

Deccan Chronicle Holding

Performance Highlights

(₹ cr)	3QFY11	3QFY10	% yoy	2QFY11	% qoq
Revenue	199.6	233.4	(14.5)	236.7	(15.7)
EBITDA	75.4	126.6	(40.4)	117.9	(36.0)
OPM (%)	37.8	54.3	(1,648bp)	49.8	(1,204bp)
PAT	35.2	77.7	(54.7)	82.6	(57.4)

Source: Company, Angel Research

Post Deccan Chronicle Holdings' (DCHL) 3QFY2011 results, we have revised our estimates downwards primarily to factor in lower revival in advertisement volume. The company posted dismal results for the quarter, with top-line de-growth of 14.5% yoy and earnings decline of 54.7% yoy impacted by margin contraction of 1,648bp yoy. **Owing to attractive valuations, we maintain a Buy on the stock.**

Top-line, bottom-line below estimates: DCHL reported top-line decline of 14.5% yoy/15.7% qoq to ₹200cr (₹233cr/₹237cr) and below our estimate of ₹258cr (~11% yoy growth), despite 3QFY2011 recording the complete festive season. On the operating front, DCHL registered margin contraction of 1,648bp yoy/1,204bp qoq, impacted by gross margin contraction and lower operating leverage. Earnings for the quarter declined 55% yoy/57% qoq to ₹35cr (₹78cr/₹83cr), impacted by increase in interest expense, depreciation charge and margin contraction, though cushioned by higher other income.

Outlook and Valuation: We are lowering our target P/E multiple from 12x to 10x owing to concerns relating to the merger of its 100% subsidiaries, Deccan Chargers Sporting Ventures, Odyssey Indian and Netlink Technologies with itself and high volatility in garnering advertisement volumes owing to the political instability in Andhra Pradesh. At ₹81, the stock is trading at attractive valuations of 8.2x FY2013E EPS of ₹9.9. We maintain a Buy on the stock, with a SOTP Target Price of ₹128 based on: 1) 10x FY2013E earnings for its core print business fetching ₹98/share, and 2) ₹30/share value for the IPL Team (30% discount to the per share value calculated, based on US \$225mn floor price for new teams' auction).

Key Financials (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	892	914	936	961
% chg	9.5	2.4	2.5	2.6
Net Profit (Adj)	260.9	248.5	243.3	239.9
% chg	86.3	(4.8)	(2.1)	(1.4)
EBITDA (%)	50.6	47.7	46.6	44.9
EPS (₹)	10.8	10.2	10.0	9.9
P/E (x)	7.5	7.9	8.1	8.2
P/BV (x)	1.6	1.4	1.3	1.2
RoE (%)	21.7	18.7	16.8	15.5
RoCE (%)	25.1	22.4	20.6	19.3
EV/Sales (x)	1.9	1.7	1.4	1.3
EV/EBITDA (x)	3.7	3.5	3.1	3.0

Source: Company, Angel Research

BUY

CMP	₹81
Target Price	₹128

Investment Period	15 months
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Stock Info

Sector	Print Media
Market Cap (₹ cr)	1,968
Beta	1.3
52 Week High / Low	180/72
Avg. Daily Volume	1,33,720
Face Value (₹)	2.0
BSE Sensex	18,202
Nifty	5,456
Reuters Code	DCHL.BO
Bloomberg Code	DECH@IN

Shareholding Pattern (%)

Promoters	63.4
MF /Banks /Indian FIs	30.7
FII /NRIs /OCBs	1.8
Indian Public /Others	4.1

Abs. (%)	3m	1yr	3yr
Sensex	(9.7)	12.7	2.5
DCHL	(40.8)	(46.7)	(59.2)

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Exhibit 1: Quarterly Performance (Standalone)

