INDUSTRY NOTE

Initiating Coverage

IND | Consumer | Media & Entertainment

11 October 2011

Jefferies

EQUITY RESEARCH ASIA

Media & Entertainment

Initiating coverage: In print, we trust

Key Takeaway

The seemingly fragmented Indian print industry is a collection of regional oligopolies. This creates investment opportunities focused on highly profitable regional leaders in high growth markets. These players tend to have a disproportionate share of regional markets, sticky market share, high cash flows and high return ratios. We initiate on Jagran Prakashan, DB Corp, HT Media and HMVL with Buy. JAGP is our top pick with 46%upside

Media industry to see growth acceleration: India's M&E industry is on the cusp of accelerated growth with rising consumption-driven advertisement spend. We expect the industry to grow at 18% CAGR over the medium term.

Regional plays will be outperformers: The growth acceleration in media will be driven by smaller cities, especially in the Hindi speaking belt. Regional players will be the key beneficiaries.

Leadership important to benefit: The media industry is a collection of a large number of oligopoly markets. Market leaders usually have close to 50% share of the regional advertisement market and hence high earnings and cash flows.

Hindi newspapers the preferred pick: Newspapers are the best option to play the regional consumer growth theme. They are the most cost-effective medium to reach consumers in Tier II and III cities. We expect Hindi print to grow much faster than English due to its larger reach and lower cost of advertisement. In our view competition in the Hindi newspaper industry has peaked and firms should see margin expansion.

Unique business model: Indian newspapers have some unique features - low cover price, home delivery and local content - which in our view will support the segment's readership growth. Indian print firms are asset light compared to their counterparts in developed countries.

Best defensive plays: Regional print firms provide good defensive plays in the market. Low leverage, low capex requirement, and high RoEs characterize the industry. EPS growth CAGR over FY11-14 is expected to be 20%+ for most firms. FY13 PE for the industry is 13.6x.

Jagran our preferred pick: We initiate coverage on Jagran Prakashan, DB Corp, HT Media and Hindustan Media Venture with Buy. Our preferred pick is Jagran with high cashflows, 22% EPS CAGR, 30%+ RoE and 4% dividend yield. HT Media and HMVL have strong profit growth but possible significant capex in new businesses makes us cautious. DB Corp is a growth play with the company expanding aggressively.

Coverage Summary

Ticker	Rating	Price	Price Target
DBCL IN	BUY	INR198.85	INR260.00
HMVL IN	BUY	INR129.05	INR186.00
HTML IN	BUY	INR143.50	INR176.00
JAGP IN	BUY	INR105.00	INR153.00

Financial Summary & Market Data

Ticker	Mkt. Cap. (MM)	Shares Out.(MM)	Net Debt
DBCL IN	INR36,449.2	183.3	INR641.0
HMVL IN	INR9,471.0	73.4	INR(1,947.0)
HTML IN	INR33,725.5	235.0	INR(3,758.0)
JAGP IN	INR33,208.1	316.3	INR(101.0)

		Current Estimates				Valuation		
Ticker		2011	2012	2013		2011	2012	2013
DBCL IN	EPS	INR14.10	INR11.00	INR13.70	FY P/E	14.1x	18.1x	14.5x
HMVL IN	EPS	INR7.30	INR6.50	INR10.00	FY P/E	17.7x	19.9x	12.9x
HTML IN	EPS	INR7.70	INR5.90	INR9.60	FY P/E	18.6x	24.3x	14.9x
JAGP IN	EPS	INR6.50	INR6.20	INR8.20	FY P/E	16.2x	16.9x	12.8x

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Executive Summary

Play on the fast growing geographies

One of the few underperforming defensive stocks

JAGP is our top pick

India's print industry provides investors a way to invest in specific fast-growing geographies, through the leaders in those regions. Leaders in the media industry typically command more than 50% market share. Media growth is expected to accelerate most in the Hindi belt. We believe print firms are a good defensive play with high return on equity, 20%+EPS CAGR (FY11-FY14) and high cash flows. We initiate coverage on Jagran Prakashan, DB Corp, HT Media and HMVL with a Buy recommendation. JAGP is our top pick with our Rs153 target price implying 46% potential upside.

Media growth to accelerate

M&E industry to grow at 18% CAGR

Top 3 position necessary to earn cash and profits in the sector

India's M&E industry is now at the cusp of accelerating growth and we expect it to grow at 18% CAGR over the next eight years compared to 11% CAGR over the past five. While highly competitive, the media industry provides a disproportionate advantage to leaders. Leaders usually have close to half the advertisement share of the market allowing them to earn high quality earnings and cash flows.

Beneficiary – Regional players

Hindi belt to drive growth

Regional media to benefit

Consumption growth in Tier II and III cities in the Hindi belt comprising 40% of the population will drive media growth acceleration. We expect this to continue over the medium term. Regional media firms will be the chief beneficiary of the acceleration, benefiting from both a higher share of national ad spends and also more local ads.

Newspapers the preferred pick

Print media the best option

Hindi print growth to outpace English

Print media is the most cost-effective way for advertisers to reach consumers and will be the key beneficiary of the acceleration in ad spends. Television and radio are hampered by regulations and competition, which has limited the profitability of players. We expect print advertisements to grow at 20% CAGR over the medium term. We prefer Hindi newspapers over English due to their better reach and lower ad cost. In our view competition is peaking in the Hindi language market and firms should see margin expansion.

Unique business model

Oligopolistic markets with 2/3 strong players

Allows investors to pick and choose regions to invest in

The Indian print industry is highly fragmented at the national level. It is a collection of regional oligopolistic markets divided along state and linguistic lines, due to preference for local content and the sense of identity associated with newspapers. This allows investors to invest in select high-consumption growth regions, in contrast to most consumer firms, which provide an all-India play. Additionally, the low cover price, home delivery model and local content makes Indian newspapers less susceptible to substitution and supports its expanding reach.

Newspapers a defensive play

20%+ EPS CAGR over FY11-14

25% + average RoEs

Net cash firms, low capex

13.6x FY13 PE

The Indian print industry, especially firms publishing Hindi language newspapers, have defensive characteristics – low leverage, sticky market share, high cash flows and high return on equity. Earnings CAGR is 20%+ for most firms. Regional firms earned consistent cash flows and profits even in the midst of the 2009 crisis. Most stocks have high dividend yield. The downside risk is low, given leadership in the home market and strong local economy. The sector has underperformed unlike other defensives and is currently trading at 13.6x FY13PE.

Jagran the preferred pick

Initiate on Jagran, DB Corp, HT Media and HMVL with Buy

JAGP the top pick with 4% div. yield 22% EPS CAGR, 30% RoE and 12.8x FY13 PE

We initiate coverage on Jagran Prakashan, DB Corp, HT Media and Hindustan Media Venture with Buy on all stocks. We prefer Jagran with EPS CAGR of 22%, dividend yield of 4%, return on equity of around 30%, high cash flows and low capex requirement. HT Media and HMVL have strong profit growth but possible significant capex in new businesses makes us cautious. DB Corp is a growth play with the company expanding aggressively.

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Media growth to accelerate

Media industry at threshold of accelerating growth...

...driven by rising advertisement spend as competition increases

India's M&E industry has grown at 11% CAGR for the past five years, and we expect it to grow at 18% CAGR over the next eight years. Advertisement spending in India, which makes up a large part of media revenues, is much smaller than countries at a similar stage of growth. Penetration levels are still low and the new media technologies still comprise only a small part of the industry. This will change as India is now at an inflection point in terms of its media spend and is poised to grow at an accelerating pace.

Large chunk still uncovered

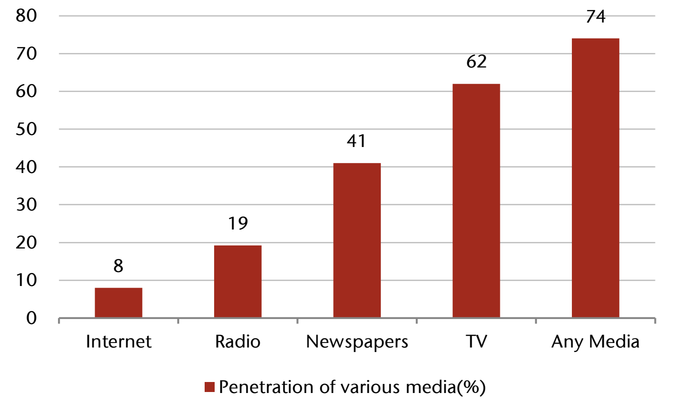
Low per capita income has led to low media spend

India is one of the fastest growing economies with a consumer base of more than 1.2bn people, providing enormous growth opportunities for the Media and Entertainment (M&E) industry. However, the industry is still small; India's M&E industry share in Asia-Pacific ex-Japan is a meagre 4%. The size of the industry is currently just US$15bn compared to China's $86bn. The gap is due to two main factors: 1) low literacy rate and 2) low per capita income.

More than half the population still not covered by most media

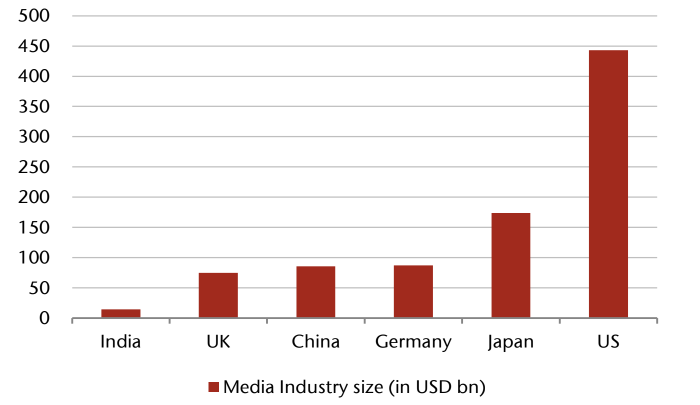
Large sections of the population are yet to be reached by various media. TV penetration is just 62%, and newspapers at 40%. Internet penetration is a meagre 8%. A major reason for this is that over 50% of India's population has not benefited from its high growth. In fact around 40% of the population saw a growth of a less than 7% compared to all-India growth of 9%+ during FY04-08. This has led to lower penetration and consumption levels in these parts. However, this is changing, as seen in Exhibit 18-22, and we see an amazing structural story which will boost the M&E industry, mainly the regional M&E segment.

Exhibit 1: Media penetration in India is still low...



Source: KPMG, IWS, Industry data, IRS, Jefferies

Exhibit 2: ...leading to low M&E industry revenues



Source: PWC, Industry data, Jefferies

Advertisement's the major source of revenues

Content charges in India less than one-fourth of developed world...

An important characteristic of India's M&E, adversely affecting the industry as a whole, is the consumers' unwillingness to pay for content. Exhibit 3 shows the difference in subscription revenues between India and the US. Indian content charges are less than 10-25% that in the US. Even on a PPP-adjusted basis, the subscription revenues in India are less than 25% of the US.

Exhibit 3: Subscription revenues much lower than US

	Cost of Media (in US$)		
	India	**US**	**US price to India (x)**
TV (Monthly subscription fees)	3.50	15.00	4
Newspapers (cost of newspaper)	0.04	0.50	11

Source: Jefferies

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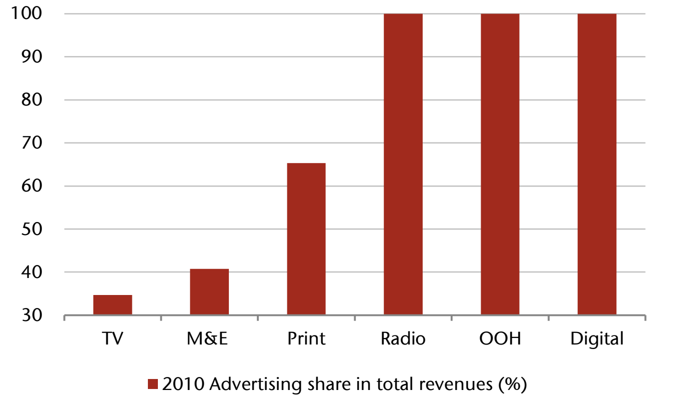
...resulting in media dependence on advertisements for revenues

Low content revenue increases the dependence of the M&E industry on advertisements. The share of advertisement in total revenues for the top listed players in the industry is more than 50% and in the case of English newspapers it is as high as 90%.

Trend expected to continue in medium term

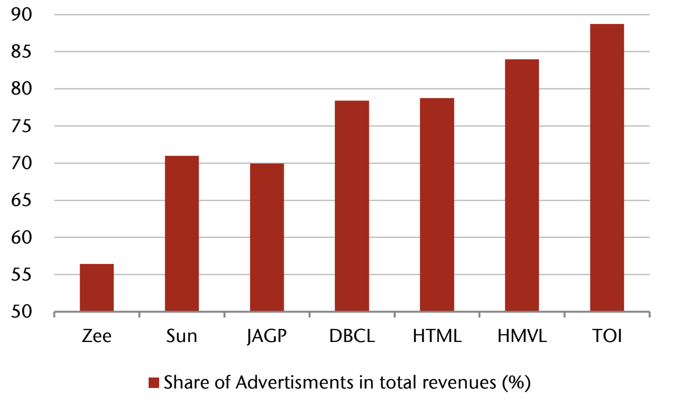
In our view, dependence on advertisements will only increase going forward as advertisement growth outpaces subscription. Convergence between US and India content charges will only happen in the long term, as it will require a change in consumer behaviour, which typically takes more time.

Exhibit 4: Nearly half of the media industry's revenues are from advertisements



Source: KPMG, Jefferies

Exhibit 5: Market leaders much more dependent on advertisements



Source: Company data, Jefferies

Advertisement growth to accelerate

Indian economy at cusp of seeing accelerated advertising spends...

...similar to that seen in China in the late 90s to early 2000

The Indian advertising industry is one of the smallest among peer nations both in terms of total size and per capita. However, we expect this to change as income levels rise and consumption increases, driving more spend on advertisements. India's per capita income is now at a cusp where we can expect to see a sharp uptrend in ad spend per capita (Exhibit 7). This will provide a sharp acceleration to Ad spend similar to that seen in other developing countries like China during late 90s to early 2000. Also, India's ad spend as a percentage of GDP had fallen due to the 2009 crisis and will in our view return to the upward trend it was on before the crisis.

Significantly behind peers

Indian ad market less than half that of countries at a similar stage of development

India's advertisement spend, both total and per capita, is one of the smallest among its peers. On a per capita basis, the ad-spend difference is staggering. India's per capita advertisement spend is less than one-tenth of Brazil and Russia, and just US$5 compared with China's US$17.

Exhibit 6: Indian ad market is just 40% of what China was as at a similar stage

	India	China	China / India (x)
Per Capita GDP (USD)	1452	1490	1.0
Year	2010	2004	
Ad market size (bn USD)	5.8	15.3	2.6
Ad spend per capita (USD)	4.9	11.8	2.4
Ad spend as % of GDP	0.34	0.79	2.3

Source: Industry data, Jefferies

A much more meaningful comparison is between India and its peers at a similar stage of development. In Exhibit 6, we see China's per capita GDP in 2004 was similar to India's today. However, the Chinese ad market in 2004 was nearly 2.5x India's current industry size. This highlights the growth opportunities for the Indian market.

Per capita income at cusp of accelerating ad spend

Ad spends per capita grows exponentially after a threshold level of economic development...

One factor that explains the wide gap discussed above is the low per capita income. Advertising spend growth jumpstarts after a threshold income level, as non-food consumption spending, which accounts for the bulk of advertisements, begins only when

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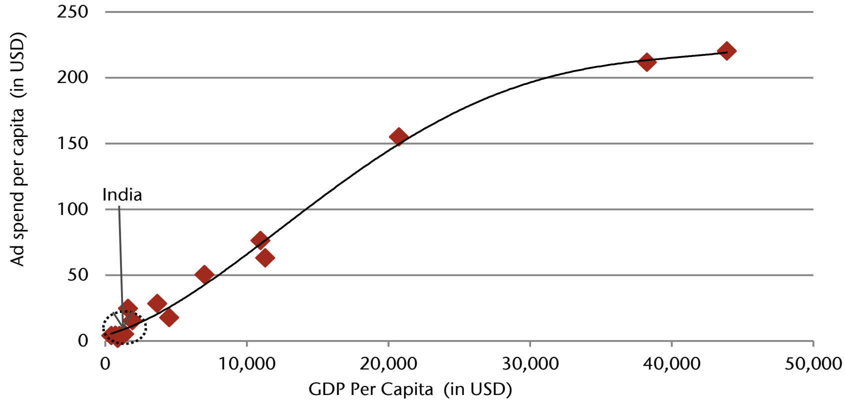
...India is now at that level

income level crosses a basic threshold. It is difficult to pinpoint this threshold but a cross-country chart suggests that India is now at the cusp for this growth. India's Media industry has two drivers 1) the rising income driven growth leading to rapid ad spend growth and 2) the catch-up movement to reach the media size of peers at a similar level of development (as in the China 2004 comparison above).

Exhibit 7: India at cusp of rapid ad spend growth



Source: Industry data, Jefferies

Structural uptrend in ad spend to return

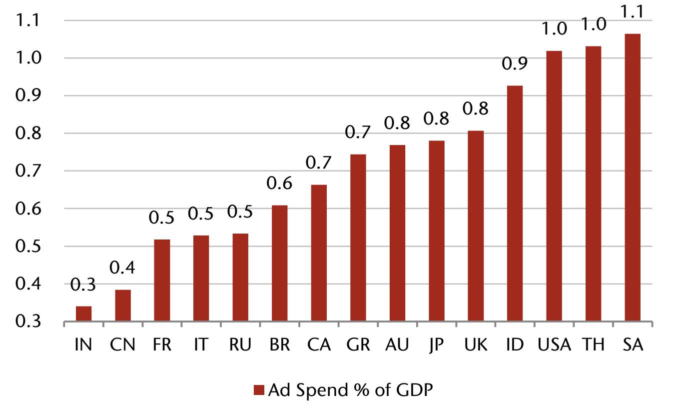
Ads spend to GDP has been on a structural uptrend...

...derailed in 2008-09 crisis....

...expected to return on it

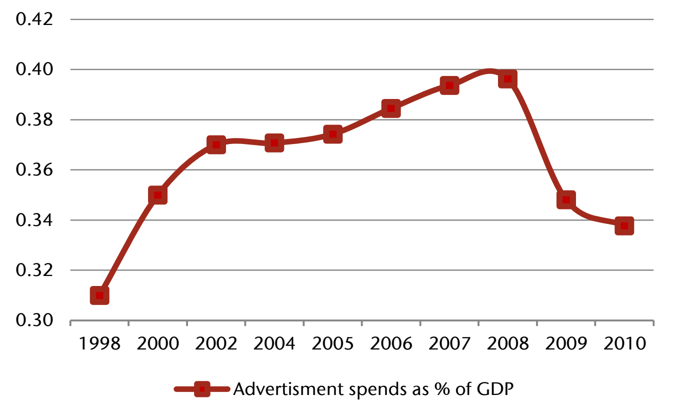
Advertisement spend is highly correlated with GDP. One measure that is widely used is ad spend as % of GDP. India's ad spend to GDP ratio is also one of the lowest in the world. This measure had been on a multi-year uptrend rising from 0.3 in 11998 to 0.40 in 2009. However, it saw a sharp reversal in 2009 and in 2010 due to the impact of the crisis and runaway inflation in 2010. The ad to GDP ratio has in our view bottomed in 2011 and we believe that it will return to an uptrend. This will imply a growth rate significantly higher than the nominal GDP growth rate.

Exhibit 8: Advertisement to GDP ratio one of the lowest...



Source: Industry data, Jefferies

Exhibit 9: ...and should resume its structural uptrend



Source: FICCI-KPMG, Jefferies

Consumption spend supports arrival at the threshold

Media and advertising spend are directly related to consumption patterns, especially discretionary consumption. The view that advertising spend is poised to accelerate is given credence by consumption data.

Rising income and wealth effect has led to sharp rise in consumption, especially discretionary

Competition has also increased, leading to higher spend on advertising

Fuelled by rising incomes that have doubled in the past five years, demand for discretionary items has skyrocketed. The impact of this on inflation is clearly visible. The other impact is seen in the increase in products and companies catering to consumers. With rising demand and consequently intensifying competition, ad spend will see an acceleration in growth, making the M&E industry the biggest beneficiaries next to the consumers. This is visible in company financials, where ad spend as % of sales is seeing an uptick after remaining stable for many years.

