

Deccan converges

BUY

Price	Target
Rs217	Rs330

Sensex - 13,989

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	11	25	119
Rel. to Sensex	8	14	27	80

Source: Bloomberg

Stock Details

Sector	Media
Reuters	DCHL.BO
Bloomberg	DECH@IN
Equity Capital (Rs mn)	492
Face Value (Rs)	2
52 Week H/L (Rs)	248/73
Market Cap (Rs bn)	53.4
Daily Avg Vol (No of shares)	322,207
Daily Avg Turnover (US\$ mn)	1.7

Shareholding Pattern (%)

(30th Jun.'07)

Promoters	61.1
FII/NRI	18.7
Institutions	16.8
Private Corp.	1.8
Public	1.6

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Deccan Chronicle has been among our top midcap picks since the time we commenced the coverage on the company in July 2005. The stock has appreciated from Rs204 levels (before split) at the time of our initiation to Rs220 currently (post 1:5 split) delivering a 5x return over July05-07. To further strengthen our belief in the management initiatives and the growth prospects of, we visited the Chennai facility of the company. Deccan Chronicle has its only printing facility in Tamilnadu situated in Chennai from where it circulates the newspaper upto a distance of 260kms. The entire Chennai edition operates with just 150 employees including the editorial staff, marketing team and labor. The company has over the years, built-in significant amount of automation in its processes, which is clearly reflected in its robust profitability. In just 2 years from the launch of Chennai edition, Deccan chronicle has beaten its competitor THE HINDU in terms of circulation (over 300,000). While the company plans to unlock value from its wholly owned retail subsidiary ODYSSEY, it further plans to unlock value from its another wholly owned subsidiary Sieger Solutions Ltd engaged in the business of selling advertisement space in Deccan Chronicle and internet advertising. In our estimates we have not factored the value of any of the subsidiaries, which leave headroom for further upside from our mentioned target price. We maintain our estimates and reiterate BUY recommendation on the stock with a price target of Rs330 based on 20x expected EPS of Rs16.5 for FY09E.

The key highlights of our visit and management meet were

- The value unlocking potential from its subsidiaries, Odyssey and Sieger Solutions and the Internet initiatives of Sieger Solutions
- The printing facilities of Deccan Chronicle are highly automated and operate with very less manpower, which has resulted in significant operating efficiencies

More value unlocking from subsidiaries

Deccan Chronicle books majority of the advertising revenues through its wholly owned subsidiary Sieger Solutions Ltd. Sieger is engaged into the business of marketing and selling ad space in Deccan Chronicle for a commission of ~10%. Apart from the ad space selling, Sieger plans to enter the Internet advertising, specialty magazine and event management businesses. The significant growth in the revenues of Deccan Chronicle also ensures clear visibility of revenues for the subsidiary Sieger.

Sieger has already launched a website called www.papyrusclubs.com which provides a medium for schools, colleges and educational institutes to publish news and articles on the happenings in the student community. The company has already tied up with several institutes to publish and share the campus news and happenings over the Internet. This initiative not only helps the student community get an access to their information online but also would provide the same till eternity. The company plans to enroll more than 1000 institutes over the next year. With a large chunk of student base accessing the website, the portal would provide a huge database of students and the youth community which would help the company monetize from the advertisements and e-commerce.

The company also plans to extend the services on its website www.deccanchronicle.com to offer various domain specific services such as user communities, e-mails, travel, matrimony, cookery, online news, etc. The company intends to position the portal as a gateway to south, which would provide host of content ranging from news to cookery. It also plans to provide online shopping, ring tone & music downloads, and a host of e-commerce facilities to monetize from the vast user base.

The retailing subsidiary, Odyssey, is also on aggressive expansion and an IPO of the same (likely in FY09) would provide another trigger and value unlocking for the shareholders.