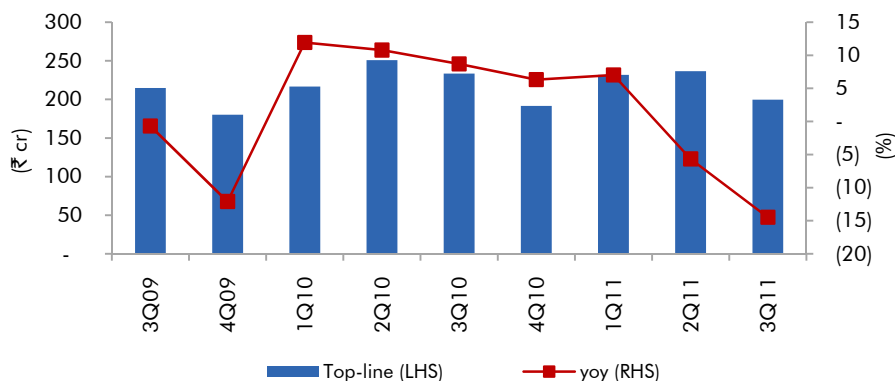
Y/E March (₹ cr)	3QFY11	3QFY10	% yoy	2QFY11	% qoq	9MFY2011	9MFY2010	% chg
Net Sales	199.6	233.4	(14.5)	236.7	(15.7)	668.1	700.8	(4.7)
Consumption of RM	81.2	73.5	10.5	77.3	5.1	233.4	242.4	(3.7)
(% of Sales)	40.7	31.5		32.6		34.9	34.6	
Staff Costs	22.0	17.7	24.3	21.6	2.0	61.9	47.5	30.3
(% of Sales)	11.0	7.6		9.1		9.3	6.8	
Other Expenses	21.0	15.6	34.9	19.9	5.4	59.7	39.7	50.3
(% of Sales)	10.5	6.7		8.4		8.9	5.7	
Total Expenditure	124.2	106.7	16.3	118.7	4.6	354.9	329.6	7.7
Operating Profit	75.4	126.6	(40.4)	117.9	(36.0)	313.2	371.3	(15.6)
OPM (%)	37.8	54.3		49.8		46.9	53.0	
Interest	13.8	11.3	21.6	13.3	3.4	38.9	33.5	16.0
Depreciation	11.1	10.2	9.5	11.1	0.6	33.1	30.3	9.3
Other Income	9.7	7.5	28.5	9.3	3.5	28.0	22.1	26.6
PBT (excl. Ext Items)	60.2	112.7	(46.6)	102.9	(41.5)	269.3	329.6	(18.3)
Ext Income/(Expense)	-	-		-		-	-	
PBT (incl. Ext Items)	60.2	112.7	(46.6)	102.9	(41.5)	269.3	329.6	(18.3)
(% of Sales)	30.1	48.3		43.5		40.3	47.0	
Provision for Taxation	25.0	35.0	(28.6)	20.3	23.5	60.3	75.0	(19.7)
(% of PBT)	41.5	31.1		19.7		22.4	22.8	
Recurring PAT	35.2	77.7	(54.7)	82.6	(57.4)	209.0	254.6	(17.9)
PATM (%)	17.6	33.3		34.9		31.3	36.3	
Reported PAT	35.2	77.7	(54.7)	82.6	(57.4)	209.0	254.6	(17.9)
Equity shares (cr)	24.3	24.2		24.3		24.3	24.2	
EPS (₹)	1.4	3.2	(54.9)	3.4		8.6	10.5	(18.3)

Source: Company, Angel Research

Low ad-volume following release of Srikrishna report impacts top-line

DCHL reported top-line decline of 14.5% yoy/15.7% qoq to ₹200cr (₹233cr/₹237cr) and below our estimate of ₹258cr (~11% yoy growth), despite 3QFY2011 recording the complete festive season. We estimate a decline in advertisement volume, impacted by – 1) fear of violence on account of release of the Srikrishna report on the Telangana issue, and 2) advent of cyclone *Jal* (though the impact on advertisement would be very minimalistic). Circulation revenue is estimated to be stable at ~₹15cr. The Coimbatore edition was launched with an initial run of 30,000–40,000 copies, which also caters to the neighboring areas of Selum, Trichi and Madurai.

Exhibit 2: Top-line flat qoq on slow revival in ad volume



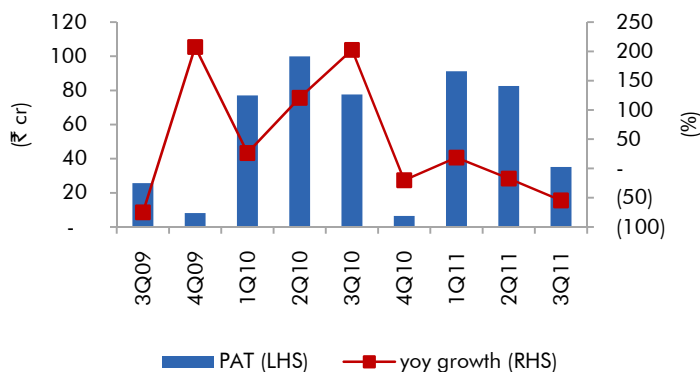
Source: Company, Angel Research

Earnings decline as OPM contracts on low operating leverage

On the operating front, DCHL registered margin contraction of 1,648bp yoy/1,204bp qoq, driving a 40% yoy/36% qoq decline in EBITDA to ₹75cr (₹127cr/₹118cr), impacted by gross margin contraction and low operating leverage. The quarter saw an increase in raw material cost (up 919bp yoy/802bp qoq), staff cost (up 344bp yoy/191bp qoq) and other expenses (up 385bp yoy/210bp qoq). Going ahead, management has indicated an increase in newsprint prices to US \$650/tonne. We have modeled in a CAGR of ~6-7% rise in the total newsprint cost (~10% rise in FY2011E) for the company over FY2010-13.