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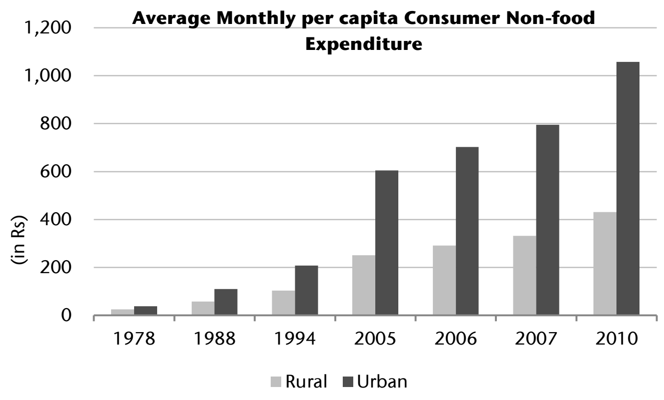
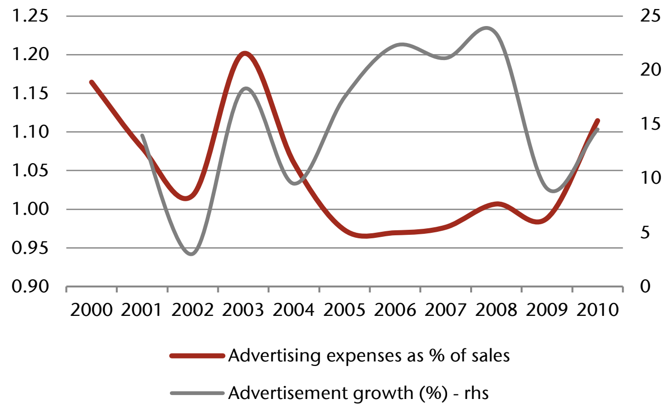
Exhibit 10: Discretionary items demand has increased



Source: CEIC, NSSO, Jefferies

Exhibit 11: Advertising expenses of firms on uptrend



Source: CEIC, NSSO, Jefferies

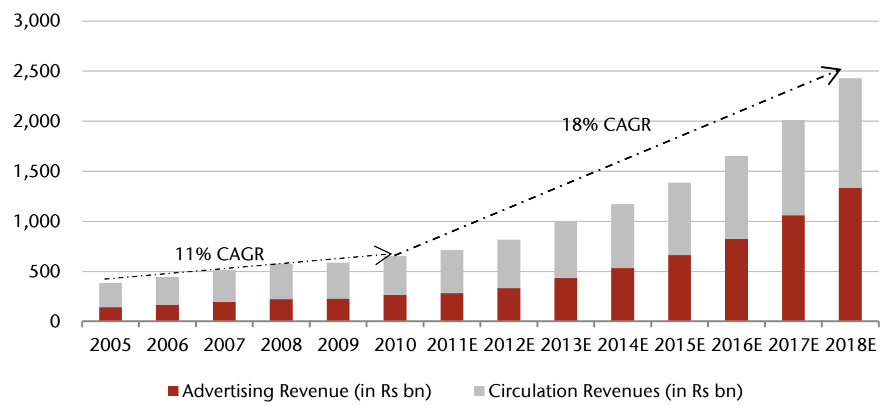
Strong media growth on the back of advertisements

Rising advertisement spend to drive accelerating media industry growth

The M&E industry will benefit not only from rising advertising spend but also from higher subscription revenues, as penetration increases with increasing literacy and income levels. Given these structural uptrends, we expect Indian M&E industry growth to accelerate to 18% CAGR over the next eight years from the 11% CAGR seen in the past five years. However, the current slowdown will have an impact on the industry and will keep 2011 and 2012 growth muted. We expect 2011 growth of just 8%, as it will also be impacted by the slow growth in government advertising and lack of elections to provide a boost. We expect the industry to recover in the second half of 2012 and grow at 14% in 2012.

2011 and 2012 to see slower growth

Exhibit 12: M&E Industry growth to accelerate to 18%



Source: Industry data, Jefferies

Leadership important to generate cash flows

Cash flow generation is a more suitable measure due to large cost capitalization by some segments

Leadership necessary to earn consistent cash flows

Given our expectation of sharp acceleration in the industry, we look at which companies or segments will benefit the most from this growth. We focus on cash flow generation rather than profit/EPS growth, given the high capitalization of costs by some players (like Dish TV). Exhibit 13-17 details the operating cash flow generated by various media firms between FY08-FY11. TV and print generate the most cash flow, as they make up around 70% of the market. Among these two segments, the firms that have earned consistent cash flows are leaders in their respective markets, since the leaders usually command the bulk of the ad market. In print, the market leader usually commands around 50% of the total ad spend.

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Exhibit 13: Leadership important to cash flows

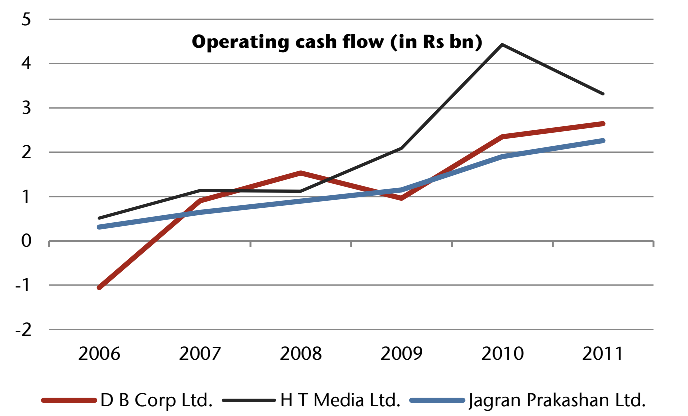
	Sector	National/Regional	Position	Average operating CF (FY08-FY11) (in bn Rs)	Median Operating CF as % of sales (FY08 –FY11)
Sun T V Network Ltd.	TV	Regional	1	6,753	51.8
Zee Entertainment Enterprises Ltd.	TV	National	3	4,519	15.0
Deccan Chronicle Holdings Ltd.	Print	Regional	1	3,419	33.8
H T Media Ltd.	Print	National	½	2,738	17.0
D B Corp Ltd.	Print	Regional	1	1,871	19.4
Jagran Prakashan Ltd.	Print	Regional	1	1,549	16.2
Sandesh Ltd.	Print	Regional	3	442	22.1
Entertainment Network (India) Ltd.	Radio	National	1	105	14.4
Zee News Ltd.	TV	National/Regional	Variable	95	-6.7
Cyber Media (India) Ltd.	Print	Regional	Variable	93	8.9
T V Today Network Ltd.	TV	National	>3	86	3.0
Radio One Ltd.	Radio	Regional	1	-15	-1.0
Raj Television Network Ltd.	TV	Regional	>3	-54	-5.8
Reliance Broadcast Network Ltd.	Films	National	Variable	-95	-13.5
Wire & Wireless (India) Ltd.	Cable	National	1/2	-394	-12.6
Tv18 Broadcast Ltd.	TV	National	Variable	-713	-11.8
U T V Entertainment Television Ltd.	TV	National	>3	-795	-174.3
U T V Global Broadcasting Ltd.	TV	National	Variable	-1,403	-179.9
New Delhi Television Ltd.	TV	National	Variable	-1,709	-39.6
Dish T V India Ltd.	Cable	National	1	-3,689	-38.9

Note: For Dish TV change in assets at consumers' premises is included in OCF; Source: Company Data, CMIE, Jefferies

Leadership allows secular growth in cash flows...

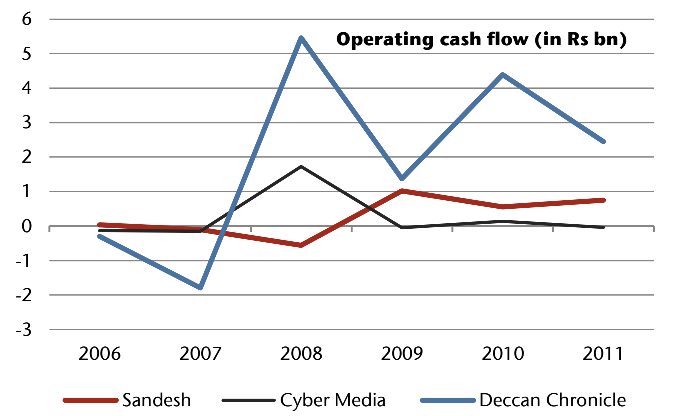
The importance of leadership also reflects on segment preferences. Leadership in print is well defined and highly sticky. Jagran has been the largest read daily in India for the past 9 years. Dainik Bhaskar has been the leader in MP/CG for more than 10 years. Similar is the case with most other titles. Even with increased competition, the No. 1 player in nearly all markets has not changed. This is especially so for regional print media.

Exhibit 14: Jagran has seen steady growth in cash flows...



Source: CMIE, Company data, Jefferies

Exhibit 15: ...while the rest struggle



Source: CMIE, Company data, Jefferies

...and is well defined in Print in contrast to TV

In the TV broadcasting space the story is actually opposite. The leadership position changes as fast as hourly with consumers switching between channels to capture different shows. A monopoly on ads is close to impossible for the TV broadcasting industry. However, the regional TV industry behaves similar to print. This may also change going forward with increasing competition in the regional TV space.

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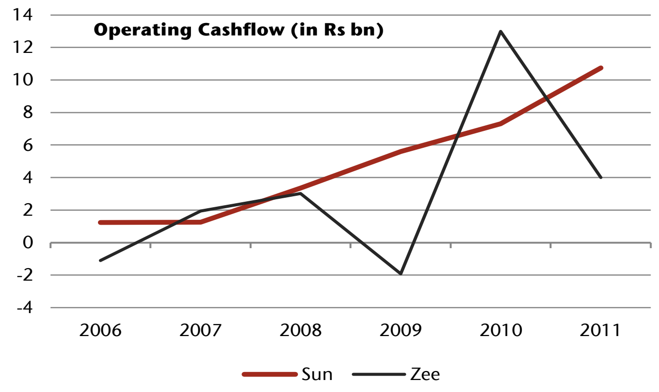
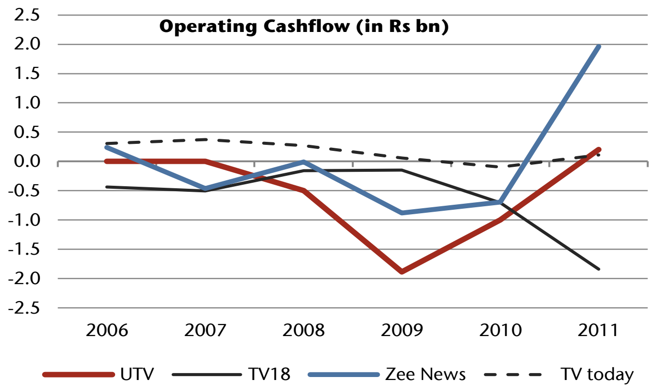
Exhibit 16: Leadership has helped Sun...



Source: CMIE, Company data, Jefferies

Exhibit 17: ...while others have floundered



Source: CMIE, Company data, Jefferies

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Beneficary – Regional players

Accelerating growth in media and ad spend to be driven by Tier II and III cities

Hindi speaking belt of North and Central India lacking major cities to be the driver of this growth

Wealth effect and income growth highest in these states

A closer study of the demographics reveals the major cause of the small size of the Indian media industry compared to peers in a similar stage of development. While the GDP has been clocking 7% growth, more than 50% of the Indian population has been seeing a much slower growth of less than 3-4%. This is reflective in India's media landscape, which is heavily tilted towards the top few cities tracking the consumption pattern in India. This trend is now seeing a change. Tier II and III cities, especially in the previously slow growing Hindi speaking North and Central Indian states, are now on an accelerated growth path. With development begetting more development, the growth in these regions will be on an accelerating path, in our view. Improved governance and the policy makers' focus on development provides necessary support to this trend, leading to rising demand in the region, making the (large) consumer base here attractive to firms. The media industry should gain from this increasing consumer demand and firms focussed on these regions will in our view be the main beneficiaries of this growth.

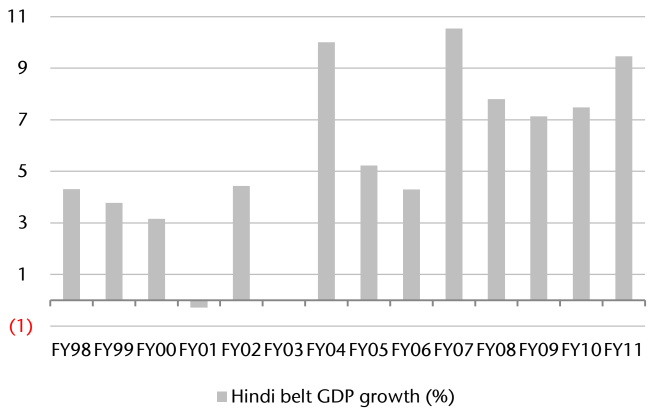
Growth now benefitting masses

Hindi states comprise around 40% of the population and....

...economic growth here is now above Indian economic growth

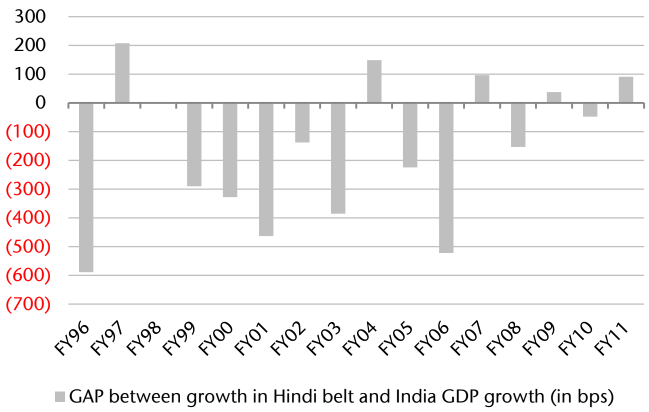
Till a few years ago, India's growth story had failed to reach more than 50% of the population in non-Tier I cities and industrial hubs. During FY04-FY08, when Indian GDP grew at 9% CAGR, the Hindi speaking belt, (which, although housing 40% of the population, lacks major industrial hubs), saw a growth rate of under 7%. This has changed in recent years with growth accelerating in these states. FY08-11 saw growth of 8% CAGR compared to India's growth of 7.7%.

Exhibit 18: Uptrend in the slow growing states...



Source: CMIE, RBI, Planning commission, Jefferies

Exhibit 19: ...closing the gap with the Indian GDP growth



Source: CMIE, RBI, Planning Commission, Jefferies

Regional growth to accelerate

Long term shift in India's growth drivers with less-developed states driving growth

The above trend, in our view, is the beginning of a long-term shift in India's growth drivers, with future growth being driven from previously slow growing regions, especially Northern and Central India. In our view, growth in Tier II and III cities should see acceleration. The Northern and Central states of MP, Chhattisgarh, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Orissa and Rajasthan house a bulk of the Tier II and III cities and in fact lack any major Tier I city. These will be the biggest beneficiaries.

Growing market and improving infrastructure with cheap labour attracting companies into the Hindi speaking states

This shift in trend is due to the fact that incomes in these regions are at levels that spur accelerating growth. Rising income levels lead to rising consumption of discretionary products and services. In addition, they also provide firms with skilled labour that is cheaper than in developed regions. This combination of new markets and cheaper production costs attracts companies in the region. This causes a shift in the states' economy towards a larger services and industry share, which then drives higher growth.

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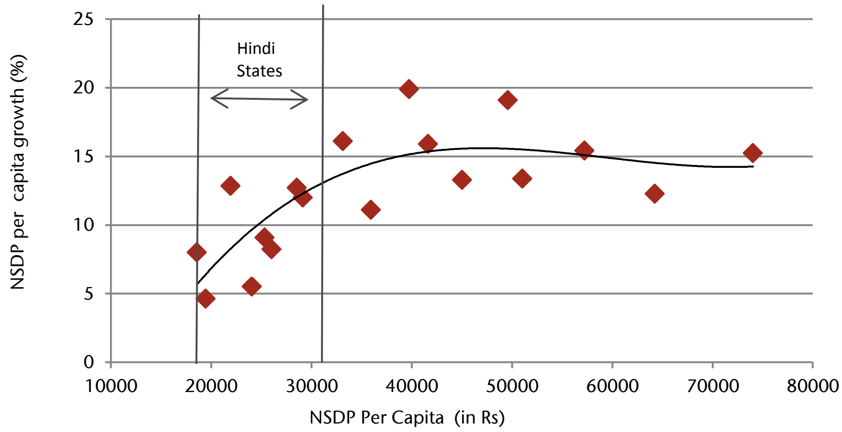
Economic growth to drive further growth as it attracts more companies and services

Exhibit 20 depicts this trend for states. It plots the historical Net State Domestic Product (NSDP) growth vs. NSDP per capita of the two more developed states (Andhra Pradesh and Maharashtra) historically. While the band for accelerating growth may differ for states, the above section indicates that the regions have reached this band.

Exhibit 20: Growth drives growth



Source: RBI, Planning Commission, Jefferies

Similar effect to happen in most Tier II and III cities

While the above data is particularly evident in the North and North-Central states, the accelerating growth is true for most Tier II and III cities. The next phase of growth is coming and will continue to come from these less-developed regions.

Governance is improving in these regions supporting the growth unlike developed cities and states stagnated by corruption scandals

An important factor for the sustenance of the acceleration is the governance environment. In this case also there has been a reversal in the trend, while earlier the governance in the North and North-Central states was a national issue, these now boast of good governance. The governance issues reported in the media are now mostly from major cities or Industrial hubs.

Recent data lends credibility

Consumption growth is now mostly coming from Tier II and III cities

Focus of consumer companies is also shifting to these regions

Our view of accelerating demand is borne out by consumption, demographics and corporate data. Consider the following excerpts.

- The top six cities account for only 27% of the urban consumption compared to 40% in 2005.
- Consumption patterns in Tier II and III cities are now similar to those in Tier I
- The popularity of Tier II & III towns among domestic and international retailers is evident from the fact that a Tier III town like Patiala in Punjab has its own shopping mall. In fact most Tier III cities also now showcase multiple malls reflecting the growing consumer demand there.
- According to CRISIL, two-thirds of the new gold jewellery outlets that will be set up in the country will be in Tier II and III towns.
- Tier II and III cities accounted for the bulk of job growth in FY11. Tier II cities saw 39% job growth while Tier III saw 23% (Assocham). In total, 400,000 jobs were created in these cities compared to 250,000 in Tier I.
- According to McKinsey estimates, two-thirds of the middle class's opportunities lie outside top Tier urban areas.

Middle class growth a corollary

Middle class growth will be a side result of the growth in these regions which will contain the bulk of the middle class

The rise of the much vaunted middle class in India is a corollary of the shift in growth drivers. With more than 85% of the urban population living in non-metros, the bulk of the middle class will be in these cities. As Exhibit 21 shows, the upper class and upper middle class is rising rapidly in Tier II and III cities. In addition rural India will also see a healthy rise in people shifting from poverty and deprived group to the middle and upper class.

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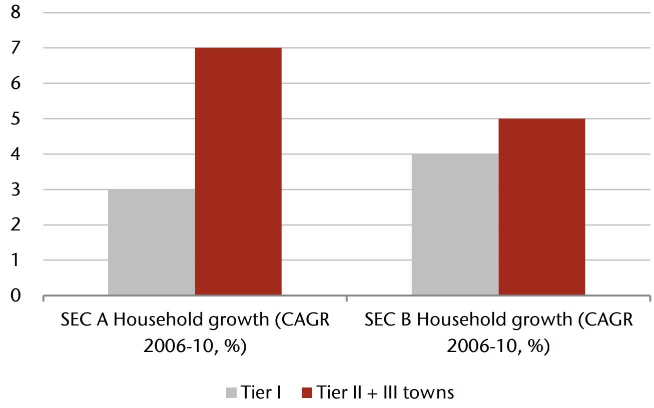
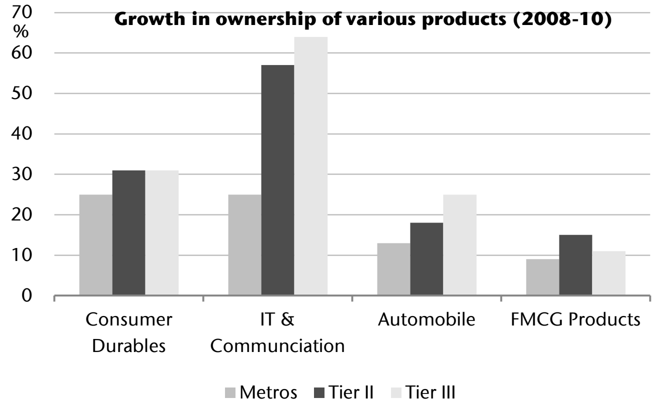
Exhibit 21: Middle class growth is higher in non-Metros...