Significant process automation at printing facilities

Deccan Chronicle has the state of the art, fully automated “Uniliner S” machines from Goss International. The machines have the ability to print both broadsheet and tabloid formats. The machines have a motorized inking facility and can deliver high-speed printing of upto 75,000 copies per hour with a high quality digitalized print. Deccan has two such lines of printing in Chennai, with which it can print upto 150,000 copies per hour. The stacking, packing, wrapping and bundling of the newspapers are also automated which saves significant amount of labor and has brought huge efficiencies in the system. While a non-automated press would require over 50 employees only for post printing activities such as packing, bundling, etc., Deccan has just 5-6 employees for doing the same. The highly automated printing process has resulted in significant savings in the operating costs of the company, which have contributed towards a significantly higher EBIDTA margin as compared to any other player in the industry.

Printing machine Uniliner ‘S’ installed at Deccan Chronicle’s Chennai facility



The newspaper printing process of Deccan Chronicle

- The editorial team, journalists and reporters analyze the data compiled from the domestic and international news agencies and the newswires and create the news story.
- The advertisement team along with the marketing department gathers advertisements.
- The editorial team co-ordinates with the advertising team to create newspaper pages and convert them into postscript files.
- The files converted into portable document format and sent to printing facilities after proofing by use of facsimile transmission technology.
- The files are converted into compatible files and aligned with the plates using 'Computer to Plate' technology.

- The plates are then punched and bent according to the specifications of the printing machines. The punched and bent plates are mounted on the printing machines for the printing. The machines are run at a speed where it can print copies ranging 35000 to 75000 per hour.
- The newspapers printed are stacked, wrapped, and loaded into delivery vehicles using automated stackers, packers, wrapping and bundling equipments thus making the whole process highly automated reducing the employee requirement.

Valuation

Our estimates and valuation of Deccan Chronicle is based on the core newspaper business and does not include anything from the subsidiaries Odyssey and Sieger Solutions. While management has guided for a net sales of Rs2500mn and PBT of Rs252mn for Odyssey, The subsidiary Sieger Solutions could generate revenues of Rs765mn (@ 10% of ad revenues of Deccan Chronicle) from advertisement space selling in FY08E.

Sieger's new Internet initiative, www.papyrusclubs.com, is aimed at creating a niche community of school and college students, which could build a user base of over 2mn students and an additional access from the students family members. Such a high user base could lead to a huge potential for monetization the opportunity by way of advertisements on the portal and e-commerce. Currently not much information is available on the Internet initiative, however the management intends to spend around Rs400-500mn on the same over the next 12-18 months. We believe that the Internet initiative and the value of subsidiary is a little too early to predict, but we strongly believe that Deccan is now looking at convergence by leveraging its leadership and the strong brand in the print media.

Overall we believe that the Deccan Cronicle has highly automated, state of the art operating processes, which has resulted in significant amount of savings in operating expenses. The majority of the operating expenses are fixed, which provide significant operating leverage and the so-called "Delta effect" which is reflective in the financial performance of the company. We maintain our EPS estimates of Rs12.3 and Rs16.5 for FY08E and FY09E respectively. We reiterate our BUY recommendation on the stock with a price target of Rs330.

Financials

Income statement

Y/E, Mar (Rs. mn)	FY06	FY07	FY08E	FY09E
Net Sales	3,309	5,528	8,123	10,353
Growth (%)	99.7	67.1	47.0	27.4
Staff Cost	197	215	284	355
% of Sales	6.0	3.9	3.5	3.4
Production Cost	1,843	2,406	2,883	3,305
% of Sales	55.7	43.5	35.5	31.9
Admin & Other Costs	251	324	366	544
% of Sales	7.6	5.9	4.5	5.3
EBITDA	1,017	2,583	4,591	6,149
Growth (%)	73.2	153.9	77.7	33.9
EBIDTA %	30.7	46.7	56.5	59.4
Other Income	246	323	376	268
Interest	197	332	259	168
Depreciation	103	171	308	369
PBT	964	2,403	4,400	5,880
Tax	284	788	1,364	1,823
ETR	29.5	32.8	31.0	31.0
PAT	680	1,616	3,036	4,057
Growth (%)	112.1	137.7	87.9	33.6
Net Margin (%)	20.5	29.2	37.4	39.2

