

RESULT UPDATE

MID CAP

Share Data

Reuters code	DECH.BO
Bloomberg code	DECH IN
Market cap. (US\$ mn)	721
6M avg. daily turnover (US\$ mn)	4.5
Issued shares (mn)	245
Target price (Rs)	158

Performance (%)	1M	3M	12M
Absolute	10	33	233
Relative	18	29	89

Valuation ratios (Standalone)

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	10.9	12.5
+/- (%)	90.0	15.2
PER (x)	12.7	11.1
PBV (x)	2.4	2.0
Dividend/Yield (%)	0.7	0.7
EV/Sales (x)	3.8	3.5
EV/EBITDA (x)	7.7	7.0

Major shareholders (%)

Promoters	64
FII's	13
MF's	11
BFSI's	1
Public & Others	11

Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1QFY10	QoQ (%)	FY09	YoY (%)	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	2,264	2,509	10.8	2,166	15.8	8,149	4.2	8,959	9.9	9,745	8.8
EBITDA	773	1,387	79.3	1,059	30.9	2,682	(45.0)	4,420	64.8	4,849	9.7
EBITDA Margin (%)	34.2	55.3	-	48.9	-	32.9	-	49.3	-	49.8	-
Depreciation	(75)	(102)	35.3	(99)	2.2	(321)	8.1	(410)	28.0	(439)	7.0
Other Income	155	75	(51.5)	71	5.9	427	12.7	307	(28.0)	425	38.3
Interest	(198)	(111)	(43.9)	(111)	0.5	(709)	(7.6)	(432)	(39.1)	(360)	(16.7)
PBT	655	1,249	90.8	920	35.7	2,079	(50.4)	3,885	86.8	4,475	15.2
Tax	(202)	(250)	23.8	(150)	66.7	(679)	(53.9)	(1,224)	80.3	(1,410)	15.2
PAT	453	999	120.7	770	29.7	1,401	(48.5)	2,661	90.0	3,065	15.2
EPS (Rs)	1.8	4.1	120.7	3.1	29.7	5.7	(49.1)	10.9	90.0	12.5	15.2
PAT Margin (%)	20.0	39.8	-	35.6	-	17.2	-	29.7	-	31.5	-

Deccan Chronicle

Maintain Outperformer

Price: Rs 138

BSE Index: 15,896

30 October 2009

2QFY10 Result – IPL theme yet to play out...

Deccan Chronicle's (DCHL) results were better than our expectations.

- Advertising revenue grew by 11% YoY to Rs 2.35 bn due to favourable pricing and volume improvement. Subscription revenue also increased by 11% YoY to Rs 150 mn mainly due to improved circulation. Total revenue at Rs 2,509 mn (B&K: Rs 2,128 mn) grew 15.8% QoQ and 10.8% YoY.
- Led by steep fall in raw material cost (down 28.7% YoY) and better cost management, total operating expenses were down by 24.8% YoY and remained flat QoQ. Consequently, the EBITDA margin improved by 2,110 bps YoY to 55.3%.
- DCHL reported a PAT of Rs 1 bn (B&K: Rs 0.6 bn) due to healthy EBITDA and due to lower provisioning of tax (at 20% PBT level).

Outlook

Deccan Chronicle's ability to take an ad hike (of 20% effective 01 October 2009), in difficult times as now, shows the dominant positioning of his newspaper in the Andhra Pradesh market. The company justifies the ad rate hike to the increased circulation because of the launch of its Bangalore edition. DCHL will be the biggest beneficiary of benign newsprint prices as it uses only imported newsprint and was the worst hit because of the price rise. We upward revise our ad growth for FY10E to 10.1% (from 4.8%) and 9.1% for FY11E (unchanged) and consequently our EPS for FY10E gets upward revised by 16% and for FY11E by 15%. We also upward revise our valuation multiple for its standalone business to 7x FY10E EV/EBITDA (from 6x earlier) on improved visibility and declining concerns with the balance sheet (like debtor days in line with industry norms). The newspaper business is valued at Rs 132 per share.

The announcement of floor price for the two new teams in IPL (these teams will play in IPL4) will act as a benchmark for valuing the existing teams in IPL. We believe that IPL is a very strong media property to own and value Deccan Chargers, the 100% subsidiary of DCHL, at Rs 26 per share. We arrive at a SOTP valuation for DCHL at Rs 158 and assign no value to its retail subsidiary. Maintain Outperformer.

Concall highlights

On Advertising growth

The company attributes advertising growth to increased participation from all sectors including education and auto. In subsequent quarters, the company expects to benefit from the hike taken in ad rates (of 20% effective from 01 October 2009).

Newsprint cost

DCHL expects to save Rs 1-1.2 bn, for FY10E, in raw material costs due to softened newsprint prices. For 2QFY10 the average price stood at US\$ 670 per tonne and is expected to be US\$ 600 per tonne for 3QFY10E. The company has a policy of carrying inventory for three months. DCHL consumes a ~80,000 tonnes of newsprint in a year.

Odyssey India Limited

The company expects revenues Rs 1 bn (~15% YoY growth) from Odyssey for FY10E. Its goal is to make a net margin of 10%.

Deccan Chargers Sporting Ventures Limited

The company has not yet finalized any stake sale or listing of this subsidiary. It is awaiting the announcement of base price for two new IPL teams which will be auctioned for IPL Season 4. The formal announcement is expected before the end of this quarter.

