.0	19.2
RoE (%)	16.0	17.9	16.9	17.1
RoCE (%)	14.0	15.9	15.2	15.2
EV / sales (x)	3.1	2.7	2.4	2.0
EV / EBITDA (x)	17.1	14.5	12.4	10.5
PE (x)	27.8	22.1	20.8	18.4
P / BV (x)	4.2	3.7	3.3	3.0
Net dividend yield (%)	0.2	0.3	0.4	0.4

Source: Company Data; PL Research

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Highlights

Financial highlights

Q4FY08

HTM revenues grew by 14% YoY from Rs2.75bn to Rs3.13bn on account of 14% growth in ad. revenues and 12% in circulation revenues.

Revenue break-up			<i>(Rs m)</i>
Y/e March	Q4FY08	Q4FY07	YoY gr. (%)
Ad. revenues	2,750	2,412	14.0
<i>% of revenues</i>	<i>87.9</i>	<i>87.7</i>	
Circulation revenues	380	338	12.4
<i>% of revenues</i>	<i>12.1</i>	<i>12.3</i>	
Total revenues	3,130	2,750	13.8

Source: Company Data, PL Research

Advertisements from the education sector drove growth this quarter against real estate in Q3FY07. The decline in newsprint prices YoY and the appreciation of INR v/s USD helped the company expand margins by 400 bps from 15.2% to 19.2%. Coupled with the margin expansion and a lower tax provisioning helped earnings grow by 74% YoY from Rs240m to Rs416m. Lower tax rates were provided on account of amalgamation of a loss making company (Go4i).

FY08

For FY08 the company reported a YoY revenue growth of 14% from Rs10.4bn to Rs11.86bn, this was aided by a 16% growth in ad. revenues and 7% growth in circulation revenues. Operating margins expanded by 50bps from 18.3% to 18.8%, earnings as a result of lower tax rates earnings grew by 26% from Rs1.15bn to Rs1.45bn.

Revenue break-up (Rs m)

Y/e March	FY08	FY07	YoY gr. (%)
Ad. revenues	10,137	8,767	15.6
<i>% of revenues</i>	<i>87.4</i>	<i>86.6</i>	
Circulation revenues	1,459	1,362	7.1
<i>% of revenues</i>	<i>12.6</i>	<i>13.4</i>	
Others	266	264	0.9
<i>% of revenues</i>	<i>2.3</i>	<i>2.6</i>	
Total revenues	11,596	10,129	14.5

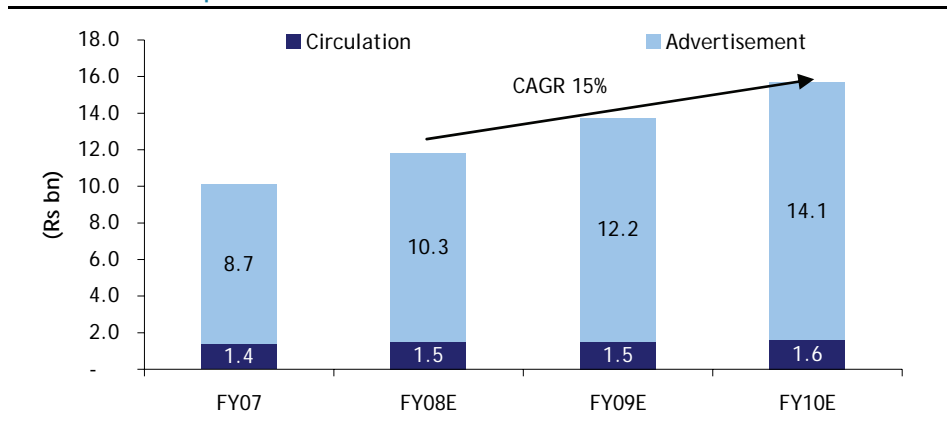
Source: Company Data, PL Research

Outlook

Revenues expected to grow at 15% CAGR FY08-10E

We expect ad. revenues to grow faster at 18% CAGR FY08-10E and circulation revenues should clock a 5% CAGR. Ad. revenues should be largely driven by ad rate hikes as we see minimal scope for yield improvement. HTM's Hindi business is estimated to post a 27% CAGR as against its English counterpart which is expected to clock a 15% CAGR.