Note: SEC A represents Upper class group, SEC B represents Upper Middle Class; SEC groups are defined on basis of education and income of chief wage earner. Source: Company Data, Jefferies

Exhibit 22: ...leading to rapid rise in consumption there

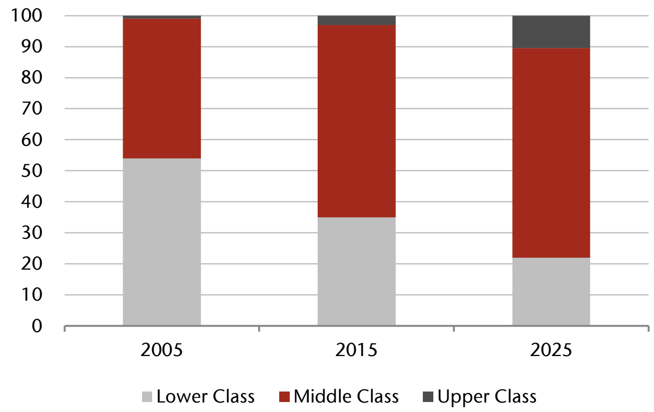


Source: Company Data, IRS, Jefferies

Discretionary items demand growth in Tier II and III cities is outpacing Tier I cities

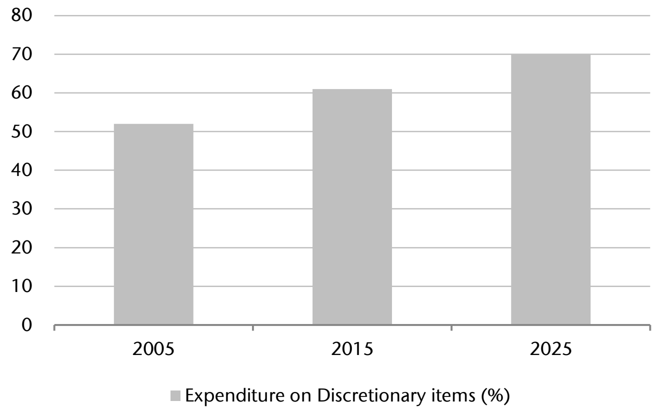
As the growth rises in these regions so will the income levels, shifting more people to the middle class bulge from the low income bulge. By 2015, the middle class will be the largest group making up nearly two-thirds of the population, driving sharp increases in discretionary spend. In fact by 2015 nearly 60% of the expenditure will be on discretionary consumption. This growing market is what is most sought after firms and will be the focus of marketers and advertisers as they try to reach this market.

Exhibit 23: Middle class is expected to rise rapidly...



Source: McKinsey, Jefferies

Exhibit 24: ... driving higher spend in discretionary items



Source: McKinsey, Jefferies

Regional players the beneficiaries

Rising economic growth and consumption will drive higher media spend in Hindi states and Tier II and III cities

In section I we highlighted that higher growth drives higher media spend. This is also true at the national level. As new regions register higher growth and income levels rise, the consumption pattern shifts towards discretionary items leading to higher media and advertisement spend. Northern and Central Indian states housing 500mn+ consumers, and an increasing consumption basket and better mix are very attractive to corporate India. Other smaller pockets of Tier II and III cities are also attracting attention. The drive to reach these consumers will then drive the growth for M&E industry.

Major beneficiaries will be regional media firms with larger reach in these places

Much of the rise in advertising that we highlighted above will be towards this consumer segment. While all media segments will see a jump in their advertising revenue as a result of the rising media budget, the major beneficiaries will be firms with reach in this segment.

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The reach of regional players especially for print is the highest in this region and as such they will be the major beneficiaries. Regional players will benefit in two ways on the back of this accelerating growth.

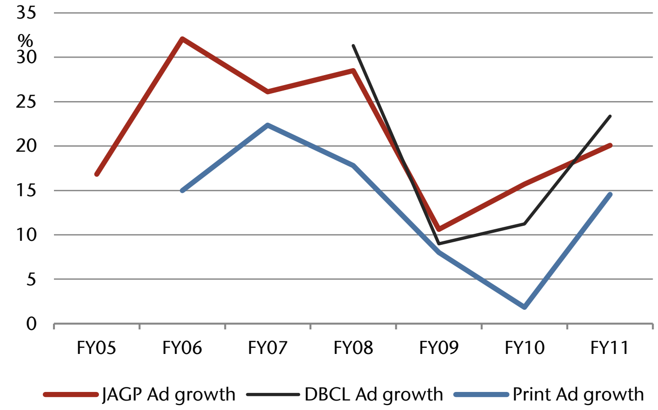
Regional firms to benefit as higher share of national ads diverted to non-metros...

- As national and MNC firms focus on these markets and advertise in them, their advertising budgets will increase. A bulk of this will be towards regional media firms with higher penetration in Tier II and III cities and rural India.

... and as local advertising picks up pace with rising economic growth and competition

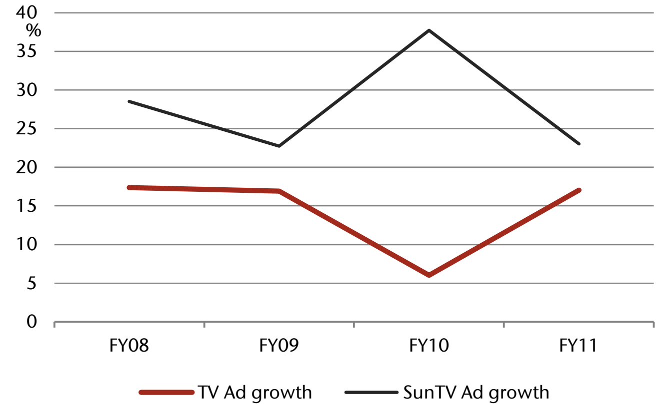
- Local advertising will also see a sharp uptick with growing economy. Local advertising is mostly through regional media and this will boost their growth. In fact some of the top advertising segments are regional such as education, real estate, discretionary (auto ads by local dealers) and retail. These are also some of the fastest growing segments and are most tuned to the growth of the region and country. Rise in growth will lead to higher media spend by these segments.

Exhibit 25: Regional print has outpaced total print ad growth...



Source: Company Data, FICCI-KPMG, Jefferies

Exhibit 26: ...as has regional TV broadcasting



Source: Company Data, FICCI-KPMG, Jefferies

Regional firms also better grounded in periods of uncertainty like 2009 and the current crisis

The above thesis is supported by the ad growth rate of regional media firms compared to the overall segment. Regional media has outpaced the media segment's advertisement growth both in print and in the TV segment for which the data is available.

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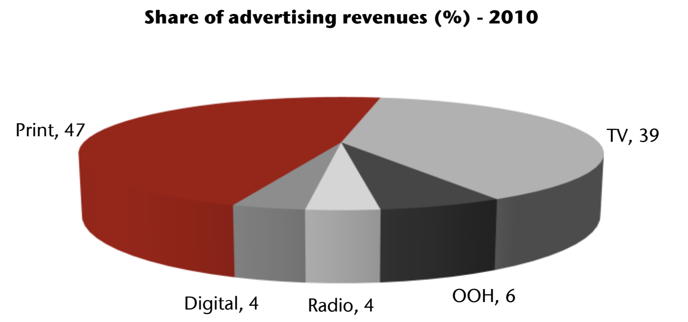
Newspapers the preferred pick

Indian print firms the best placed to benefit from the regional theme

Print commands nearly half of the advertising revenues currently

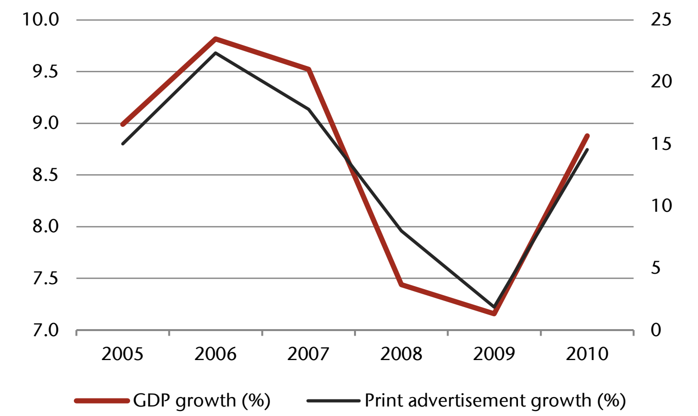
The Indian M&E industry still has a classic structure with TV, Print and Films accounting for 85% of the industry. Among the various media options, Print Media is the best placed currently to enjoy the fruits of advertisement growth and the regionalization theme. Print currently has the largest slice of the advertising industry pie. Its share of advertising revenues is close to 50% and is expected to remain at this level. Newspaper growth is directly related to the country's economic growth, especially growth in interior India.

Exhibit 27: Print commands the highest share of advertising revenues



Source: KPMG, Jefferies

Exhibit 28: Print advertising is closely related with GDP



Note: All year are calendar years; Source: CMIE, KPMG, Jefferies

Most other segments hampered by competition or regulations limiting profitability of players

In addition as we discuss below, Television is hampered by intense competition, which has limited the profitability of players, and radio is still highly regulated. Print then is our top pick among the media due to four reasons 1) strongest beneficiary of regionalization, 2) more closely linked to economic growth than other media, 3) rising addressable market and 4) little threat from the Internet (still some time away) and 5) Cash flow generation as we had discussed earlier.

Media Industry – Still a classic structure

Exhibit 29: TV and Print constitute more than 75% of the M&E industry

(in Rs bn)	2004	2005	2006	2007	2008	2009	2010
Films	59	67	82	93	104	89	83
TV	133	163	183	211	241	257	297
Print	105	117	139	160	172	175	193
Radio	3	5	6	7	8	8	10
Music	8	8	8	7	7	8	9
Animation	0	10	12	15	17	20	24
Gaming	0	2	3	4	7	8	10
Internet	1	2	2	4	6	8	10
Outdoor	9	10	12	14	16	14	17
Total Industry	**318**	**384**	**445**	**516**	**578**	**587**	**653**

Source: FICCI-KPMG, Jefferies

Classic segments of print, TV and film's still make up the major share of the industry

The Media and Entertainment industry in India is still traditional, in the sense that although new technologies have garnered a lot of attention especially in the top ten cities, they have not been able to break much ground in the rest of the country. The three traditional media, TV, Print and Films, still account for more than 85% of the industry. Internet accounts for a meagre 1.5% in contrast to the developed world, where it accounts for as much as 10-20% of the ad expenditure.

Except for Print, all the other segments are not yet fully decontrolled, be it in terms of spectrum allocation (TV and Radio), FDI investments (All), digitization issues (Cable, TV) or tax issues (Cable, DTH). We detail the main characteristics of various segments below.

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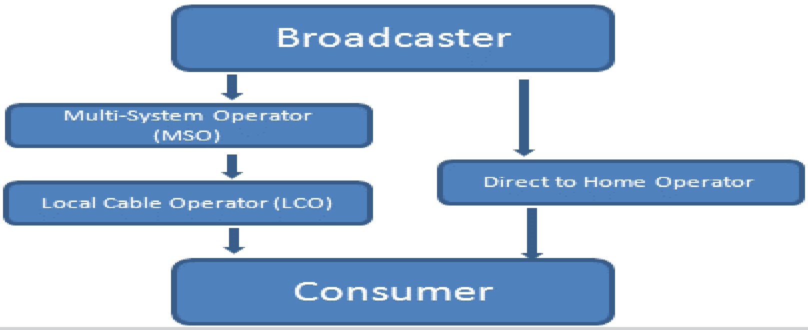
One of the largest television markets with a large chunk still not covered

Television - Intense competition hampering profitability

Television has the highest penetration of all media segments in India. This section has seen rapid growth since 2000. The total number of TV households in the country is 138mn, making it one of the largest television markets in the world. However, around 88mn households still do not have access to TV.

Exhibit 30: Television distribution chain in India



Source: Jefferies

Distribution chain leaves less power and revenues with the broadcaster

Net subscription revenues of broadcasters negligible

Despite the high penetration, the Indian TV broadcasting segment is hampered by two issues: 1) Carriage and Placement charges (C&P) and 2) underreporting of viewers. Both stem from the current distribution chain. The distribution chain in India has two layers between the distributors and the consumers, one the multi-system operators (MSOs) and other local cable operators (LCOs). MSOs are large-scale operators usually covering a city, who own and operate the systems to downlink and decode signals from satellites. They in turn distribute these to LCOs who provide the last mile coverage to the viewers over their cable lines. More than 90% of the cable lines in India are analog-based which supports only 30-40 channels compared to the 550 channels currently operational.

C&P fees cancel out all of subscription revenues received by broadcasters

This creates the two issues we referred to earlier. 1) Carriage and Placement charges (C&P) – The supply-demand mismatch of bandwidth on analog lines has led to a situation where broadcasters have to pay Carriage and Placement fees to MSOs and LCOs to place their channels in the limited bandwidth of analog cables. According to industry estimates C&P fees stood at Rs 20 bn in 2009 completely cancelling the subscription revenues.

80% of subscription revenues retained by LCOs

2) Underreporting of viewers – Analog systems do not allow broadcasters/MSOs to measure the number of viewers. Broadcasters and MSOs are dependent on LCOs for the number of subscribers and thus their share of subscription revenues. This has led to massive underreporting of subscribers. The level of underreporting is estimated to be as high as 80% in the country (FICCI-KPMG).

Digitization to improve the situation from current levels

C&P fees will still remain with ever rising number of channels

The government is currently working on an ordinance to require digitization of the C&S TV industry by Dec 2014. With the rise of digital cable and DTH, the problem of underreporting is being addressed to a point, but the issue of C&P fees remains. Carriage fees are being charged even by DTH players and could rise further as new channels start. Currently more than 250 channels are waiting for approval, which will worsen the competition scenario. In addition, most global players do not have full network in India and their entry may further distort the market.

Sector still highly regulated

The TV broadcasting industry is still regulated, with content, service and rates all regulated by the government to some extent. Subscription prices for channels are regulated by the government. It also regulates the maximum fees cable operators can charge for Free to Air channels. The service and performance level is also monitored by the regulator (TRAI) and the IB ministry.

Radio still nascent and highly regulated

Radio – Much hinges on government policy

The other significant beneficiary of regionalization is Radio. The Radio segment in India is still nascent. It makes up only 4.5% of the M&E industry, compared to the global average of 8%. Privatisation of radio started only in 2000 and on a broader scale in 2005. In

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addition, private radio is currently present only in 86 cities, compared to the 300 cities in India with population over 100,000.

The phase I of auctions in 2000 was very restrictive and hampered the ability of firms to profit from the business. This resulted in very selective expansion of the sector. Phase II of de-regulations and frequency auctions relaxed some of the rules especially on license fee which was eased to 4% of the revenues of the firm.

Penetration level high in covered areas

While penetration levels in covered regions is high, coverage is still very small

Radio penetration in markets where it is present is very high, close to 70%. The rise in the penetration level has been mostly due to rise of mobile phones with FM radio. In fact more than 90% of the listeners own mobiles with FM, while less than 50% own a separate radio device.

Regulations hampering profitability

Large restrictions on operations and content restrict profitability of the firms

The Radio business has high operating leverage, with more than 80% of the cost being fixed, such as employee expenses, production costs, studio expenses etc. Thus to be profitable firms need to increase revenues to cover these costs. Any revenue growth flows directly to the profit line.

Most radio players have subdued profitability. This is because despite the privatisation, radio is still heavily regulated. These regulations have restricted market expansion of the market and hampered profitability. We discuss some of the major regulations affecting the market.

One studio for one station has led to redundant assets and higher costs

- **No multiple frequencies –** Given that the capacity for advertisements on a channel is fixed and in metros the capacity utilization is close to 80% for the top players, growth has to come from expansion of capacity. Currently firms are not allowed to own multiple frequencies in a city, which restricts capacity. The single frequency rule also restricts firms from operating niche channels providing differentiated content.

- **Networking –** Indian regulations currently do not allow networking of radio channels in cities other than class C and D. This increases the cost of operations and restricts expansion. Networking is the use of the same infrastructure and program content for different stations across cities. Radio advertisements in Tier II and III cities are still in early stages. The revenues generated do not cover the cost of operations especially in regions of high competitive intensity. Networking allows channels to operate efficiently and reduces the cost of operations. This allows them to profit even in smaller markets.

- **Limit on content –** Radio channels are currently not allowed to broadcast news on their networks.

- **10 years duration of license –** Currently licenses are given for 10 years. This is a small timeframe, given that it takes 3-4 years to break even. In addition, M&A is only allowed after 5 years, which does not leave much on the table for the acquirer.

Royalty for music still unclear

- **Royalty –** Royalty is not regulated, but its status is uncertain. There is a case in the Indian courts regarding the calculation of royalty fees for music content. While the courts have ruled that stations will have to pay 2% of the revenues, the judgement has been challenged in higher courts.

Phase iii the catalyst

The Phase III of deregulation was announced in June, which made significant progress on most of these fronts. Some of the highlights:

Phase III to increase the coverage of radio

- It extends radio services to 227 new cities aside from the current 86 cities, which implies FM radio coverage in all cities with over 100,000 population. With new markets becoming available, radio will become a pan-India medium.

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- The duration of licenses has been increased to 15 years – this will give broadcasters more time to recoup their investments.
- Operators are now permitted to carry news bulletins of All India Radio, current affairs broadcasts and coverage of festivals, exams, results, sports – this will allow a diversification of content for the channels.

Allowing sharing of studios to reduce costs and increase profitability

- **Operators can own more than one channel in a city** subject to the condition that they do not own more than 40% of the channels – this will allow broadcasters to operate niche channels as the major fixed costs can be shared with the main station. This will also allow major players to gain more capacity in cities where they are capacity restricted. The increased channels will also increase the firms' pricing power without significant increase in cost.
- FDI + FII limit is increased to 26% from 20%
- **Networking of channels allowed** across the country – this will reduce the expenditure of firms and allow them to profit even in smaller markets and invest in them to grow those markets.
- The provisions of the phase III policy will also be available for phase II operators

M&A activity to pick up pace with smaller lock-in period and many potential buyers

- **Lock-in period for operators is reduced to 3 years**. This will imply more M&A opportunities for players who miss out in the auction and may keep the auctions reasonable.

With these and the auctioning of Phase III frequencies, radio will enter a new growth phase and cost rationalization. While these regulations are helpful, much still needs to be done. For example while 839 new channels are being auctioned, very few new channels are available in the major cities where capacity is maxed out.

Phase III auctions are expected to be held in two rounds in FY12 itself. A major overhang for phase III is that it will be an e-auction similar to the 3G auctions held last year and there are fears that a few players may distort the price significantly. This is possible since for some players motives may not be just economics of just the radio business.

Focus on non-metros

Inventory in metros reaching near full utilization for most players

Radio channels usually play advertisements for around 13min/hr for 17 hrs a day. Advertising volumes in radio have increased sharply over the past few years. In fact in metros it grew by 39% in 2010. This has resulted in a scenario where for most players the inventory in metros is near maxed out.

Next leg of growth to come from Tier II and III cities

Further growth will then come mostly from Tier II and III cities, and also from rate hikes. With Phase III opening up more capacity and allowing networking for players, the focus on Tier II and III cities will increase. Radio could then be a significant beneficiary of the regional growth story.

Radio will be strong beneficiary of the regional theme

Regulations make it less lucrative

As we discuss below radio is the other lucrative alternative to print in local advertisements. Radio is usually used as a reminder medium and with more local advertisements happening in non-metros, the radio ad market will also grow in them. Newer markets will only add to the market size for radio.