Gross debt, cash and debtors

DCHL has a gross debt of 4 bn and has a cash of Rs 5.5 bn. Debtors days are in line with industry standards at 90 days.

Change in estimates

(Rs mn)	Old estimates		New estimates		Change in estimates (%)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Net Sales	8,550	9,298	8,959	9,745	4.8	4.8
Growth YoY (%)	4.9	8.8	9.9	8.8	-	-
EBITDA	3,959	4,350	4,420	4,849	11.6	11.5
Growth YoY (%)	47.6	9.9	64.8	9.7	-	-
EBITDA Margin (%)	46.3	46.8	49.3	49.8	300 bps	300 bps
PAT	2,294	2,664	2,661	3,065	16.0	15.1
Growth YoY (%)	63.8	16.1	90.0	15.2	-	-
PAT Margin (%)	26.8	28.7	29.7	31.5	290 bps	280 bps
EPS (Rs)	9.4	10.9	10.9	12.5	16.0	14.7
Growth YoY (%)	63.8	16.5	90.0	15.2	-	-

Income Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	7,824	8,149	8,959	9,745
<i>Growth (%)</i>	<i>41.5</i>	<i>4.2</i>	<i>9.9</i>	<i>8.8</i>
Operating expenses	(2,948)	(5,467)	(4,539)	(4,897)
Operating profit	4,876	2,682	4,420	4,849
EBITDA	4,876	2,682	4,420	4,849
<i>Growth (%)</i>	<i>88.8</i>	<i>(45.0)</i>	<i>64.8</i>	<i>9.7</i>
Depreciation	(297)	(321)	(410)	(439)
Other income	379	427	307	425
EBIT	4,958	2,789	4,317	4,835
Interest paid	(768)	(709)	(432)	(360)
Pre-tax profit	4,191	2,079	3,885	4,475
(before non-recurring)				
Pre-tax profit	4,191	2,079	3,885	4,475
(after non-recurring)				
Tax (current + deferred)	(1,471)	(679)	(1,224)	(1,410)
Net profit (before Minority Interest, Pref. Dividend, etc.)	2,719	1,401	2,661	3,065
Reported PAT	2,719	1,401	2,661	3,065
Adjusted net profit	2,719	1,401	2,661	3,065
<i>Growth (%)</i>	<i>68.5</i>	<i>(48.5)</i>	<i>90.0</i>	<i>15.2</i>

Balance Sheet (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	7,947	3,597	6,088	7,881
Other current assets	4,672	4,226	4,335	4,749
Investments	1,909	2,409	2,409	2,409
Net fixed assets	6,456	8,231	8,222	8,424
Total assets	20,984	18,464	21,054	23,463
Current liabilities	3,016	2,588	2,846	2,929
Total debt	6,729	3,680	3,550	3,050
Other non-current liabilities	568	697	777	817
Total liabilities	10,313	6,965	7,173	6,796
Share capital	490	490	490	490
Reserves & surplus	10,181	11,009	13,391	16,177
Shareholders' funds	10,671	11,499	13,881	16,667
Total equity & liabilities	20,984	18,464	21,054	23,463
Capital employed	17,968	15,875	18,208	20,534

Cash Flow Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	4,191	2,079	3,885	4,475
Depreciation	297	321	410	439
Change in working capital	2,411	18	(96)	(331)
Total tax paid	(1,343)	(550)	(1,144)	(1,370)
Cash flow from oper. (a)	5,555	1,868	3,056	3,213
Capital expenditure	(955)	(2,095)	(401)	(642)
Change in investments	(506)	(500)	0	0
Others	160	(1)	0	0
Cash flow from inv. (b)	(1,301)	(2,596)	(401)	(642)
Free cash flow (a+b)	4,254	(728)	2,655	2,572
Equity raised/(repaid)	592	0	0	0
Debt raised/(repaid)	678	(3,049)	(130)	(500)
Dividend (incl. tax)	(859)	(573)	(34)	(279)
Cash flow from fin. (c)	412	(3,622)	(164)	(779)
Net change in cash (a+b+c)	4,665	(4,350)	2,491	1,793

Key Ratios (Standalone)

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	11.2	5.7	10.9	12.5
Growth	55.0	(49.1)	90.0	15.2
Book NAV/share (Rs)	44.1	47.0	56.7	68.1
Dividend/share (Rs)	3.0	2.0	1.0	1.0
Dividend payout ratio	31.6	40.9	10.5	9.1
Tax	35.1	32.6	31.5	31.5
EBITDA margin	62.3	32.9	49.3	49.8
EBIT margin	63.4	34.2	48.2	49.6
RoCE	30.4	16.5	25.3	25.0
Net debt/Equity	(11.4)	0.7	(18.3)	(29.0)

Valuations (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	12.3	24.2	12.7	11.1
PCE	11.1	19.7	11.0	9.7
Price/Book	3.1	2.9	2.4	2.0
Yield (%)	2.2	1.4	0.7	0.7
EV/Net sales	4.3	4.2	3.8	3.5
EV/EBITDA	7.0	12.7	7.7	7.0

Du Pont Analysis - ROE (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	34.8	17.2	29.7	31.5
Asset turnover	0.4	0.4	0.5	0.4
Leverage factor	1.9	1.8	1.6	1.5
Return on equity (%)	28.9	12.6	21.0	20.1

Rohit Dokania
rohit.dokania@bksec.com
+91-22-4031 7275

Vikash Mantry
vikash.mantry@bksec.com
+91-22-4031 7234

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Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai-400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-33-2243 7902.

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