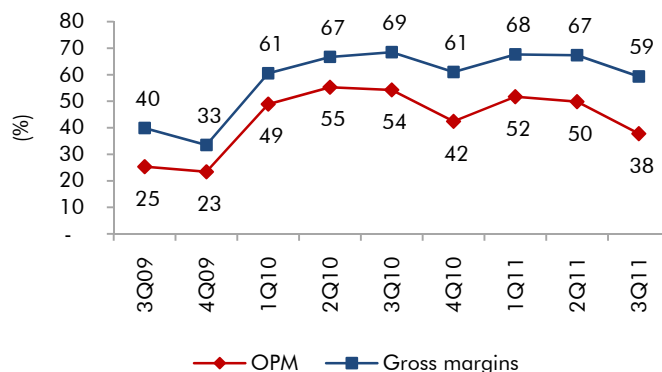
Earnings for the quarter, declined 55% yoy/57% qoq to ₹35cr (₹78cr/₹83cr), impacted by increase in interest expense, depreciation charge and margin contraction, though cushioned by higher other income.

Exhibit 3: High depreciation cost to impact PAT



Source: Company, Angel Research

Exhibit 4: OPM to sustain at 45-46% over FY2011-13E



Source: Company, Angel Research

Investment Rationale

- Buyback to be EPS neutral but sentimental positive:** The DCHL board has announced a buyback of shares at a price not exceeding ₹180/share and up to an aggregate of ₹270cr, which is within the 25% limit of total paid up capital and free reserves as on March 31, 2010. The stipulated price is based on a premium of ~34% over its last three month's average price. At the higher end of the capped buyback price and outlay, the company would be able to purchase up to ~15mn equity shares of the outstanding 243.4mn shares or roughly ~6% of the equity. We believe the buyback would be EPS neutral owing to reduction in other income (on account of usage of cash). Hence, we believe that the move would be a sentimental booster to the stock price.
- IPL – huge value un-locking potential:** Deccan Chargers Sporting Ventures (DCSVL) houses the Hyderabad IPL team, Deccan Chargers (100% stake), which won the second season of IPL. Based on the floor price of US \$225mn for the recent new teams auction (Kochi and Pune teams), we had calculated ₹43/share value for DCHL's IPL team. However, on account of the negative publicity with regards to IPL makes us tread caution, and we have given 30% discount to the per share value for the IPL team and arrived at a value of ₹30/share for DCHL's IPL team. Potential stake sale of the team (as indicated by management) will trigger re-rating of the DCHL stock.
- Attractive valuations:** DCHL is currently trading at 8.2x FY2013E EPS, which is at a steep discount to its peers due to scalability issues as it is characterised as a single publication company with limited reach (only South). However, fading balance sheet concerns (debt and receivable days both stand reduced) and rising profitability in IPL (possibility of un-locking) instills confidence.

Outlook and Valuation

Post the 3QFY2011 results, we have revised our estimates downwards to factor in low advertisement volume revival. Over FY2010-13, we expect DCHL to post muted CAGR of 2.5% in revenues driven by 2.3% CAGR in advertising revenues and 5.2% CAGR in circulation revenues on account of higher circulation volumes. We have downgraded our advertisement revenue estimates to factor in the volatility in advertisement volume on account of political unrest in Andhra Pradesh (future impact on account of Telagana issue cannot be ruled out).

DCHL's earnings estimate is impacted by lower top-line estimate. Hence, over FY2010-13, we expect the earnings to de-grow by 2.8% on a compounded basis with operating margins stable at 45-46% over the mentioned period.