Internet – Still in the nursery

Internet still small in India

Internet in India is still in its early stages. Internet penetration in India is only 8% and most of this is also only in the top cities. Tier III, IV cities and rural India still have meagre internet penetration. Consequently the digital advertising industry makes up only 1.5% of the industry. While e-business in India is on an uptrend, lack of infrastructure and power shortage keeps it inaccessible for a large part of the consumer base.

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Print – best option for Regionalization

Print the most cost effective media for reaching consumers

Regionalization, as discussed above, will be the theme for the markets for quite some time. As such the best plays in the market should be those which benefit from it. Print media provides the marketers the most focussed, cheap and direct access to customers in the regional less-developed markets of India.

Consider the case of a cloth brand which is, say, planning to launch in Bhopal (the capital of Madhya Pradesh, a populous Hindi-speaking state in Central India). The company needs to decide on the medium for advertisement. It has multiple options: National TV, Regional State TV channels, Cable TV, National English dailies, Hindi dailies and radio. Exhibit 31 details the suitability of the various media for targeting the market. For a company planning to target only a city or its nearby districts, advertising in a national medium is not feasible.

Exhibit 31: Newspapers provide the best option to reach targeted customers

	Viewership/Readership	Probability of ad view	Cost of reaching target market
National Television	◕	◔	●
Regional Television	◑	◔	◕
Cable Television	◔	◔	◑
English Newspaper	◔	◕	◑
Regional Newspaper	◑	◕	◔
Radio	◑	◑	◔

Source: Jefferies

Real cost per ad views in case of a regional target audience is high for print and radio media

Even though TV has a much lower cost per customer, in case of regional ads, the cost per targeted customer becomes much higher for TV ads than newspaper. Local cable TV channels in India are not very popular given the more than 600+ channels on offer and that cable TV lacks quality content. Thus the best option is a news daily or radio. Newspapers provide an additional benefit over TV or radio - the higher probability of ad view. Most viewers skip TV advertisements by changing channels, hence actual ad viewership is much lower than the viewership of the channel. By contrast, the readership of print advertisements is much higher as people typically browse through a newspaper once in a day. Given this, regional ads are skewed towards newspapers. Radio is another option, but it is primarily a reminder tool used in conjunction with print or TV.

Even in state-level ad campaigns, newspapers provide a much more focussed target group for marketers. In addition, as discussed below, more than 50% of the market is usually covered by the top player, and more than 80% by the top 2 players. This leadership is sticky over periods spanning years. This is more attractive to marketers in comparison to TV where multiple channels vie for the top spot and the leadership position changes daily or hourly.

With more and more firms reaching into Tier II and III cities and even rural towns, local ad revenues will see substantial growth, especially for print and radio firms.

Higher correlation with economic growth

Economic growth impacts newspapers due to rising ad spend...

...also increases addressable market with rising literacy

Newspaper growth is closely linked to the economic growth of the country. Exhibit 28 shows the significant correlation between print ad growth and GDP growth. Economic growth has a dual impact on the newspaper industry: 1) rising income leads to more consumption and hence larger readership revenues and also higher advertisement revenues. 2) as income level increases so does the literacy level, thus increasing the addressable market size.

Both impacts are visible with newspaper circulation is growing at an annual rate of 9%, one of the highest rates globally and advertisement revenues growing in double-digits.

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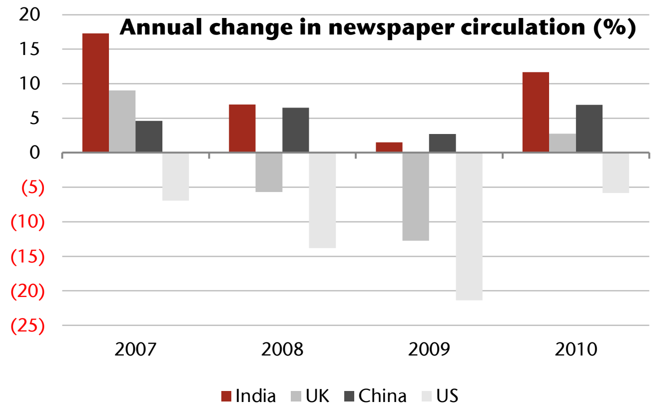
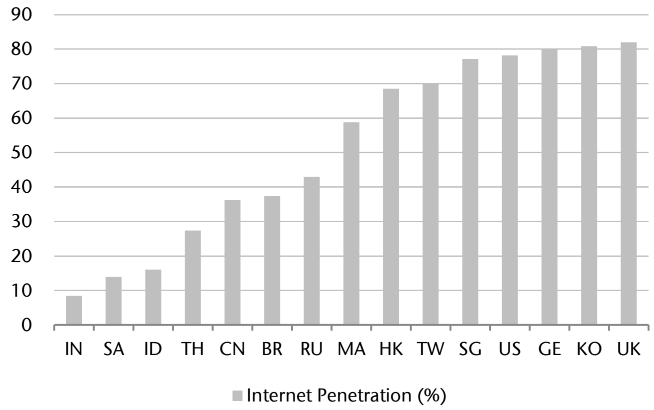
Exhibit 32: Newspaper growth is one of the highest…



Source: PWC, Jefferies

Exhibit 33: … driven by low internet penetration



Source: Internet World Stats, Jefferies

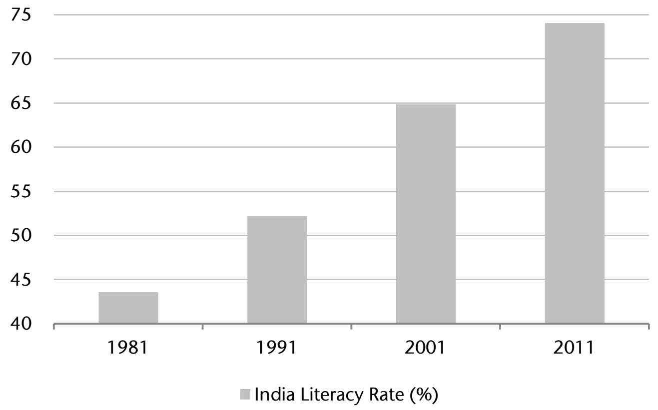
With the economy continuing to grow at a 7%+ rate for the medium term, and being driven more by non-metro India, the newspaper industry is in a sweet spot to enjoy the fruits of economic development for a long time.

Increasing addressable market size

Real literacy levels much below reported numbers due to liberal definition of literacy

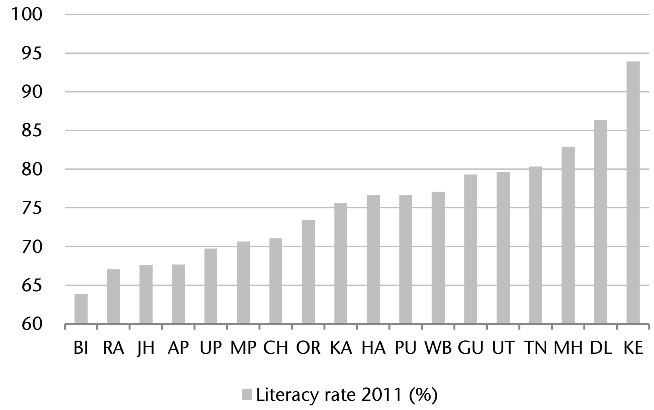
Literacy levels in India are still far from saturation level. While a 74% literacy rate sounds good, a deeper investigation shows much room for improvement. Literacy levels in poorer states are much lower than the all-India level. States such as Bihar and Rajasthan have levels that are almost a decade behind the rest of the country.

Exhibit 34: Literacy levels in India are rising steadily…



Source: Census of India, Jefferies

Exhibit 35:…though some states still need to catch up



Source: Census of India, Jefferies

In addition literacy rates in India are based on crude literacy, i.e. Indian surveys count persons as literate if they read and write their names. The actual percentage of people who can read and write properly is much lower.

Education is now the main focus of government with increasing spends and number of schemes for promotion of education

Education is one of the main priorities of the government with schemes such as the Sarwa Siksha Abhiyan, which aims to provide free and compulsory education to children between the ages of 6-14 years. Government spend on education now stands close to 11% of total government expenditure. Education spend has grown at more than 20% for the past three years. With this strong focus on education, literacy levels should see a sharp rise in the coming years, especially in the poorer states where education has been lacking.

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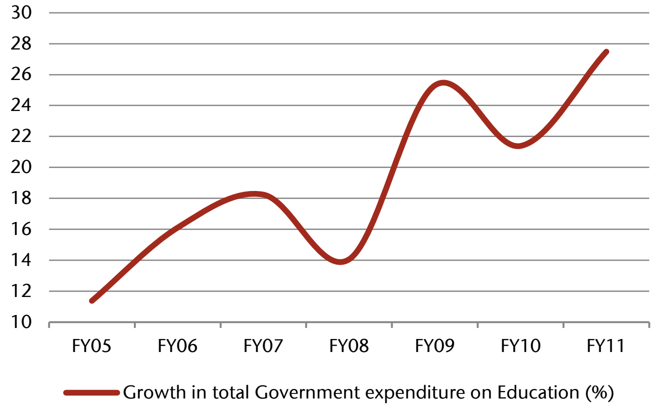
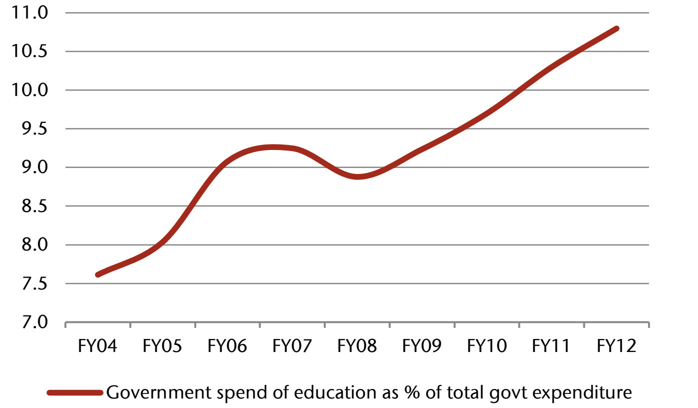
Jefferies

Exhibit 36: Government spend on education has been growing at 20%+ rate...



Source: CMIE, Jefferies

Exhibit 37: ...resulting in education expenditure reaching 11% of total government spend



Source: CMIE, Jefferies

Print media's addressable market increasing as a result

Rising literacy levels increase the addressable market for the print media. Print media penetration is currently close to 40% on an all-India level. This is rising steadily with rising circulation and literacy levels.

Internet threat still some time away

Internet penetration mostly in top cities

Globally print media is in retreat with the Internet gaining more and more market share. However, Internet penetration in India is still under 10% of the population, and mostly in the metros and Tier I cities. The level of penetration in Tier II and III cities is much lower and nearly negligible in rural India.

Given the low penetration, the threat to print media has still not emerged. This is especially true for the vernacular print media for which the major market is the non-Tier I cities and rural India.

Infrastructure issues will keep penetration low

Device and service costs also hamper the reach of the Internet

The level of penetration will remain small unless wireless broadband becomes widespread and prices of devices drop substantially. Internet services suffer from the same problems that telecommunication services suffered before the surge of mobile phones. First, infrastructure to reach the masses on wired Internet services is not available and is very capex intensive to set up. Second, the high rates of the services keep them out of the reach of the common people, for example a 1GB data package costs around Rs 200 per month compared to monthly telecom ARPU which is less than one-third of this. Third, the shortage of power makes use of computers unreliable. For the Internet to make significant inroads into India, technological developments will be needed to make wireless broadband cheaply available.

Indian newspapers' unique delivery model and local focus make them indispensible

Even with the rise of the internet, Indian newspapers provide an advantage that consumers will find it hard to do without - home delivery and local news focus, as we discuss in the section below. In metros where internet penetration is high, newspapers are still booming as they provide: 1) the convenience of home delivery and 2) much local news that is not accessible on the Internet.

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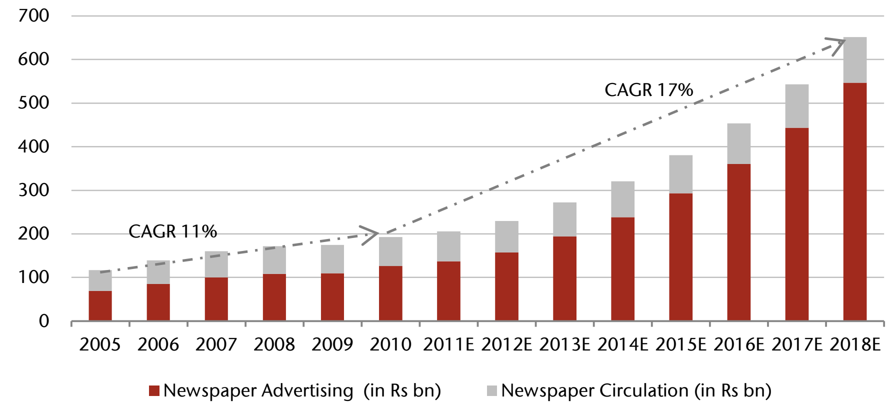
Newspapers to stay strong over the medium term

Exhibit 38: Newspaper advertising to grow at 20% CAGR



Source: FICCI-KPMG, Jefferies

Newspaper industry to see a rapid acceleration especially the advertising revenues

Given these factors, we expect newspaper advertising to grow at a 20% CAGR over the next eight years, more than doubling over the next five years. We have assumed growth in the current year (CY2011) of just 9% given 1) slower GDP growth and 2) government advertisements contributing around 15-20% of revenues have not seen any growth. There could be potential upside to these estimates if growth returns and government paralysis ends.

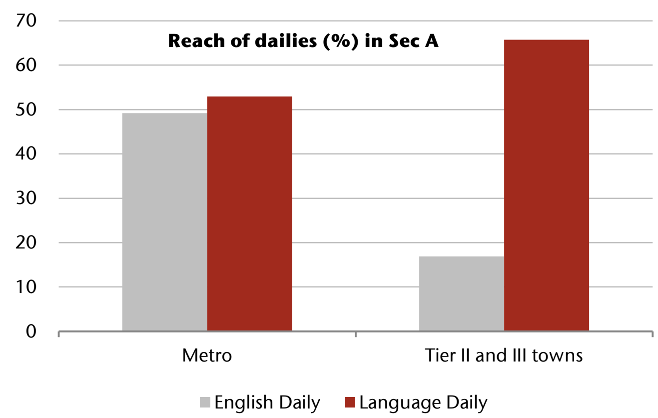
We estimate the total industry growth including circulation will be around 17%, accounting for the lower circulation revenue growth. We have not factored any price increase from the current level leaving room for upside if the consumption trend changes.

Prefer vernacular over English

Reach of English newspapers mostly in high income households in top cities

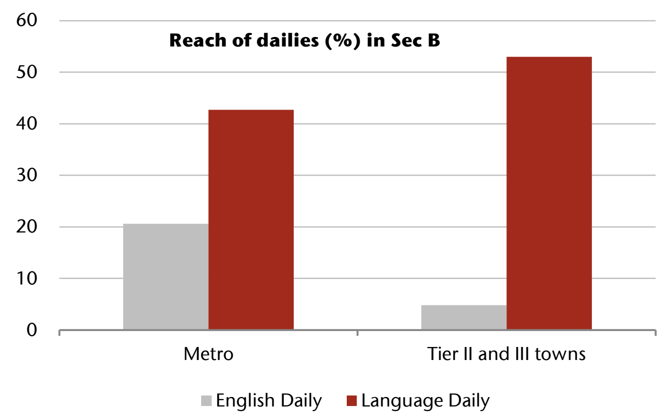
As we discussed above, most of the growth in the next phase is going to come from non-metro cities and Rural India. These are the areas where language newspapers (newspapers in languages other than English) are dominant. English newspapers have the majority readership in the top 6 cities (Mumbai, Delhi, Kolkata, Bangalore, Chennai, and Hyderabad). Delhi and Mumbai make up more than 40% of the market for English newspapers. Exhibits 39 and 40 highlight the poor reach of English newspapers in Tier II and III cities in even the upper (Sec A) and upper middle class (Sec B) households.

Exhibit 39: English penetration in Tier II and III is meagre…



Source: Company Data, IRS, Jefferies

Exhibit 40: …even in upper and upper middle class homes



Source: Company Data, IRS, Jefferies

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Exhibit 41: Hindi readership outpaces English by a wide margin

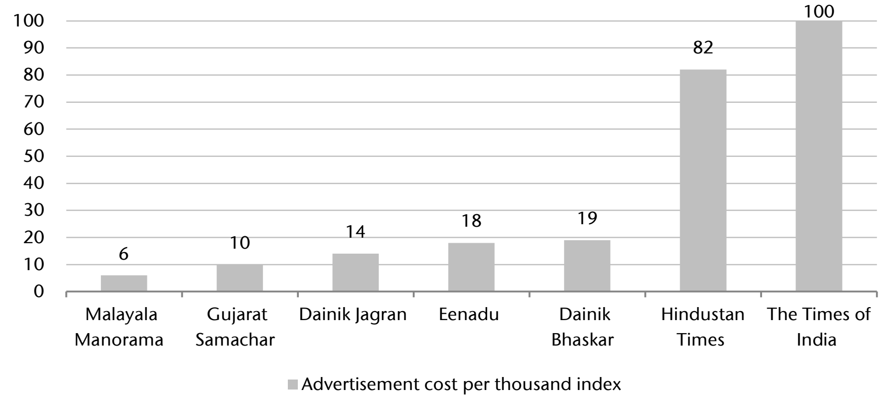
	Language	Average Issue Readership (in mn)
Dainik Jagran (JAGP)	Hindi	16.4
Dainik Bhaskar (DBCL)	Hindi	14.2
Hindustan (HMVL/HTML)	Hindi	12.0
Malayala Manorama	Malayalam	10.0
Amar Ujala	Hindi	8.9
Lokmat	Marathi	7.6
The Times Of India	English	7.5
Daily Thanthi	Tamil	7.3
Rajasthan Patrika	Hindi	6.9
Mathrubhumi	Malayalam	6.7
Ananda Bazar Patrika	Bengali	6.1
Eenadu	Telugu	6.0
Gujarat Samachar	Gujarati	5.2
Dinakaran	Tamil	5.2
Sakshi	Telugu	5.1
Daily Sakal	Marathi	4.4
Divya Bhaskar (DBCL)	Gujarati	3.6
Hindustan Times (HTML)	English	3.7
Punjab Kesari	Hindi	3.4
Vijay Karnataka	Kannada	3.4

Source: Company Data,IRS, Jefferies

Regional language players have the most reach in non-metros and to be the main beneficiary of the faster growth in these cities

Rising local ad demand due to regionalisation should benefit language publications more as the share of local ads for language is much higher than for English. National level ad campaigns form a large part of the current ad revenues and while they still will maintain their place, more and more campaigns are now being tweaked to add a regional flavour.

Exhibit 42: English ads cost much higher than language newspaper ads



Note: Hindustan Times and Times of India are English newspapers, Dainik Jagran and Dainik Bhaskar are Hindi while the rest are other language newspapers; Cost are indexed with Times of India as 100; Source: PwC, KPMG, Jefferies

English newspapers have traditionally commanded much higher advertisement cost than regional

English newspaper readers are the upper and upper middle class households in urban India's top cities. This high spending group has been most sought after by advertisers, which till now allowed English newspapers to command a significant premium over language newspapers. While English newspapers command only 9% of the readership, they account for around 50% of the ad market. This gap has been closing for some time and is expected to close further.

This gap is narrowing as focus is shifting to Tier II and III cities

The advertisement cost per thousand for the Dainik Jagran, the most read newspaper in India (IRS Survey 2011 Q2) (Hindi language) is just 14% of the rate for Times of India, the seventh largest read publication in India. This gap has been shrinking over time. The premium of English newspapers over Hindi, which stood at 12x in 2003, is now down to 9x in 2010. The gap will continue to narrow as marketers shift focus to their home turf. Industry view is that the gap will close to 6x by 2015.

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Indian Newspapers – Unique business model

A '*desi*' flavour makes the Indian newspaper a strong growth story

The newspaper business has an old established model around the world, which has mostly remained the same. However, the Indian newspaper industry has its unique characteristics. From the business model, to the operations and the reach, the industry has a unique '*desi*' flavour. Much of it reflects the consumption and usage behaviour of Indian consumers.