Cash Flow

Y/E, Mar (Rs. mn)	FY06	FY07	FY08E	FY09E
Profit Before Tax	964	2,403	4,400	5,880
Depreciation	103	171	308	369
Interest Expenses	47	332	259	168
(Inc)/Dec in Inventory	(206)	(206)	(284)	(386)
(Inc)/Dec in Debtors	(913)	(459)	(853)	(733)
(Inc)/Dec in loans & Adv	(42)	82	(200)	100
Inc(Dec) in Cur Liab	51	439	308	312
Less: Direct Taxes	200	529	1,100	1,646
CFO	(288)	2,233	2,837	4,063
(Pur)/Sale of Fixed Asset	(1,439)	(544)	(100)	(50)
(Pur)/Sale of Investment	(833)	0	0	0
CFI	(2,972)	(544)	(100)	(50)
Inc/(Dec) in Borrowings	3,541	(3,388)	(500)	(800)
Increase in Capital	0	4,628	0	0
Dividend Paid	(47)	(277)	(1,107)	(1,107)
Interest Paid	(47)	(332)	(259)	(168)
CFF	3,104	632	(1,866)	(2,075)
Net Inc/(Dec) in Cash	(156)	2,321	871	1,938
Opening Balance	2,213	2,056	4,377	5,248
Closing Balance	2,056	4,377	5,248	7,186

Balance Sheet

Y/E, Mar (Rs. mn)	FY06	FY07	FY08E	FY09E
Equity Capital	412	492	492	492
Reserves	2,766	8,653	10,581	13,531
Networth	3,178	9,145	11,074	14,023
Total Debt	5,888	2,500	2,000	1,200
Deferred Tax Liabilities	243	502	766	942
Deferred expenses	10	10	10	10
Capital Employed	9,318	12,157	13,849	16,175
Gross Block	3,741	4,091	4,491	4,591
Less Depreciation	239	410	718	1,087
Net Fixed Assets	3,502	3,681	3,773	3,504
CWIP	406	600	300	250
Investments	893	893	893	893
Goodwill	173	173	173	173
Inventory	400	606	890	1,276
Debtors	1,358	1,817	2,671	3,404
Cash and Bank	2,056	4,377	5,248	7,186
Loans & Advances	882	800	1,000	900
Cur Liab & Provisions	521	959	1,267	1,580
Net Current Assets	4,176	6,641	8,541	11,186
Miscellaneous exp	169	169	169	169
Total Assets	9,318	12,157	13,849	16,175

Ratios

Y/E, Mar (Rs. mn)	FY06	FY07	FY08E	FY09E
EBITDA %	30.7	46.7	56.5	59.4
EBIT%	35.1	49.5	57.4	58.4
NPM %	20.5	29.2	37.4	39.2
ROCE (%)	12.5	22.5	33.6	37.4
Adj. ROE (%)	21.4	17.7	27.4	28.9
Adj. EPS	3.0	6.6	12.3	16.5
Cash EPS	3.4	7.3	13.6	18.0
Book Value	15.4	37.2	45.0	57.0
DPS	0.2	1.0	4.0	4.0
Payout %	6.9	17.1	36.5	27.3
Debtors days	150	120	120	120
Asset Turnover	0.4	0.5	0.6	0.6
PE (x)	79.4	35.9	19.1	14.3
Cash PE	69.0	32.5	17.4	13.1
P/BV	15	6	5	4
EV/Sales	4.1	10.2	6.8	5.0
EV/EBITDA	13.3	21.8	11.9	8.5
Dividend Yield %	0.1	0.4	1.7	1.7

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