Exhibit 5: Change in estimates

(₹ cr)	Old Estimate			New Estimate			% chg		
	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013	FY2011	FY2012	FY2013
Revenue	947	1,080	1,154	914	936	961	(3.5)	(13.3)	(16.7)
OPM (%)	49.6	49.5	49.3	47.7	46.6	44.9	(189bp)	(294bp)	(438bp)
EPS (₹)	11.2	13.2	14.1	10.2	10.0	9.9	(8.9)	(24.1)	(30.2)

Source: Company, Angel Research

We are lowering our target P/E multiple from 12x to 10x owing to concerns relating to the merger of its 100% subsidiaries, Deccan Chargers Sporting Ventures, Odyssey Indian and Netlink Technologies with itself and high volatility in garnering advertisement volumes owing to the political instability in Andhra Pradesh. **At ₹81, the stock is trading at attractive valuations of 8.2x FY2013E EPS of ₹9.9.** We maintain a Buy on the stock, with a SOTP Target Price of ₹128 based on: 1) 10x FY2013E earnings for its core print business fetching ₹98/share, and 2) ₹30/share value for the IPL Team (30% discount to the per share value calculated, based on US \$225mn floor price for new teams' auction).

Exhibit 6: Peer Valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)			EV/Sales (x)			RoE (%)			CAGR #	
						FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	Sales	PAT
HT Media	Buy	3,464	147	175	18.7	19.7	17.2	15.3	2.1	1.7	1.5	16.7	16.4	15.9	16.7	16.5
Jagran	Buy	3,504	116	185	59.0	17.1	15.2	12.6	3.2	2.9	2.6	31.9	33.1	36.3	13.7	16.6
DCHL	Buy	1,968	81	128	58.3	7.9	8.1	8.2	1.7	1.4	1.3	18.7	16.8	15.5	2.5	(2.8)
DB Corp	Buy	4,393	242	358	47.9	19.7	17.4	14.8	3.9	3.4	2.9	32.7	29.7	28.3	13.9	22.1

Source: Company, Angel Research; Note: # FY 10-13E

Exhibit 7: Angel v/s consensus estimates

Top-line (₹ cr)	FY2011E	FY2012E	FY2013E	EPS (₹)	FY2011E	FY2012E	FY2012E
Angel estimates	914	936	961	Angel estimates	10.2	10.0	9.9
Consensus	1,021	1,131	1,159	Consensus	11.4	13.6	15.6
Diff (%)	(10.5)	(17.2)	(17.1)	Diff (%)	(10.7)	(26.5)	(36.8)

Source: Company, Angel Research

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Gross sales	782	815	892	914	936	961
Less: Excise duty	-	-	-	-	-	-
Net sales	782	815	892	914	936	961
Total operating income	782	815	892	914	936	961
% chg	41.5	4.2	9.5	2.4	2.5	2.6
Total expenditure	295	547	441	478	500	529
Cost of materials	206	397	252	269	282	295
SG&A	16	21	21	32	32	33
Personnel	26	49	65	78	90	103
Others	46	79	102	99	96	98
EBITDA	488	268	452	436	436	432
% chg	88.8	(45.0)	68.3	(3.5)	0.1	(1.1)
(% of Net sales)	62.3	32.9	50.6	47.7	46.6	44.9
Depreciation & amortisation	30	32	42	46	56	60
EBIT	458	236	409	390	380	372
% chg	89.9	(48.4)	73.3	(4.7)	(2.6)	(2.3)
(% of Net sales)	58.5	29.0	45.9	42.7	40.6	38.7
Interest & other charges	77	71	45	52	51	49
Other income	38	43	29	37	38	39
(% of PBT)	9.0	20.5	7.5	9.9	10.4	10.8
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	419	208	394	375	367	362
% chg	74.4	(50.4)	89.3	(4.8)	(2.1)	(1.4)
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	419	208	394	375	367	362
Tax	147	68	133	126	124	122
(% of PBT)	35.1	32.6	33.7	33.7	33.7	33.7
PAT (reported)	272	140	261	248	243	240
Add: Share of associates	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	272	140	261	248	243	240
ADJ. PAT	272	140	261	248	243	240
% chg	68.5	(48.5)	86.3	(4.8)	(2.1)	(1.4)
(% of Net Sales)	34.8	17.2	29.2	27.2	26.0	25.0
Basic EPS (₹)	11.1	5.7	10.8	10.2	10.0	9.9
Fully Diluted EPS (₹)	11.2	5.8	10.7	10.2	10.0	9.9
% chg	68.5	(48.5)	86.3	(4.8)	(2.1)	(1.4)