In contrast to global print business Indian firms are seeing sharp growth both in revenues and readership

High fixed costs turn the high sales growth to faster profit growth in contrast to falling profits globally

While globally firms are seeing a fall in their print business profitability, Indian firms are seeing a steady rise in theirs. A large part of the cost for print media is in employee cost and overheads. Even raw material cost is semi-fixed, considering the circulation numbers of newspapers are not flexible and need to be maintained at a certain level. A large chunk of the revenues is from advertising and any incremental ad revenues just flow through to the profit line. Given this, when one compares the sales growth (especially advertisement revenues) in the west and India, the profitability difference becomes obvious. The high growth in advertisement flows through to the profits for the Indian firms, while falling revenues in western firms erode their profitability.

Regional firms enjoy near monopoly in their markets.

Regional firms have large cash flow which is either used to expand or paid out as dividend

For the regional firms, most listed players have virtual monopolies in their home markets. The market leader position is very sticky as most No. 1 brands are decades old and command large credibility and customer loyalty. The high profitability and low capex requirement has resulted in most firms having large free cash flows. Some have used this to further expand in other languages to generate future growth engines, while others have paid out large dividends.

There are other factors which distinguish the Indian print business and will allow the growth to continue. We detail them below.

Indians receive their newspapers delivered at home early in the morning to read

Home delivery is the norm – The sales model of newspapers in India unlike the rest of the world is that of home delivery. This difference is very important as it ensures newspaper usage even with the rise of the Internet. Readers in India like to read their newspapers first thing in the morning and hence they are delivered as their doorsteps at dawn by agents and hawkers. This is in contrast to the developed world where most sales are through newsstands. Newsstand sales account for less than 10% of newspaper sales in metros, and a negligible amount in Tier II and III cities. Agent commissions for hawkers are around 30% of the cover price of the newspapers. In addition they charge a small fee (3% of cover price) from the customer for delivery of the papers.

Newspaper bills are paid monthly removing the hassle of making a daily purchase

30-day billing cycle to readers – The result of the home delivery model is a monthly billing cycle, which means readers enjoy on average a 15-day credit. This is borne either by the publisher or the agent. This is in contrast to most other countries where newspapers are sold for cash.

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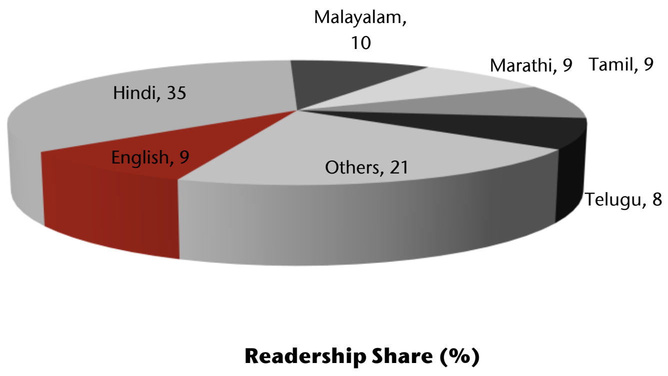
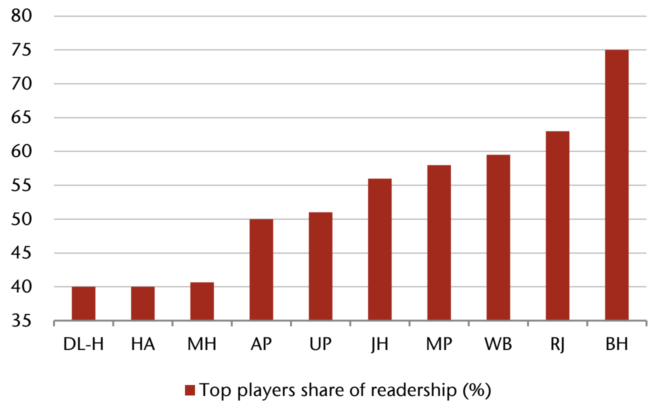
Exhibit 43: Large vernacular markets



Source: IRS, Industry data, Jefferies

Exhibit 44: Top players enjoy monopolistic benefits



Source: PWC, Industry data, Jefferies

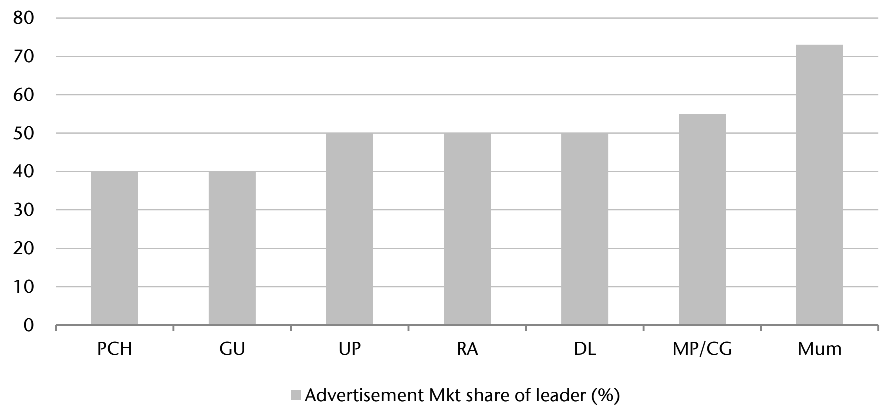
Print industry is divided into many markets along state and linguistic lines

Preference for local content a reason for the various markets

Newspapers in India are linked to regional and cultural identity creating a number of markets

Multi-lingual market – In contrast to most countries where newspapers are in one or two languages, India has newspapers in multiple languages and as of 2010 there were 77,600 newspapers operating across the country. While Hindi language newspapers have the largest readership, they still only comprise 40% of the total, Malayalam comes in second with 10% and English third with 9% share of readers. This multi-lingual behaviour along with focus on local content bifurcates the newspaper industry into a number of standalone markets divided mostly along state and linguistic lines.

Exhibit 45: Market leaders have a disproportionate share of the ad market



Source: Industry data, Jefferies

Identity issues also create a sticky market leadership

Leaders garner a bulk of the advertising market

Oligopolistic market situation– While the industry is highly fragmented with more than 75,000 papers and no strong countrywide newspapers, various market leaders enjoy oilgopolistic returns. Newspaper market boundaries are based on state/linguistic boundaries. In most states the top players have more than 40% of the total readership of the market and also a similar share of the ad market. Most listed players have market leadership in a couple of states that act as cash cows for the firms to expand to other regions.

Sticky market leadership – Market leadership in the regional space is quite sticky. Most number 1 players have been so for more than a decade and been able to maintain their position. New entrants typically take 3-5 years to break even in markets.

Demand for local content in newspapers has led to a number of editions and sub-editions for all papers

Local content popular – Most newspapers in India have multiple editions and sub-editions to address the market. Dainik Jagran and Dainik Bhaskar, the two top print firms (readership basis) have around 200+ editions and sub editions. This is due to the fact that Indian consumers prefer a newspaper which has more local news and is for their city than a newspaper printed on a national level or state level. There is a sense of pride in their city which is reflected in this preference. This holds so more for regional prints. A similar trend

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is visible in larger cities like Mumbai and Delhi where English newspapers have started producing editions for suburbs. This increases the cost and time investment for new firms to enter the print business as setting up the infrastructure is costly.

Circulation seeing steady growth – While the rest of the world is seeing a fall in newspaper circulation, India is seeing a steady rise in circulation. This is a result of rising literacy rate and low Internet penetration, which has helped the growth of newspapers and will continue to support it for the next few years.

Exhibit 46: Pricing in many places lower than scrap value

(in Rs)	Nominal case	Entry strategy pricing
Average Circulation Price	1.50	0.42
Commission to agents	30%	30%
Cost to vendors	1.05	0.29
Scrap cost	1.00	1.00
Profit /(loss) on sale as scrap for vendors	-0.05	0.71
Profit /loss on sale as scrap for readers	**-0.50**	**0.58**

Source: Industry data, Jefferies

Nearly half of the cost of copy is recovered through the common practice of scrap sale

Scrap '*Raddi*' sale – Households across India, irrespective of income levels, sell old newspapers as scrap called *'raddi'* instead of throwing them out. Newspapers usually fetch between 30-100% of the cover price via sale as scrap. In some entry level strategies the cover price is actually much lower than the *raddi* value.

Exhibit 47: Large scope for regionalization still left

	National Daily		Regional Daily	
	New York Times	**Hindustan Times**	**McClatchy Company**	**Jagran Prakashan - Hindi**
Circulation	39	5	20	20
Growth (%)		*-3%*	*-2%*	*3%*
Advertisements	54	84	76	70
Print	*45*	83	*75*	69
Print Ad. Growth (%)	***-8%***	***20%***	***-10%***	***20%***
Digital	***10***	**0**	***1***	***1***
Digital Ad. Growth (%)	*18%*	*77%*	*2%*	*80%*
National Ad. Share (%)	*57*	*60*	*9*	*40*
Regionals (including classified) Ad. Share (%)	***40***	***40***	***80***	***60***
Others	*3*		*12*	
Others	**7**	**11**	**4**	**10**
Total Revenues	100	100	100	100

Note: All numbers are indexed to Revenues which is 100 for all companies; Source: Company Data, Jefferies

National advertisement commands a higher share in India than in developed countries

Higher national advertisement share – National revenues still command a large share for the newspapers. While in the US, regional newspapers' share of advertisement revenues is as low as 10%, it is as high as 40% for Hindi and vernacular newspapers in India.

Diversification into new business – Most firms have, in addition to newspapers, also diversified into new verticals within the M&E space. Most listed players have forayed into Radio, Out of home advertisement and Event Business. This has grown well, with other businesses contributing close to 10% of revenues for these firms.

Raw material cost the highest cost in India

Employee cost is low due to low wages in contrast to the developed countries

A unique cost structure – The cost structure for Indian papers is vastly different from their global peers. In contrast to US prints where employee cost is the highest, accounting for 20-40%, in India it accounts for only 15-20%. The highest cost for Indian print companies is raw materials, which come at around 30% of revenues vs. less than 10% for US print.

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Exhibit 48: A unique business model

	National Daily		Regional Daily	
Profit and Loss	**New York Times**	**Hindustan Times**	**McClatchy Company**	**Jagran Prakashan**
Circulation	39	5	20	20
Advertisements	54	84	76	70
Others	7	11	4	10
Revenues	***100***	***100***	***100***	***100***
Revenue growth (%)	***-2***	***22***	***-7***	***18***
CoGS	7	29	10	30
Employee Cost	21	17	38	13
Other expenses	41	30	25	27
EBITDA	***16***	***24***	***27***	***31***
EBIT	***11***	***19***	***17***	***26***
PBT	***7***	***21***	***3***	***27***
PAT	***5***	***15***	***2***	***18***
Balance Sheet				
Cash and Short term investments	17	37	1	5
Account Receivables	13	15	13	19
Inventories	1	8	2	5
Other Current assets	3	22	2	14
Net Fixed Assets	77	44	173	46
Of which Intangible Assets	*28*	*5*	*47*	*2*
Goodwill	*27*	*0*	*74*	*0*
Misc. Assets	28	34	36	19
Assets	***137***	***161***	***228***	***109***
Current Liabilities	21	38	19	24
Debt	42	23	124	16
Of which short term	*3*	*15*	*0*	*13*
Other liabilities	47	4	69	6
Equity	28	95	16	63
Inventory turns	***9.9***	***3.5***	***4.1***	***5.9***
Debtor days	***46.1***	***54.3***	***48.8***	***69.5***
Net Debt to equity	***0.9***	***-0.1***	***7.7***	***0.2***
RoE (%)	***16.3***	***16.1***	***15.0***	***29.4***
RoA (%)	***3.3***	***9.6***	***1.1***	***17.0***
Working Capital	***11.9***	***44.7***	***0.1***	***19.1***
Dividend Payout (%)	***0***	***7***	***0***	***62***

Note: All numbers are indexed to Revenues which is 100 for all companies; Source: Company Data, Jefferies

Advertising revenues have a 60-day credit period

Advertising credit is mostly secured due to a strong advertising association

High debtor days – Indian companies have debtor days of around 60 days. This is higher than global peers where it is less than 50 days. The higher debtor days are an industry norm. In India the INS agency requires newspapers to provide two months of credit to its members (advertisers). INS provides support for credit collection by blacklisting defaulting advertisers, limiting their future advertisement placement with any media agency. Thus even though debtor days are high, bad debt ratio is low.

Leverage of print media firms is near zero

Net cash firms – Most Indian newspapers are net cash companies in contrast to US and UK where most firms have high debt on their balance sheet. The low gearing of Indian firms gives them freedom for future expansion into new business, regions and technologies. Most of the debt that is there for Indian firms is low cost cash credit or buyer credit.

Indian print media companies are asset light

Asset light – Indian print media firms are asset light compared to their global peers. While net fixed asset turns for Indian firms are around 2x, for US firms it is 0.5–1x. This is despite the fact that Indian firms have a larger number of offices to cater to their various editions. A large part of this is due to the high intangible assets especially goodwill on the books of the global firms. Most Indian newspapers have none or negligible goodwill on their books.

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Regulations

Only regulation on the industry is in terms of foreign investments

The newspaper business has been deregulated for a long time. The only significant restriction is on foreign investments. Foreign investment in newspapers is limited to 26%, including FDI, FII and NRI investment. While this limits Indian firms' ability to access investment from abroad, it shelters the business from global pressure. Due to the 26% limit, no major newspaper has a significant presence in India.

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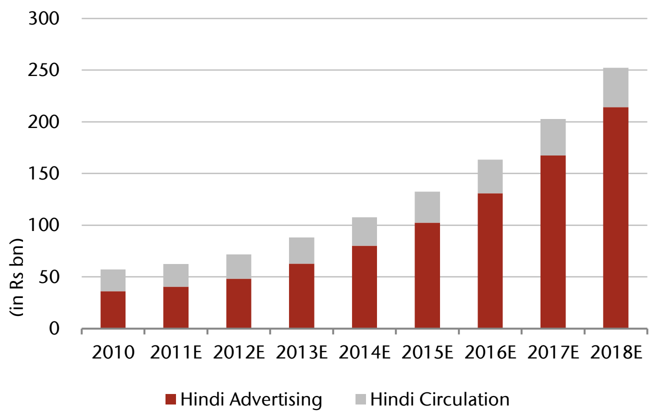
Hindi print to vastly outpace English

Faster economic growth in Hindi region to drive higher print media growth

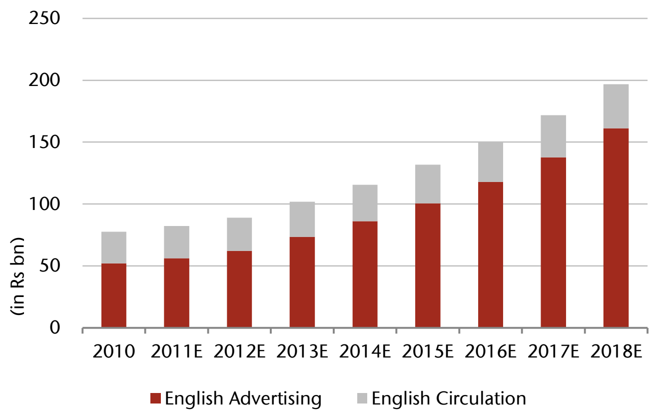
Newspaper growth will be driven by Hindi and other language newspapers. We expect Hindi to grow at 20% CAGR for the next eight years outpacing English which will grow at 12%. Other languages will be in middle, growing at 18% CAGR.

Exhibit 49: Hindi print to grow at 20% CAGR…



Source: FICCI-KPMG, Jefferies

Exhibit 50: …while English will grow at 12%



Source: FICCI-KPMG, Jefferies

We think the regional print media will be shielded in the current slowdown and we expect it to grow at a 9% rate in CY2011 and 15% in CY 2012. This is based on our assumption of GDP growth of 6.9% in FY12 and 7.5% in FY13. Thus regional print provides a good defensive even in a situation as bad as 2008-09.

Exhibit 51: Regional to grow much faster in both reach and advertisements

Growth CAGR (%) 2010-18	Advertising	Circulation	Total
Hindi	24.8	7.8	20.4
English	15.1	4.3	12.3
Other Language	21.7	5.8	17.6

Source: FICCI-KPMG, Jefferies estimates

Impact of GDP slowdown on Hindi print limited

Hindi speaking belt mostly insulated from global growth

India's current GDP slowdown is more pronounced in the metros and the developed states. The Hindi-speaking belt, especially states like Bihar, MP, Chhattisgarh, and Jharkhand, are growing strong. Even UP has seen a pickup in growth in recent years. These states are the main footprint states of the listed print firms, namely Jagran Prakashan (UP, Bihar, and Jharkhand), Hindustan Media Venture Limited (UP, Bihar, Jharkhand) and DB Corp (MP, Chhattisgarh, Rajasthan, Jharkhand).

A similar trend had helped the industry in the FY09 global crisis when the GDP slowed to less than 7%. The media industry had then witnessed a cyclical slowdown. Print advertisement growth slowed to below 2%. Despite this, the impact on listed print was subdued. Both Jagran Prakashan and Dainik Bhaskar saw ad revenues rising by more than 10% outpacing the GDP growth.

This was as the Hindi belt was growing much faster than the rest of the economy. Bihar, one of the most under-developed states, grew at an astonishing 11.44% average annually from FY08 to FY11, compared with India which grew at 8% average over the period. This rate has continued for all the major home markets of the listed firms.

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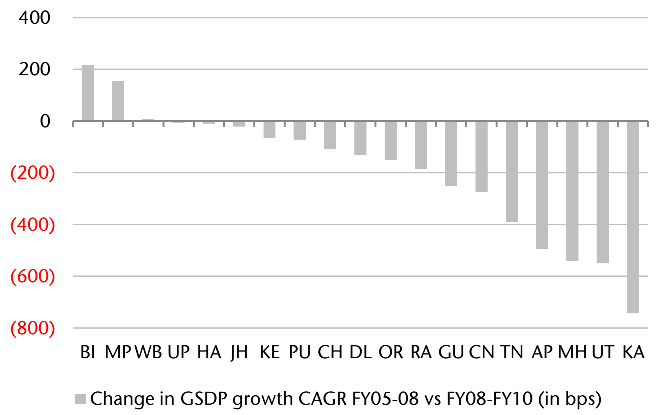
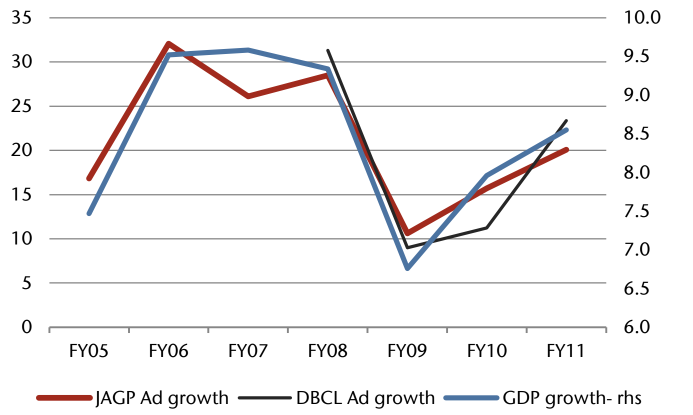
Exhibit 52: Hindi belt saw negligible slowdown during the crisis...



Source: RBI, Planning Commission, Jefferies

Exhibit 53: ...leading to limited impact on local print



Source: Company Data, CMIE, Jefferies

Local sectors like education, government and services are the main advertisers in print, shielding it form global slowdown impact

Given this, the regional listed print space especially Hindi print should continue to grow at a moderate pace even in the downturn. Also, RBI is expected to ease rates considering the weak domestic GDP growth, which will benefit the major advertisers of the print media namely real estate, BFSI, and the auto sector.