Circulation growth of 5% should be largely driven by new edition launches in the Hindi business; given that circulation growth in company's English editions have plateaued.

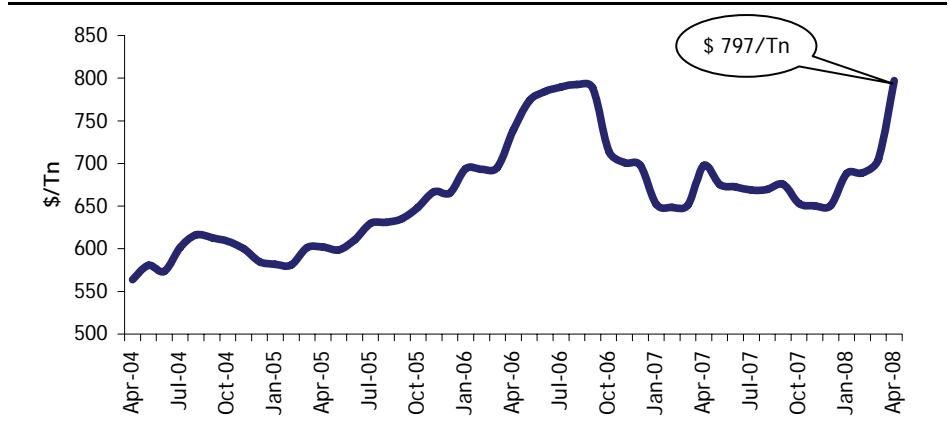
Revenue break-up


Source: Company Data, PL Research

Newsprint prices continue to rise

Newsprint costs which constitute ~50% of raw material costs and ~40% of revenues, have risen by 16% YTD, and are currently ruling at \$800/tn, whereas the company closed FY08 with average newsprint costs of \$625/tn. The company managed to maintain its margins due to higher inventory levels which are likely to wear off by Q2FY09E. We have built in \$750/tn for FY09E.

Newsprint prices



Source: CrisInfac

Sensitivity Analysis of Newsprint prices in FY09E on Operating margins and earnings

	\$750/tn (Base)	\$800/tn	Deviation	\$850/tn	Deviation
Operating Margin (%)	19.2	16.2	(300) bps	13.4	(580) bps
PAT (Rs m)	1,534	1,277	-17%	1,020	-34%
EPS (Rs)	6.6	5.5	-17%	4.3	-34%

Source: PL Research

With the sensitivity newsprint prices to operating margins, we modelled for a flat margin scenario, given that newsprint prices are expected to stiffen further during FY09E, and probably decline in early FY10E.

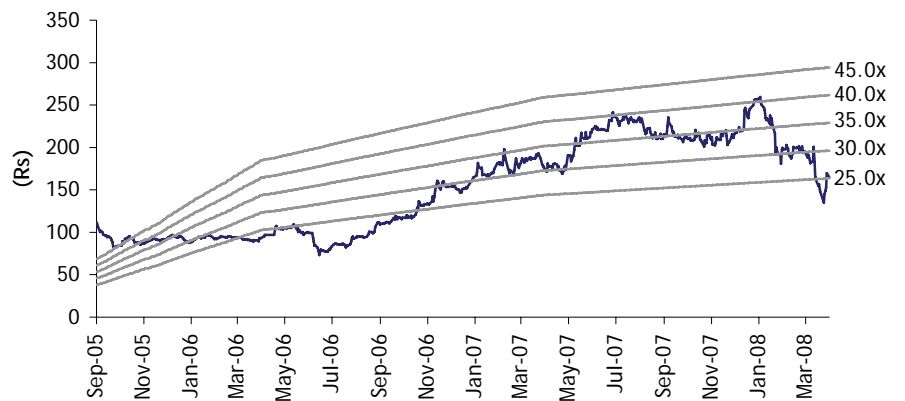
We see HTM remaining in a prolonged investment phase. The company plans to enhance its printing capacity in Mumbai, launch new editions in Hindi, and also invest to build up an internet portfolio. In FY09E the company plans to undertake a capex of Rs2bn for its print business. Given the benign revenue, margin and earnings outlook for company we turn negative on the company and the print media sector.