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	49	49	48	49	49	49
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	1,018	1,101	1,210	1,345	1,452	1,549
Shareholders Funds	1,067	1,150	1,258	1,394	1,500	1,598
Minority Interest	-	-	-	-	-	-
Total Loans	673	368	342	325	305	285
Deferred Tax Liability	57	70	80	80	80	80
Total Liabilities	1,797	1,588	1,680	1,798	1,885	1,963
APPLICATION OF FUNDS						
Gross Block	659	841	917	952	936	1,001
Less: Acc. Depreciation	72	103	147	192	248	308
Net Block	588	738	770	760	688	693
Capital Work-in-Progress	58	86	38	48	47	50
Goodwill	-	-	-	-	-	-
Investments	191	241	211	211	211	211
Current Assets	1,262	782	1,035	1,144	1,302	1,371
Cash	795	360	592	713	869	929
Loans & Advances	192	98	186	183	187	192
Other	275	324	258	248	246	250
Current liabilities	302	259	373	364	362	362
Net Current Assets	960	523	662	781	940	1,009
Misc Exp	-	-	-	-	-	-
Total Assets	1,797	1,588	1,680	1,798	1,885	1,963

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Profit before tax	419	208	394	375	367	362
Depreciation	30	32	42	46	56	60
Change in Working Capital	39	44	72	16	1	(5)
Interest / Dividend (Net)	46	43	31	32	28	25
Direct taxes paid	147	98	124	126	124	122
Others	29	(13)	(2)	(12)	(5)	(5)
Cash Flow from Operations	415	215	412	330	324	315
(Inc.)/ Dec. in Fixed Assets	(95)	(209)	(28)	(45)	16	(68)
(Inc.)/ Dec. in Investments	(51)	(50)	-	(0)	-	-
Cash Flow from Investing	(146)	(259)	(28)	(45)	16	(68)
Issue of Equity	59	-	(27)	0	-	-
Inc./(Dec.) in loans	265	(305)	(26)	(17)	(20)	(20)
Dividend Paid (Incl. Tax)	86	57	85	114	137	142
Interest / Dividend (Net)	46	28	14	32	28	25
Cash Flow from Financing	192	(391)	(153)	(163)	(185)	(187)
Inc./(Dec.) in Cash	461	(435)	232	122	155	60
Opening Cash balances	333	795	360	592	713	869
Closing Cash balances	795	360	592	713	869	929

Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	7.3	14.1	7.5	7.9	8.1	8.2
P/CEPS	6.6	11.5	6.5	6.7	6.6	6.6
P/BV	1.9	1.7	1.6	1.4	1.3	1.2
Dividend yield (%)	3.7	2.5	3.7	4.9	5.9	6.2
EV/Sales	2.4	2.4	1.9	1.7	1.4	1.3
EV/EBITDA	3.8	7.2	3.7	3.5	3.1	3.0
EV / Total Assets	1.0	1.2	1.0	0.9	0.7	1.3
Per Share Data (₹)						
EPS (Basic)	11.1	5.7	10.8	10.2	10.0	9.9
EPS (fully diluted)	11.2	5.8	10.7	10.2	10.0	9.9
Cash EPS	12.3	7.0	12.5	12.1	12.3	12.3
DPS	3.0	2.0	3.0	4.0	4.8	5.0
Book Value	43.6	47.0	51.9	57.3	61.6	65.6
Dupont analysis						
EBIT margin	58.5	29.0	45.9	42.7	40.6	38.7
Tax retention ratio	0.6	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	0.7	0.7	0.8	0.9	0.9	1.0
ROIC (Post-tax)	27.7	14.6	24.5	25.0	25.2	25.3
Cost of Debt (Post-tax)	0.1	0.1	0.1	0.1	0.1	0.1
Leverage (x)	(0.1)	(0.2)	(0.3)	(0.4)	(0.5)	(0.5)
Operating ROE	25.9	11.0	17.6	15.1	13.3	12.0
Returns (%)						
RoCE	28.0	14.0	25.1	22.4	20.6	19.3
Angel RoIC (Pre-tax)	29.7	13.5	26.1	25.0	26.1	25.0
RoE	28.7	12.6	21.7	18.7	16.8	15.5
Turnover ratios (x)						
Asset Turnover	1.2	1.0	1.0	1.0	1.0	1.0
Inventory / Sales (days)	14	58	25	21	18	17
Receivables (days)	114	87	80	78	78	78
Payables (days)	88	90	153	145	141	137
Net Working capital (days)	77	73	29	27	28	31
Solvency ratios (x)						
Net Debt to equity	0.6	0.3	0.3	0.2	0.2	0.2
Net Debt to EBITDA	(0.6)	(0.9)	(1.0)	(1.4)	(1.8)	(2.0)
Interest Coverage	6.0	3.3	9.1	7.4	7.4	7.6

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	DCHL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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