Exhibit 54: Education, services and finance rule the print advertising market

Sector-wise contribution to print media advertisements (%)

Sector	2009	2010
Government	16	16
Education	15	15
Services	12	12
BFSI	9	10
Auto	7	6
Retail	6	5
Durables	4	3
Personal Accessories	4	4
Personal Healthcare	3	3
Corporate/Brand image	2	3

Source: TAM Adex, FICCI, PwC, Jefferies

Low government advertisement spending to keep FY12 subdued

Government advertising spend has seen a slow growth in FY12 impacting the revenues of firms

The current slowdown will impact national advertising. National advertising makes up about 40% of total advertising. We expect national advertising to grow at 8%. Local advertisements are expected to perform slightly better at 11% in FY12. Local advertisements suffer due to lack of government advertising. Recent policy and government paralysis has led to flat government advertisements growth. This implies total advertisement growth of 11% for the Hindi print in FY12.

Newsprint prices to moderate

Globally newsprint prices have peaked and domestic newsprint prices should follow

INR depreciation has negated the fall in global newsprint prices

Falling global demand to keep prices in check

In addition to the strong topline growth for the regional print firms, they should also benefit on the cost front from moderating newsprint prices. Newsprint is the major cost component for Indian firms, accounting for roughly 40%. A large share of the newsprint in India is imported. The Indian print industry is a price taker in the world market as the Indian market is small compared to the global market. Indigenous prices are usually 5-10% lower than imported newsprint, with the gap closing when imported prices rise, as higher demand for cheaper local newsprint allows local mills to raise prices close to imported levels.

Recently, the gap between domestic and imported newsprint has nearly been bridged, due to shortage of scrap paper. This trend is expected to reverse in the coming quarters. Imported newsprint prices have started falling. The recent currency impact though has negated most of this. With global demand falling costs are expected to fall from current high levels.

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Domestic prices are expected to fall in the falling commodity price scenario

Domestic newsprint prices are expected to follow the trend in the coming months and should fall given the falling newsprint prices globally. This will be further beneficial for newsprint firms especially Hindi and regional, which use a higher share of domestic newsprint.

Competitive pressure peaking in Hindi space

No new expansion plans by major players

Uneconomical for smaller players to expand into new territory

Competitive pressures for listed players had increased sharply over the past few years. In the last few years, firms have entered new territories and increased competition. However, this is now changing with no new major expansion plans in the pipeline in the Hindi belt except for DB Corps' possible Bihar expansion scheduled for late FY13. The main reason for the easing of expansion plans is the current industry dynamics.

Most markets now have 2-3 strong players, unviable for any new players to organically expand

M&A limited in industry as print associated with prestige

Most markets in the Hindi space already have two-three large players. This limits the gain from entry into these markets. For a new entrant to enter a market with 2-3 large players is capex-intensive and not economically viable. This limits potential entrants to just two markets - UP and Madhya Pradesh (MP)/Chhattisgarh (CG). Most players except for DJ and DB have forayed into the markets but not have been able to break ground there. Consider MP, which lacks a strong No 2 player. Most players except for Hindustan and DJ have forayed into the market but not been able to gain any significant readership. Similarly UP is dominated by DJ. Most players are now focussing on inorganic expansion due to the high competition. M&A in the industry are restricted as a newspaper is usually associated with prestige.

Exhibit 55: Most markets have at least two top players

	MP	CG	UP	BI	JH	RA	PU	CN	HA	DL
Dainik Jagran	R	R	1	2	3		3	>3	3	>3
Dainik Bhaskar	1	1	R		N	2	2	1	1	
Hindustan			3	1	1				>3	2
Amar Ujala			2					2	>3	>3
Rajasthan Patrika	2					1				
Punjab Kesari						>3	1	3	2	3
Navbharat Times										1
Nai Dunia	3	>3								
Prabhat Khabar				>3	2					
Hari Bhoomi	>3	2							>3	

Note: R means restricted from entry, N means new entrant, Numbers indicate position in the market based on readership; MP=Madhya Pradesh, CG= Chhattisgarh, UP=Uttar Pradesh, BI=Bihar, JH=Jharkhand, RA=Rajasthan, PU=Punjab, CN=Chandigarh, HA=Haryana, DL=Delhi. Source: Company Data, IRS, Jefferies

Top players are restricted from entry into the larger markets with potential

Among the top two players, the expansion plans are limited due to title rights issues. Both DJ and DB are 50-year-old companies. The legal rights to the respective titles are not held by one entity alone as we explain below. This has restricted DB's entry into UP and DJ's entry into MP/CG, thus safeguarding the top two players from intense competition in their home markets.

Dainik Jagran restricted from entry in MP due to title rights issues

1. Dainik Jagran – Jagran's entry into MP is restricted due to title rights. The title rights of DJ in MP rest with a JV between Jagran and a company promoted by relations of promoters who co-own the title rights. This company has faced management issues from the JV partner and banks have foreclosed on some of its properties. DJ has filed a case seeking control of the JV. In Rajasthan it plans to enter via an acquisition given the already strong competition between Rajasthan Patrika and DB.

Similarly Dainik Bhaskar is restricted from entering UP

2. Dainik Bhaskar – Dainik Bhaskar's title rights are shared between three parties after a prolonged court battle. DB Corp does not own the title rights in 18 districts of MP, Maharashtra and Western UP. The UP title rights are still under dispute between various members of the promoter family, restricting DB's entry into UP.

Hindustan has shifted focus to new businesses like education

3. Hindustan – Though Hindustan does not have any title rights issues, the aspirations of the management have diverged. The company is now foraying into new businesses like content for TV and education space and has halted print expansion.

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Valuations not representative of business

20%+ EPS CAGR over FY11-14

25% + average RoEs

Net cash firms, with low capex requirement

13.6x FY13 PE

Print Media provides one of the few plays in the market on the rising regional consumption theme. Indian print industry especially regional firms provide a strong defensive play in the market with firms having low leverage, high cash flow generation coupled with low capex requirement. Return on Equity is above 20% and earnings growth CAGR is 20%+ for most firms. Regional firms have earned consistent cash flows and profits even in the midst of the 2009 crisis. Most stocks have high dividend yield. The downside risk is low given leadership in home market and strong local economy in Hindi belt. The sector has underperformed unlike other defensives and FY13 PE for the industry is at 13.6x.

Valuations at bottom

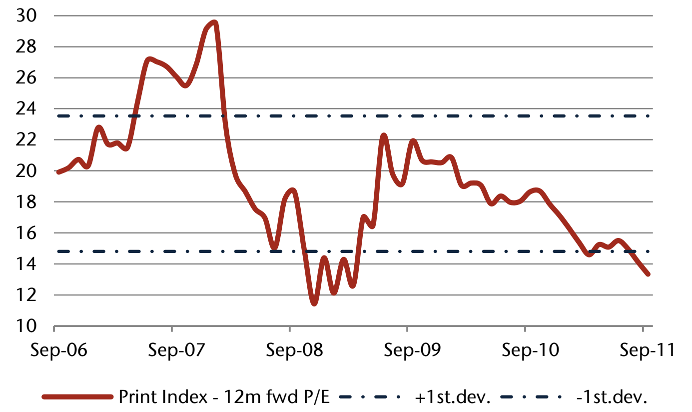
Indian print firms trading at 13.6x FY13 PE

High profit growth and cash flows not factored in

Valuations not reflective of the strong defensive business

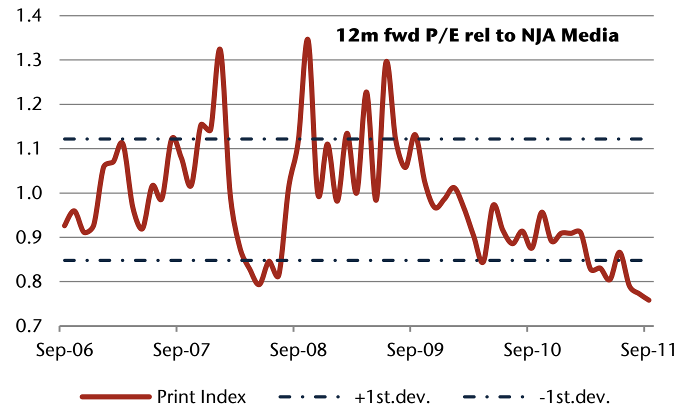
Valuations for the print industry are currently close to the levels seen at the peak of the crisis. FY13 PE for the industry is 13.6x, below even India PE. Historically, Indian print firms trade at multiples close to the NJA Media sector. Currently they are trading at a 25% discount to NJA media valuations, post sharp underperformance of the sector on growth fears. While a part of the rerating has been on account of lack of revisions in consensus, even with our conservative estimates of a fall in earnings in FY12, the valuations for media firms are well below their history and peers. In our view the stock prices already factor in the earnings revision and actually depict a 2008 type scenario. We do not believe this to be the case and expect the underperformance to reverse.

Exhibit 56: Valuations factoring in 2008-like crisis



Source: Datastream, I/B/E/S estimate, Jefferies

Exhibit 57: Large discount to peers unjustifiable



Source: Datastream, I/B/E/S estimate, Jefferies

Jagran the preferred pick

The listed print media space in India provides all the flavours, from companies having high dividend yield to companies expanding aggressively to companies now beginning to see the fruits of their expansion.

Initiate on Jagran, DB Corp, HT Media and HMVL with buy

We initiate coverage on four stocks - Jagran Prakashan (DJ), DB Corp (Dainik Bhaskar), HT Media (Hindustan and Hindustan Times) and Hindustan Media Venture Limited (Hindustan).

JAGP the top pick with 4% div. yield 22% EPS CAGR, 30% RoE and 12.8x FY13 PE

Our top pick is Jagran with our Rs153 implying 46% potential upside to current market price. Jagran has an FY11-14E EPS CAGR of 22%, dividend yield of 4%, return on equity of around 30%, high cash flows and low capex requirement. It is currently trading at 12.8x FY13 PE, one of the cheapest in the industry. Its earnings are protected given the strong leadership in its market and higher local ad share.

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Exhibit 58: Jagran is our preferred pick

					EPS (in Rs)				RoE (%)			PE(x)		Dividend Yield (%)	
Company	**BB Code**	**TP**	**% Upside**	**Rating**	**FY11**	**FY12E**	**FY13E**	**FY14E**	**FY11**	**FY12E**	**FY13E**	**12M Fwd**	**FY13**	**FY11**	**FY12E**
DB Corp	DBCL IN	260	30.5	Buy	14.1	11.0	13.7	18.7	35.0	22.4	23.9	16.4	14.6	2.3	1.7
HT Media	HTML IN	176	26.9	Buy	7.7	5.9	9.6	14.3	15.9	10.2	14.9	17.8	14.4	0.3	0.3
Hindustan Media Venture	HMVL IN	186	46.7	Buy	7.3	6.5	10.0	16.0	14.1	11.9	16.3	15.4	12.7	0.9	0.8
Jagran Prakashan	**JAGP IN**	**153**	**46.3**	**Buy**	**6.6**	**6.2**	**8.2**	**12.0**	**31.6**	**26.8**	**33.1**	**14.6**	**12.8**	**3.9**	**4.4**

Source: Company Data, Jefferies

DB Corp an aggressive growth play over medium term

DB Corp provides a high growth option with its two recent expansions in Jharkhand and Maharashtra. DB also has the largest coverage in terms of geographic and readership reach. We have a target price of 260 for the stock, implying 30% upside.

HTML and HMVL have strong core business but new ventures make us cautious

Prefer HMVL over HTML on account of higher growth and lower current valuations

HT Media and HMVL have strong profit growth but possible significant capex in new businesses makes us cautious. Our target price for HT Media is 174 implying 27% upside and Rs 186 for HMVL implying upside of 47%. While we like the core business of the two firms, their foray into new business is a concern. HT is planning a capex and time-intensive foray into education, which is worrisome. We prefer HMVL over HT Media as the stock has significantly underperformed (-30% returns YTD) HT Media (2% returns YTD) even as it has higher earnings growth. HMVL valuations are at a 16% discount to HTML.

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Company Section

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Jagran Prakashan – pure play on Hindi belt growth

Executive Summary

The largest read newspaper in India

All of its businesses are focussed on the Hindi belt

High return on equity of 30%+

Dividend yield of 4%

EPS CAGR of 22%

Initiate with Buy, TP of Rs 153

Jagran Prakashan is the publisher of Dainik Jagran, the most read newspaper in India. In addition, it has interests in complementary businesses like Out of Home and Event Management. It is a pure play on the the Hindi belt with its leadership position in UP, the largest Hindi market. It has been expanding its circulation, which will keep its profitability subdued in FY12 but will fuel higher growth from FY13. Jagran has a Return on Equity of 30% and is net cash positive with dividend yield of 4%+. We expect the firm to see a steady rise in its operating and free cash flows. We factor in a sharper drop in GDP growth than the consensus estimates and expect EPS CAGR to be 22% in FY11-FY14. We initiate with a Buy and a target price of Rs 153, implying a 46% upside to current price.

Leadership advantage at play

Most read newspaper in India

Main footprint in the Hindi speaking belt

Most business focussed on the Hindi belt

Has proven its ability to monetize its leadership

Jagran Prakashan is the publisher of Dainik Jagran (DJ), the largest read newspaper in India for the past nine years running. Its main footprint is in the fast growing Hindi states of UP, Bihar, Jharkhand, Delhi, Punjab and Haryana. In addition to the main paper, Jagran has other titles catering to niche groups which leverage its leadership status. It has diversified into complementary businesses of Internet, Out of Home and Event management. Most of the businesses are EPS-accretive. With most businesses aimed at the Hindi belt and Tier II and III cities, Jagran will be a significant beneficiary of the accelerating growth, in our view. The leadership position with its proven ability to monetize its leadership allows Jagran to convert this into exponential cash and profit growth.

Much higher growth in the long term

Bulk of revenues and profits still from print

EPS growth CAGR of standalone to stand at 19%

Capex plans of firm limited

Focus on expansion in Hindi belt

The bulk of Jagran's profits are from the print business, specifically Dainik Jagran. While accelerating growth will benefit the revenues and profitability, FY12 will be muted due to on-going circulation expansion, slower economic growth and higher raw material cost impact. Our estimates factor in a sub 7% GDP growth and consequently a much higher impact on profits. But beyond this near-term fall in profits, we believe growth will leapfrog sharply as the price impact moderates and the expansion drive is completed. In addition as GDP growth picks up pace in FY13, national and local advertising will see strong recovery and return to above-trend growth. We expect FY11-14 EPS CAGR to be 22%. RoAE for the firm is among the highest at 30%. The firm's capex plans are limited. The company's strategy is to expand footprint through M&A, which limits its expansion plans. The company's dividend pay-out, in our view, will remain high at close to 70%, implying a dividend yield of 4%+ at current prices.

Valuation

Valuations factoring in 2009 level of slowdown

FY13 PE target multiple of 18.7x

The firm is currently trading at valuation levels similar to those seen in 2008-09. Its 12-m forward P/E is at levels close to MSCI India despite much higher EPS growth; consensus Index EPS growth CAGR is 14% vs. our expectation of JAGP at 22% between FY11-FY14. Given the high EPS growth, dividend yield, and above-average RoE, we believe the firm's valuation should be much higher. While we expect that the current consensus estimate will see downward revision, current prices already factor in the revisions and provide an attractive entry point. We initiate with a Buy on Jagran Prakashan. We value the firm at an average of DCF valuation and FY13 P/E multiple of 18.7. Our target price for the firm is Rs 153, implying 46% potential upside.

Risks

The main risks to our valuation are 1) slower GDP growth especially in the Hindi belt, 2) slowdown in literacy rate improvement from current levels, 3) increase of competition which will impact the profitability of the players, 4) fluctuations in newsprint prices and 5) new acquisitions if done at expensive valuations.

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Jagran Prakashan – Company Profile

Exhibit 59: 12M Fwd. PE

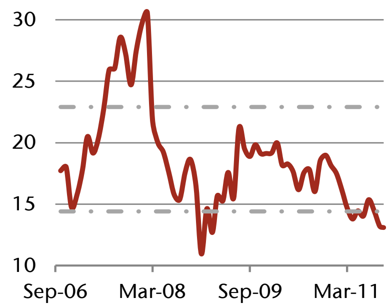
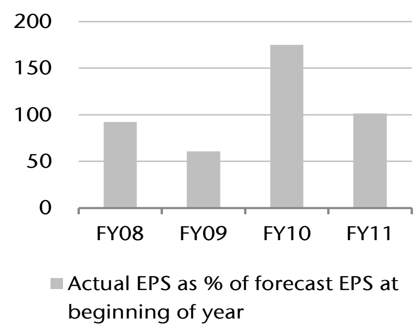


Exhibit 60: Price to Book value

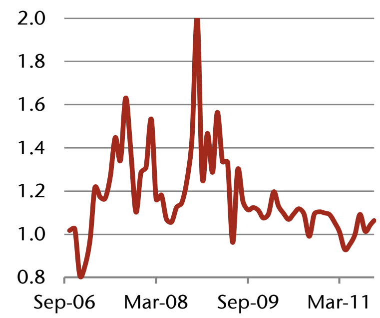
Source: Jefferies

Exhibit 61: EPS revision



Source: Company Data

Exhibit 62: JAGP 12M Fwd PE rel to MSCI India



Source: Company Data

Exhibit 63: Capital Structure

No of subsidiaries	1
No of group cos as shareholders	1
Promoter Ownership	52.7
FII Ownership	10.5
DII Ownership	17.6
Pledged shares - current % of promoter share	0.0
6M Change in % of shares pledged	0.0
Warrants outstanding as % of equity	0.0
Quasi equity (CBs) as % of net worth	0.0
Goodwill as % of net worth	2.7
Capital raised as % of change in net worth (10YR)	58.7
Contingent liability as % of net worth	0.6
ECB/FCCB as % of total debt	28.2
Investments as % of assets	16.2
Capex announced (as % of networth)	21.4
Working Capital as day of sales (x)	62.1

Exhibit 64: Forex impact

Export as % of sales	0.0
Imports as % of sales	6.3
Net currency exposure as % of sales	-6.3
Hedges outstanding as % of sales	0.2

Exhibit 65: Market Data

Average value traded as % of free float/market cap (6M avg.)	0.08
Avg delivery vols as % of vols (6M avg.)	75.4
PVGO/market cap	50.3%
Beta	0.45

Exhibit 66: Financial Data

	Company Median	Company Std Dev	Market Median	Market Std Dev	z-score FY12E
Sales growth (CAGR)	18.5	6.7	19.0	7.3	-1.1
Other income as % of PBT	14.8	5.9	29.4	7.0	-1.6
EBITDA Margins	21.9	5.8	14.9	1.2	1.0
Interest cost as % of PBT	4.1	2.0	20.7	14.6	-0.4
Tax rate	32.4	1.0	26.2	1.3	-0.4
EPS growth (CAGR)	45.3	67.9	28.5	14.4	-0.8
Average payout	67.6	5.5	9.6	5.3	1.34
FCF as % of PAT - Range/Avg	38.4	63.5	70.2	32.9	0.6
Historic average growth in gross block	24.3	6.0	20.4	6.8	-0.4
Historic average RoE	18.7	8.1	20.0	3.8	1.0

* z-score = (FY12 estimate – historical median) ÷ Std deviation

Exhibit 67: Dupont Analysis

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Asset Turnover	1.1	1.2	1.3	1.3	1.4	1.6
EBIT margins (%)	14.4	25.4	23.9	20.6	23.5	28.6
Interest Burden (PBT/EBIT)	1.1	1.1	1.0	1.0	1.0	1.0
Tax Burden (PAT/PBT)	68%	69%	68%	68%	68%	68%
Equity multiplier (Assets/equity)	1.3	1.3	1.4	1.4	1.3	1.3
ROE	16.3	30.0	29.6	25.9	31.8	42.6

Exhibit 68: Earnings sensitivity

% Change in EPS for 1% change in	FY12E	FY13E	FY14E
Raw Material cost	-1.1	-1.0	-0.8
INR/USD	-0.3	-0.2	-0.2
Circulation Volumes	-0.7	-0.7	-0.5
Circulation price	0.8	0.6	0.5
Ad Revenues	2.6	2.3	2.0

Source: Company Data

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Leadership advantage at play

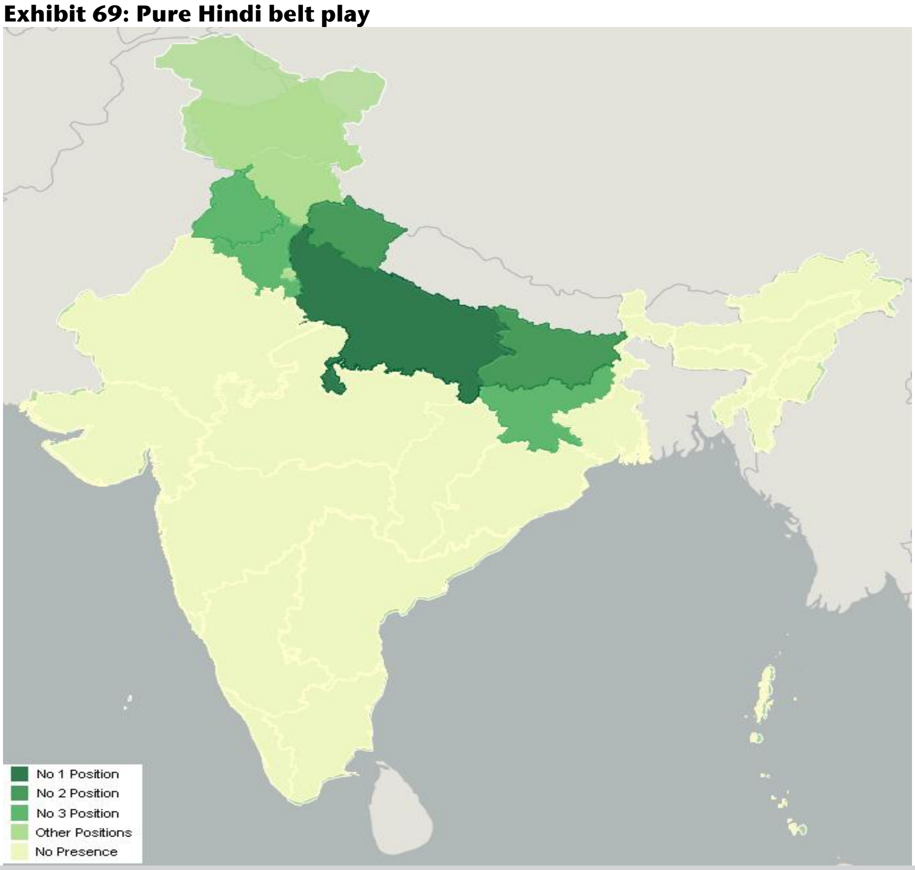
Jagran's main market is UP and the rest of the Hindi belt

It has interests in OOH and Event business

Leadership in print has helped the newer business

Jagran Prakashan is the publisher of Dainik Jagran (DJ), the most widely circulated newspaper in India for the past nine years running. Its main footprint is in the fast growing Hindi states of UP, Bihar, Jharkhand, Delhi, Punjab and Haryana. In addition to the main paper, Jagran has other titles catering to niche groups, which complements its main business and leverages its leadership status. It has also diversified into complementary businesses of Internet, Out of Home and Event management. Most of these businesses are EPS-accretive. With the focus of businesses in the Hindi belt and Tier II and III cities they will be significant beneficiaries of the accelerating growth here. The leadership position allows Jagran to convert this revenue growth into exponential cash and profit growth.