Valuation

With a view on the 16% YTD increase in newsprint prices, the company remaining in an extended investment phase, and recent de-rating of the print media sector we see no eminent positive catalysts for the company.

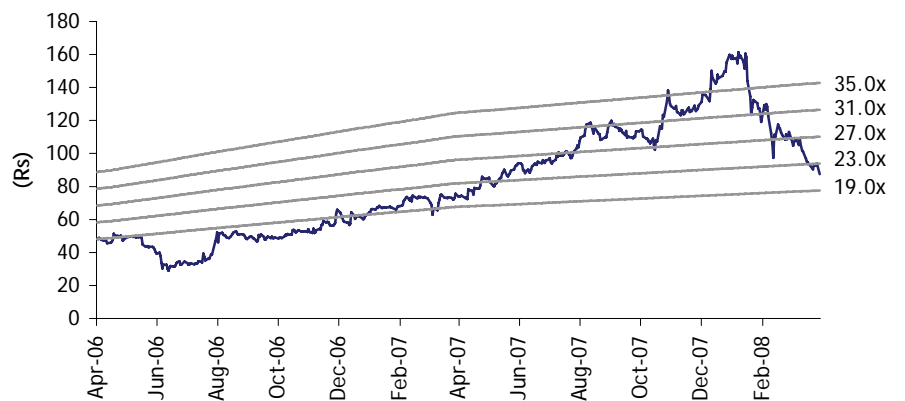
Until recently both HT Media and Jagran Prakashan used to trade at 30x 1-yr forward PER (refer to 1-yr forward PER charts below), however in the recent market decline we see that the print sector has witnessed a de-rating and currently trades at 22x 1-year forward PER. With the same view we downgrade HTM from an Outperformer to Market performer, and cut our price target by 34% from Rs247 to Rs163 (22x FY10E)

HT Media 1yr. Forward PE Band



Source: PL Research

Jagran Prakashan 1yr. Forward PE Band



Source: PL Research



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net revenues	3,134	2,750	13.9	3,194	10,393	11,862	14.1
Consumption of raw materials	1,121	1,121	(0.0)	1,226	4,317	4,562	5.7
Staff cost	497	391	27.1	433	1,477	1,756	18.9
Advt & sales promotion	260	268	(3.1)	318	2,694	3,315	23.1
Other expenditure	654	552	18.6	626	-	-	
Total expenditure	2,532	2,332	8.6	2,602	8,488	9,633	13.5
Operating profit	601	418	43.8	592	1,905	2,229	17.0
<i>Operating margins (%)</i>	<i>19.2</i>	<i>15.2</i>		<i>18.5</i>	<i>18.3</i>	<i>18.8</i>	
Other income	123	91	35.7	87	403	407	1.0
Depreciation	117	107	9.0	114	397	447	12.5
Interest	43	35	24.9	45	143	177	24.4
PBT	564	367	53.7	521	1,768	2,012	13.8
Tax	148	127	16.3	153	614	567	(7.8)
<i>Tax Rate (%)</i>	<i>26.3</i>	<i>34.7</i>		<i>29.3</i>	<i>34.8</i>	<i>28.2</i>	
Adjusted PAT (Ex Minority Int.)	416	240	73.6	369	1,153	1,445	25.3



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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