Exhibit 69: Pure Hindi belt play



Note: Dainik Jagran's footprint area; Source: Company Data, Geocommons, Jefferies

Dainik Jagran – focus readership

Focus for next year on readership gain

Dainik Jagran is the largest read daily in India with Average Issue Readership of 15.9mn. For the past few years, Jagran has focused more on monetizing its readership base than on expanding its readership. This led to a fall in readership which was augmented by rising competition. The focus is now again on readership with accelerating ad market and rising competition.

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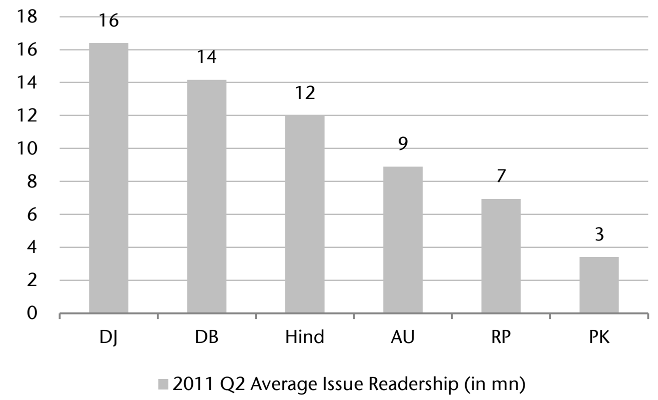
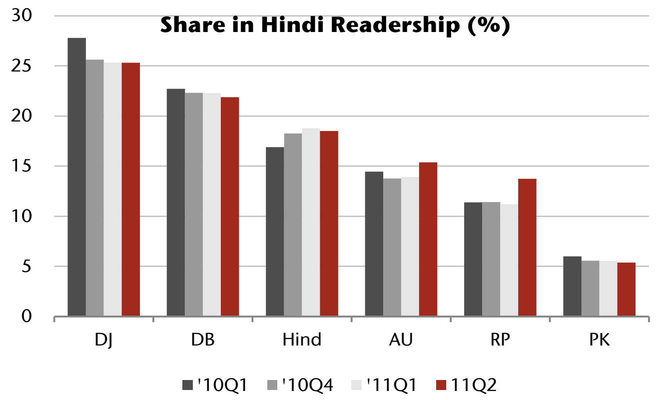
Exhibit 70: Dainik Jagran remains the largest read daily…



Source: IRS, Jefferies

Exhibit 71: …although share in readership has fallen



Source: IRS, Jefferies

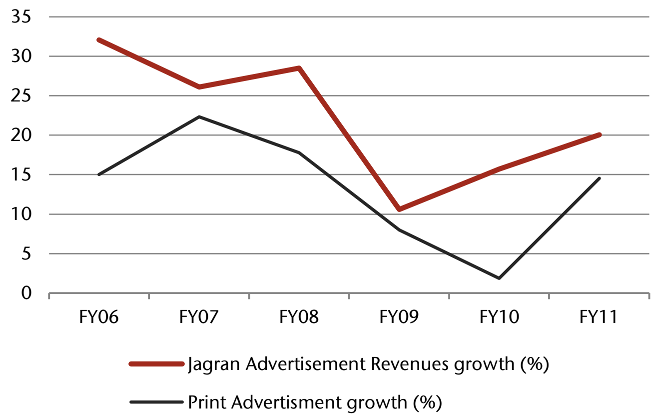
Jagran has 50% of ad market share in UP

Margins have expanded by over 1000 bps as focus on monetization

Monetization was the focus

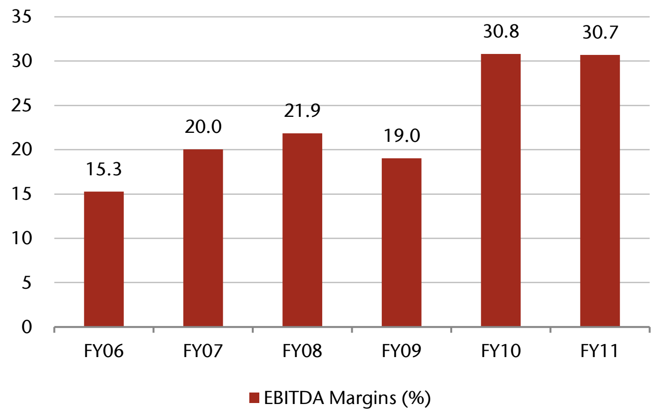
Return on readership like other commodities have a diminishing marginal utility. Jagran with a 60% readership share in UP in 2008, had for the past couple of years focused on monetizing the readership. While readership had stagnated over the past few years, both advertisement and circulation revenues grew steadily. In fact despite loss in readership share, its advertisement revenues grew faster than the industry. In 2010 while readership dropped to 50%, ad market share is now 55% in UP. This helped the firm's margin which increased by 1000 bps over the past four years.

Exhibit 72: Jagran has focused on revenue monetization…



Source: FICCI-KPMG, Company data, Jefferies

Exhibit 73: …leading to improved margins



Source: Company Data, Jefferies

During this, Jagran rationalized its circulation by cutting back some circulation in up-market and rural areas and re-directing these to urban areas. Rural readership to circulation ratio is much higher than urban, and the redirection led to a loss in readership from these copies.

Competition in the Hindi belt increased over the past two years and has now peaked

Increased competition

Competition in the Hindi belt, especially UP, Bihar and Jharkhand, had increased dramatically over the past 3 years with Hindustan entering UP, Prabhat Khabar expanding in Bihar and DB in Jharkhand. This period of high competition also saw market growth as the entry pricing strategy of some players reduced prices to lower than scrap value, enticing casual readers to convert to daily readers. Despite the competitive pressure, the effective pricing policy has helped Jagran see a steady rise in circulation revenues.

Jagran is back to its focus on readership…

…which is back on an uptrend

Focus back on readership

With monetization of the revenues base completed, the focus has now shifted back to readership since the second half of last year. This shift was driven by the fact that the ad market is accelerating its footprint growth and competition has increased. As we have

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stated before, leadership is important in the media industry to earn cash flows. This shift back to readership expansion is a positive trend. During FY11 Jagran increased its circulation by 7% and is targeting a 10% increase in FY12. Readership is a derivation of circulation numbers and the impact of this increase should reflect in the numbers from FY13. A part of this is already reflecting in the latest Readership survey where Jagran gained nearly half a million readers over last quarter nearly three times the next largest gain.

Jagran is well positioned in Hindi belt

Jagran is well positioned in its Hindi-speaking main market to take advantage of the expected surge in growth. It enjoys significant market share in most of the states it covers.

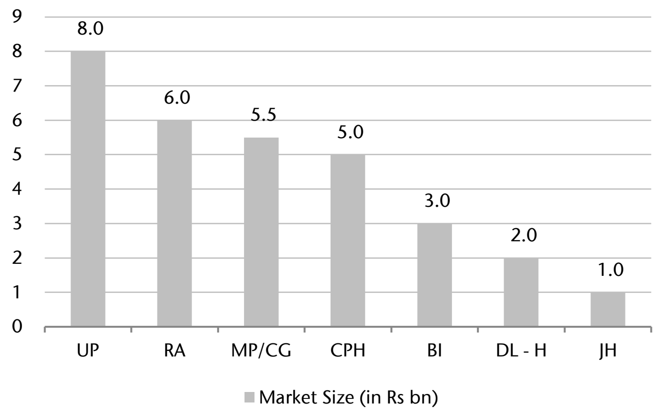
Leadership in UP to continue

Unassailable leadership in UP to continue

Largest ad market in the Hindi belt with the most potential

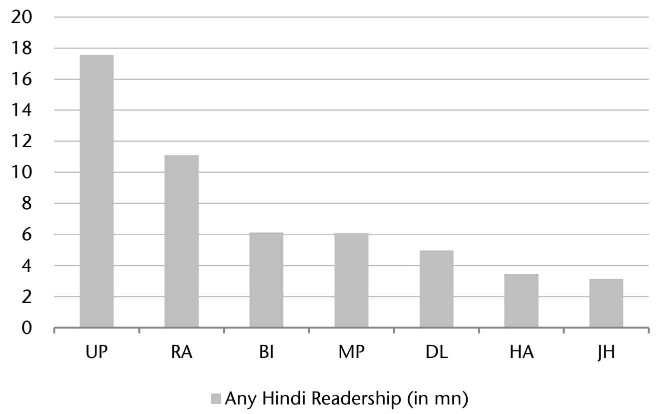
Jagran is the market leader in UP by a wide margin. It has 25% more readers than the No 2 player in terms of Average Issue Readership; correspondingly it has 55% of the ad market share. While the state has seen increased competition in the past few years, its leadership remains secure. UP is the largest ad market in the Northern Hindi speaking belt with a market size of around Rs 8-9 bn. This is when UP is one of the least penetrated markets with literacy rate below 70% and readership penetration of just 13%.

Exhibit 74: UP is the largest market in terms of ad size…



Source: Company Data, Jefferies

Exhibit 75: …and in terms of readership



Source: Company Data, PwC, IRS, Jefferies

Cost of advertising less than 15% of metros

The market then has the most opportunities for growth, especially when state GSDP growth has accelerated. In the current five year plan, UP's growth has been above the target set for the plan. Only four other states have achieved this. In addition, the per reader cost of ads for Jagran in UP is one-sixth that of Times of India in Mumbai, when both enjoy top slots in them. This opens up opportunities for Jagran with its leadership to grow rapidly via both a volume and yield increase. Leadership allows Jagran to set the trend for pricing.

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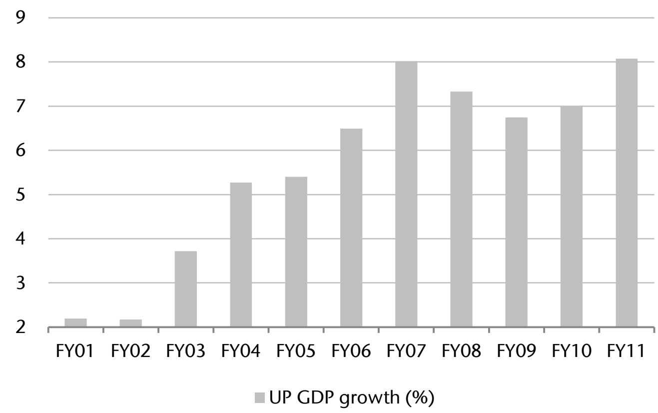
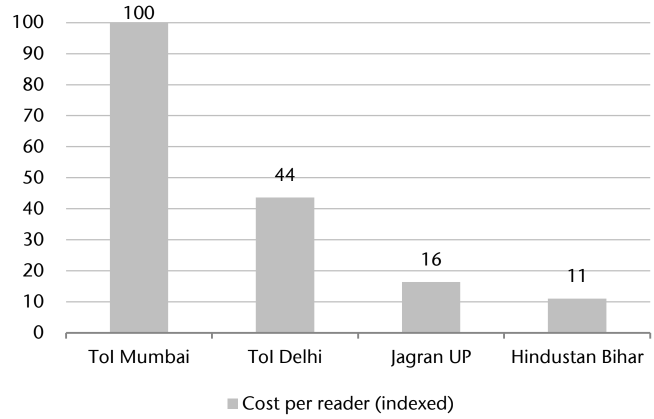
Exhibit 76: GDP growth acceleration provides ample growth opportunities…



Source: RBI, CSO, Jefferies

Exhibit 77: …so does advertising cost at one-sixth of Mumbai



Source: Census of India, IRS, Jefferies

Bihar and Jharkhand competition intensity high, now peaking

Bihar and Jharkhand provide future growth drivers

Bihar and Jharkhand are two of the fastest growing Hindi states and could see proportionate increase in their ad market. The competitive intensity in these states has also peaked with no new expansion plans by any of the major players. Most are now looking to consolidate their position and monetize the markets. Jagran is currently No. 3 in Jharkhand and No. 2 in Bihar.

Jagran has 40% of readership share in Bihar and 27% in Jharkhand. Its market share is 40% and 25% in Bihar and Jharkhand respectively. With competition easing in these markets, their profitability should increase from FY13.

Punjab's new editions to help in monetization

Increased coverage in Punjab through a Punjabi language edition to increase reach

Jagran expanded its bouquet of offering in Punjab with the launch of Punjabi Jagran. The aim of the launch is to provide a complete offering and presence in Punjab for advertisers. This will help increase its advertisement yield. The Punjabi language market is Rs 600mn while the Hindi market is Rs 800mn. The edition was launched with 120,000 copies and the company plans to expand it to 150,000 copies by year end. This will make it the third largest Punjabi language daily in Punjab.

MP and Rajasthan the gap?

MP entry restricted due to title rights issues

MP and Rajasthan are the two markets in the Hindi belt where DJ does not have a significant presence. Rajasthan is a Rs 6bn market, with two strong players. Given the already two strong players, Jagran plans to enter Rajasthan only through acquisition.

Looking for inorganic expansion in Rajasthan

MP/Chhattisgarh is a more attractive market (Rs 5.5bn) with no strong No 2 player. In Jagran's case, the title rights to Dainik Jagran in MP/CG vests with a JV between JAGP and another company owned by the relatives of the promoters of JAGP. This JV publishes DJ from Madhya Pradesh, but it is currently facing issues of control over the JV. The JV has defaulted on its loans and banks have foreclosed on some of its properties. JAGP has filed a case regarding issues with management of the JV. The case is currently sub-judice. However, management is eager to expand in MP/CG as it is a natural extension of the region, and is looking for inorganic growth in the region.

Ability to monetize leadership

One factor that makes Jagran attractive is its focus on monetization of its leadership among readers than just aiming for a larger readership base. Three cases highlight this.

Jharkhand

Leadership position has allowed Jagran to capture significant market share in Jharkhand

Jagran is the No. 3 player in Jharkhand and has been so for some time. When other players entered and tried to capture the No 1 position through price cuts and discounts, it had maintained the No. 3 position and used its pan-India size to capture 20-22% of the Jharkhand ad market (including national ad share) with just 28% of the readership base. A

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push to No. 2 or No. 1 would have increased its share, but it would not have brought in justifiable returns on investment and hence was not pursued.

De-bundling strategy now being applied in the UP market to increase the rates

De-bundling strategy

Jagran has used its No 1 position in UP to increase yields through de-bundling. De-bundling is a method of monetizing the regional ad growth. For example, consider Kanpur (capital of Uttar Pradesh): the edition published there used to cater to 10 districts and advertisements were bundled for all the 10 districts at a price of Rs 600.00. Now the company has de-bundled the districts and is offering Kanpur city at Rs 400 and each district at Rs 40. This implies a benefit of Rs 150 and also allows Jagran to cater to local ad demand from each district, which can now advertise at Rs 40 instead of paying Rs 560 extra for 9 other districts that do not add any value to them. A similar strategy is also being used by ToI and HT in Delhi to increase yields.

Clean and conservative revenues with no ad for equity

Ad for equity

In the past few years media firms have signed contracts with companies where they receive company equity for advertisement instead of cash. This allows media firms to fill up the space that would have otherwise gone un-monetized. While the concept looks good, it is fraught with many issues, chief being valuation of the equity. Jagran has not done any ads-for-equity deals in the past year and is not actively looking for any such deals.

Leveraging on leadership

New businesses to augment the existing leadership position and benefit from the No 1 position

In addition to the Hindi print space, Jagran has diversified into other languages and M&E segments. It recently acquired the print business of Mid-day which gave it access to the Mumbai market through Mid-day and also to a couple of niche segments through Mid-day Gujarati and Inquilab. It also has a significant presence in the Out of Home and Event Management space. These businesses are leveraging Jagran’s brand to expand and have better growth and profitability.

Mid-day – a foothold in the Mumbai market

Slightly overvalued deal due to capex requirement to expand to increase readership

In May 2010, Jagran acquired Mid-day Multimedia’s print business, which includes Mid-day an English and Gujarati daily and Inquilab an Urdu language daily. The acquisition was through an all share deal with a swap ratio of 7:2, valuing the acquisition at Rs 1.7 bn. The acquisition provides Jagran an entry into language segment. Mid-day had reported a profit after tax of Rs 101mn in FY10. The deal valued the firm at 17x trailing PE against Jagran’s valuation of 20x trailing PE. The valuation in our view is slightly expensive given Mid-day’s slower growth than Jagran and the capex requirement to increase its readership and reach. The acquisition was completed in Dec-2010 when all the relevant approvals were received.

Exhibit 78: Valuation slightly expensive given slower growth and capex

	FY10
PAT (in Rs mn)	101
Number of shares allocated (mn)	15,097,272
Acquisition Value of Mid-day (in Rs mn)	1,736
Mid-day P/E (Trailing12m)	17.3
Jagran's P/E (at time of acquisition)	19.8

Source: Company Data, Jefferies

Mumbai to complete portfolio with two major ad markets and the fast growing Hindi market

Mid-day – Synergy benefits to improve business

Mid-day is an afternoon daily targeted towards the young mobile professional. It is published from Mumbai, Pune, Delhi and Bangalore. Mid-day has a respectable readership base in Mumbai while it has not gained similar foothold in Delhi and Bangalore markets.

Synergy benefits from costs to reach Rs 60mn per year

Jagran expects Mid-day to get synergy benefits on both revenues and cost front. Cost benefits are expected to flow from this fiscal itself amounting to Rs 60mn per year. These

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will mostly come through sharing of infrastructure and better newsprint prices for mid-day.

Revenue synergies from Jagran's No1 position to gain more national and government advertisements

On the revenue front, the synergies will come from three sources: 1) Higher national advertisements – Mid-day currently has a much smaller share of national advertisements than other prints in the metros. Jagran with its wider network expects to increase Mid-day's national advertisements, supplementing its strong local advertisement share. 2) Higher government advertisements – government advertising makes 12-17% of the revenues for print media firms. For Mid-day this share is only 5%. 3) With this acquisition Jagran gets a footprint in Mumbai which it was lacking. Mumbai is one of the largest ad markets in the country and is important for marketers. This acquisition then completes Jagran's package with readership base in the growing markets (Hindi belt) and the top two metros Delhi and Mumbai allowing it to get better ad share in national advertisement. Revenue synergies from Mid-day are expected to be around Rs 100 mn per year and are expected to flow from FY13.

Focus on Mumbai

Jagran's focus is currently on increasing its readership and circulation in Mumbai. Since the acquisition of the newspaper both circulation and readership have seen an uptick. Circulation for Mid-day has increased by 35% since the acquisition. Corresponding readership increase will flow in from next quarter. Given the increase in circulation and yet to flow revenue synergies in FY11, PAT fell to Rs 22mn from Rs 110 mn last year.

Mid-day Gujarati

Mid-day Gujarati provides a niche play in the market

Mid-day Gujarati is a Gujarati language newspaper published from Mumbai. It is a niche newspaper that provides a small growth engine to the firm. It does business of around Rs 50mn compared to the top Gujarati newspaper which does business of Rs 200mn in Mumbai. It is currently Nos. 3 in the market and Jagran is targeting to reach the No. 2 position.

Profitability to improve going forward

With synergy and readership benefits flowing in, profits to soar

Mid-day's profitability is currently well below that of Jagran. This is partly due to its being in expansion mode and partly due to lack of leadership in the market. We expect the profitability to improve going forward but to remain well below Jagran's level. We expect Mid-day to be in expansion mode till late FY13.

Inquilab – augmenting the reach in UP/Bihar

Large potential market in its footprint areas for Inquilab

Inquilab is targeted at the Urdu speaking readers. Inquilab augments and strengthens Jagran's position in the UP and Bihar/Jharkhand market, which has a large number of potential Urdu readers.

Circulation based revenue model to benefit significantly from additional revenue synergy

Inquilab's business model is more circulation driven. Its niche placement allows it to charge a cover price of Rs 5 per copy of 16 pages. This high circulation cost reduces its dependence on advertisements and allows it to grow through circulation revenues alone. Given that there is very limited competition in the Urdu language space, we expect this model to continue.

No additional capex to expand in footprint areas

Jagran has aggressively expanded Inquilab in its footprint areas. After acquisition Jagran started printing Inquilab from 10 locations in UP and 1 in Delhi. Given its existing presence no additional capex was required. Jagran is planning to launch Inquilab from Bihar by the end of the current year.

Management expects Inquilab to generate around Rs 40mn of revenues in FY12 and Rs 100mn in FY13. Given its targeted readership base, it is attractive to advertisers especially during festivals. The newspaper, in our view, could grow at a pace faster than the regional newspaper markets.

i-next and City plus

Reaching cities and readers not targeted by Dainik Jagran

i-next and City plus are two innovations from Jagran on the print front to increase its presence in areas where Dainik Jagran does not have a presence. I-next is a bilingual compact daily for the youth. It covers 12 cities in 4 states, with a readership of 2.1mn.

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City plus is an English weekly tabloid in areas that are not core footprint areas for Jagran. It is an all-colour newspaper targeted at premium geographic localities. It is based on an ad-revenue model and with its target audience of the upper and upper middle class in Tier I cities, is an attractive advertising venue for local high end product advertisement.

Both these additions are small in revenue and circulation but are innovative print models. i-next is making profits though the margins are very small. City plus is in expansion mode – it reported a Rs15mn loss in FY11 and is expected to post a loss this year also.

OOH – growing profitability

Jagran has also diversified into Out of home (OOH) and Event businesses. Jagran Engage is the Out of home division of Jagran Prakashan. The out of home industry in India is highly fragmented. OOH is a Rs 17bn industry growing at 12-13% CAGR. OOH is a local advertising tool used as a reminder media similar to radio; it is a pure regional play. OOH is also highly sensitive to market and economy. The OOH business is the first to witness spending cuts when media spends are curtailed.

Long-term lease and non-metros drive profitability

Portfolio tilt is towards long lease and BOT properties providing higher margins

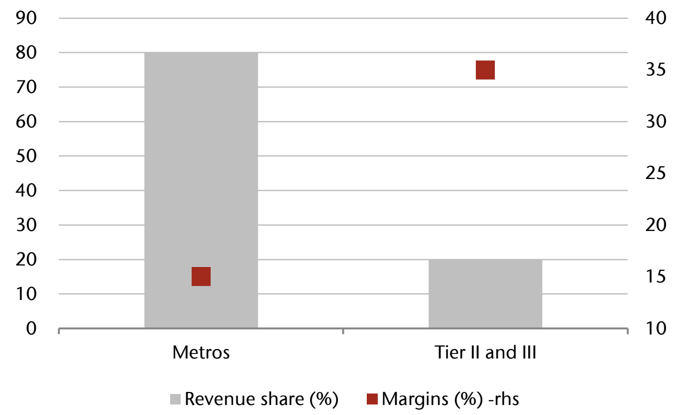
OOH business has two parameters that determine profitability 1) term of lease and 2) location. Various state governments are now focusing on infrastructure development. This has led to an increase in the volume and quality of OOH properties. Also most of the new properties are through BOT or long term leases which provide better return on investment. Engage's portfolio consists more of transit media properties such as bus shelters and bill boards. These are obtained through government bidding; they are long term and more recently BOT. This has led to Engage currently earning 75% of its revenues from long term and BOT leases.

Current location mix is more towards metros

Changing with focus on footprint areas

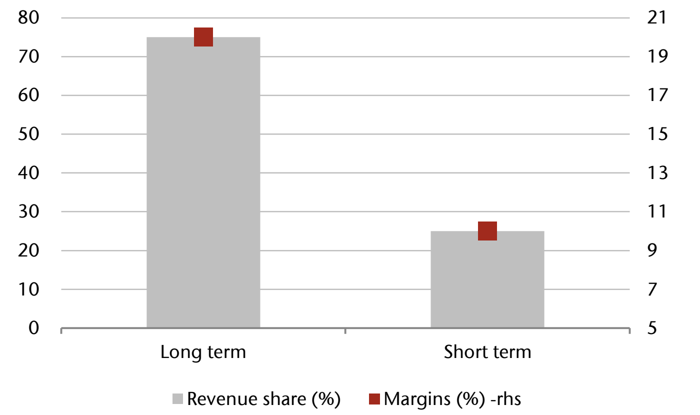
In terms of locations, Engage's current mix is more towards Metros as the company's focus was on having a national presence. However, the focus has now shifted towards footprint areas in Tier II and III cities. This will improve Engage's profitability as Tier II and III cities margins, at close to 35%, are significantly higher than Metros (15%). In addition to better margins, a focus on footprint areas will also help it to improve inventory utilization, which currently stands at only 55%.

Exhibit 79: Increased Tier II & III focus will help profitability



Source: Company Data, Jefferies

Exhibit 80: Long term strategy to keep margins high



Source: Company data, Jefferies

Slowdown impact the most in OOH, to be visible in the next two years

Given the current slowdown we expect the division to remain muted in FY12 and early FY13. However, in the long term the division acts as an indispensible add-on to the print segment providing a reminder media venue for the marketers advertising in the print segment. Improving mix and better inventory utilization will in our view help in improving division's profitability. We expect the division to grow at 13% CAGR over the next three years factoring in the current slowdown. We maintain margins at 20% level as a rate freeze will cancel the benefit of better mix.

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Event management – continues to march ahead

Solutions a complementary business to the print focus on the Hindi belt

The event business of Jagran is under the name Jagran Solutions. It provides below the line marketing solutions and is more active in brand activation events. The event management business is growing steadily as more brands are targeting its footprint areas. It does not require any significant capex from Jagran's side. In FY11 the business made Rs 370mn in revenues and Rs 15mn EBITDA. With ever increasing brands and products launching in Tier II and III markets, this has good growth opportunities. We have assumed 20% annual growth in FY13 and FY14. In FY12 we pencil in flat growth due to the current slowdown.

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Long term profit growth

Bulk of revenues and profits still from print

EPS FY11-14 CAGR of standalone business at 19%

Capex plans of firm limited

Focus on expansion in Hindi belt

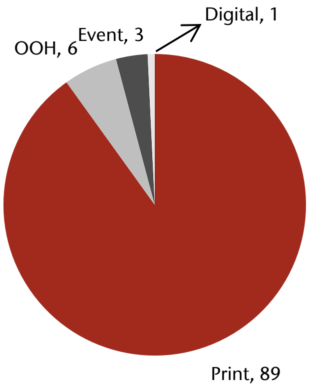
The bulk of Jagran's profits are from the print business, specifically Dainik Jagran. While accelerating growth will benefit the revenues and profitability, FY12 will be muted due to on-going circulation expansion, slower economic growth and higher raw material cost impact. Our estimates factor in a sub 7% GDP growth and consequently a much higher impact on profits. But beyond this near-term fall in profits, we believe growth will leapfrog sharply as the price impact moderates and the expansion drive is completed. In addition as GDP growth picks up pace in FY13, national and local advertising will see strong recovery and return to above-trend growth. We expect FY11-14 EPS CAGR to be 22%. RoE for the firm is among the highest at 30% and we expect it to remain at this level. Capex plans for the firms are limited. The company's strategy is to expand footprint through M&A, which limits the expansion plans. The company dividend pay-out, in our view, will remain high at close to 70% implying a dividend yield of 4%+ at current prices.

Revenue growth to continue

FY12 impact to be limited as footprint area sees better growth

As we had discussed in our industry outlook, the slowdown will have less impact on the Hindi and vernacular front. Similarly, for Jagran, while we expect Outdoor and Event to remain flat, we expect print to grow at 10% in FY12 and recover from the second half of FY13 to achieve 19% growth in FY14. This will drive total revenue growth for Jagran as print still makes up 89% of its revenues.

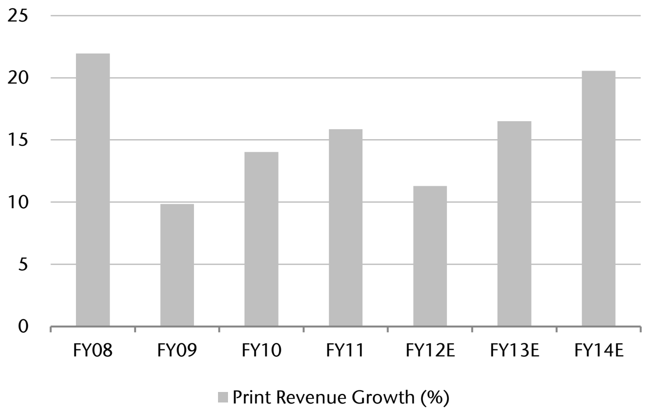
Exhibit 81: Print still a sizable chunk of revenues...



FY11 Share of revenues (%)

Source: Company Data, Jefferies

Exhibit 82: ...to continue to drive growth even in slowdown



Source: Company Data, Jefferies estimates

Subdued FY12Q1 to be offset by UP elections

1Q results subdued due to extended rate negotiations with key advertisers

UP elections to offset lower growth in 1Q

Up elections to add around Rs 70 mn to bottom-line

FY12Q1 saw subdued revenue and profit growth with revenue growth of just 8% yoy. In our view, this was because in Q1 Jagran maintained its ad rate while its peers went for rate cuts and discounts to increase volumes. This led to prolonged negotiations with key advertisers, which reduced the ad volumes. The issue has been resolved and Jagran is expected to see a return to trend growth in Q2. The first two months of Q2 have seen better performance than Q1 primarily due to volume growth. With the subdued economy, management expects most of the growth this year to be from volumes and negligible from yield rise.

UP, Jagran's largest market, will hold state elections in early 2012. This will boost Jagran in the current slowdown, especially in Q3 and Q4 when the impact of the slowdown will be highest. The elections are expected to provide an additional Rs70mn benefit to the bottom-line. This will help make up for the slower growth in Q1.

Circulation increase impact to flow from FY13

Substantial impact on readership to flow from 2H12

Jagran has in the past year renewed its focus on increasing readership. Last year circulation was up 7% and this year a similar growth is expected. Readership being a derivative of circulation, will also see a rise due to this growth. The impact of readership though is gauged through readership surveys (Indian Readership Survey, IRS), which are

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Market share impact to flow from FY13

conducted quarterly. Marketers use IRS survey numbers in deciding the ad share. Though conducted quarterly, these surveys are yearly averages of readership, hence the benefits of the increase will flow from FY13 and the full impact will be visible in FY14.

In addition to this, with GDP recovering from the second half of FY13 advertising spend will also increase. With the rebound of media spending we expect revenues to grow 17% and 20% in FY13 and FY14 respectively. There is an upside risk to our estimates as we have factored in a GDP slowdown (sub 7% FY12 GDP) much larger than current consensus expectation.

Earnings to grow at 22% CAGR

We expect profitability to remain subdued in FY12 due to circulation expansion and higher newsprint cost. Beyond this we expect profitability to return and earnings to grow at 22% CAGR over FY11-FY14. The higher profitability will be due to both higher revenues as discussed above and improving margins.

FY12 profitability to remain subdued

Circulation expansion and slower revenue growth to keep FY12 subdued

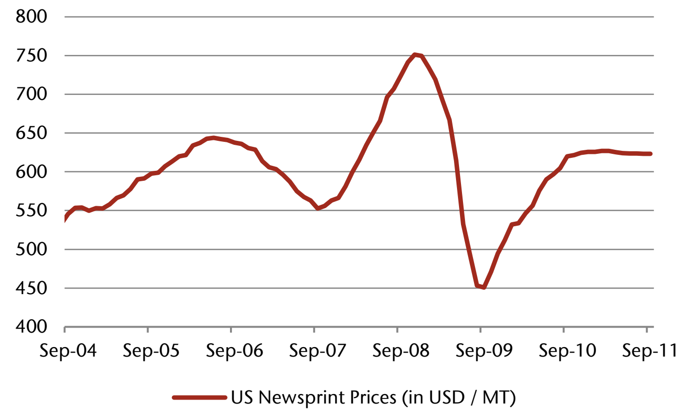
While we expect revenues to grow at 10%+ rate in FY12, profits for the year will fall. This will be on account of two factors, 1) 10% increase in circulation – this cost increase will be without the benefit of increased revenues which will come from FY13 as discussed above and 2) newsprint prices as we discuss below.

Newsprint price impact to be substantial for Jagran due to low price contracts last year

Newsprint prices increased sharply over 2010, but its impact on Jagran was subdued as the company had pre-booked a substantial quantity of imported newsprint early in the year, and as such the price impact in FY11 was only 11%. However, FY12 will see the full impact of the price hike as the current contract is at a substantially higher price – the raw material cost impact will be adversely felt in the first half of FY12. In the second half the impact will soften as some price hikes were taken in Jagran's Q3FY11 newsprint cost and also as newsprint prices are coming off globally. The current currency depreciation of more than 10% adds to this burden.

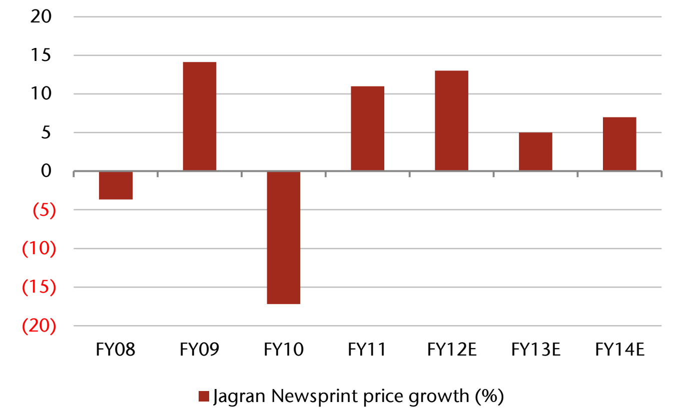
Indigenous newsprint, which makes up more than 75% of the newsprint consumption, have seen prices move more sharply than imported. However, these prices have stabilized and with global prices falling are expected to come off in second half. Given this we have factored in newsprint price increases of 15% for Jagran in FY12. This increase along with a 10% circulation increase will increase the cost base sharply.

Exhibit 83: Newsprint prices showing signs of fatigue...



Source: Bloomberg, Jefferies

Exhibit 84: ...but no such relief for Jagran



Source: Company Data, Jefferies

Mid-day to remain small

Margins for Mid-day to remain small due to not being a Top 3 player in Mumbai

Mid-day is currently just 9% of revenues and 1% of profits. The lower profit share is due to the fact that Mid-day is now in expansion mode and as such has much lower margins compared to the standalone business. Mid-day's EBITDA margins stand at just 14% compared to 30% of Jagran.

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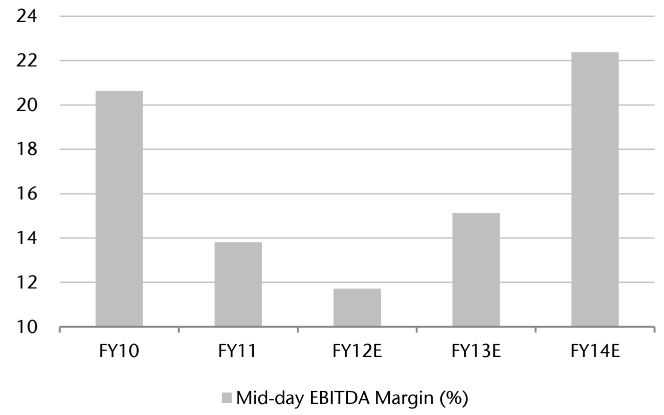
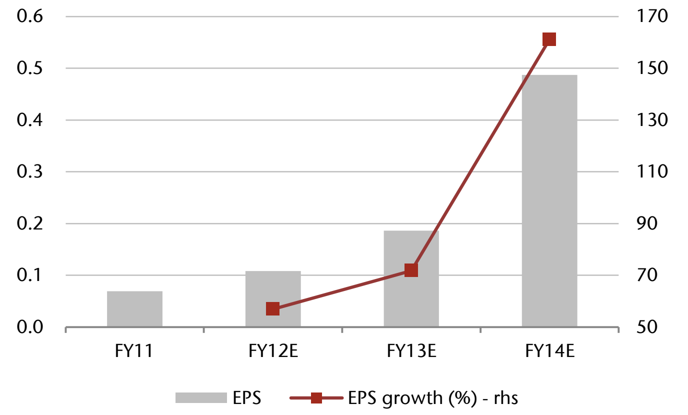
With Mid-day, Inquilab and Mid-day Guajarati all in expansion mode, we expect margin improvement to start in FY13. FY12 will see a further drop in margins. We pencil margins to recover to FY10 level by FY14 and Mid-day's contribution to profits to increase to 4% while its revenue share remains at 9%.

Exhibit 85: Margins to improve from FY13 for Mid-day…



Source: Company Data, Jefferies estimates

Exhibit 86: …leading to sharp increase in EPS



Source: Company data, Jefferies estimate

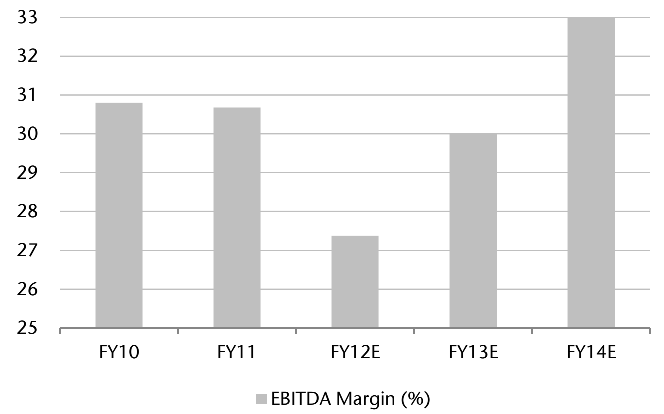
Standalone margins to bottom in FY12

Margins to expand by 200bps+ over FY11-14

Cost to remain in check with no major expansion and peaking competition

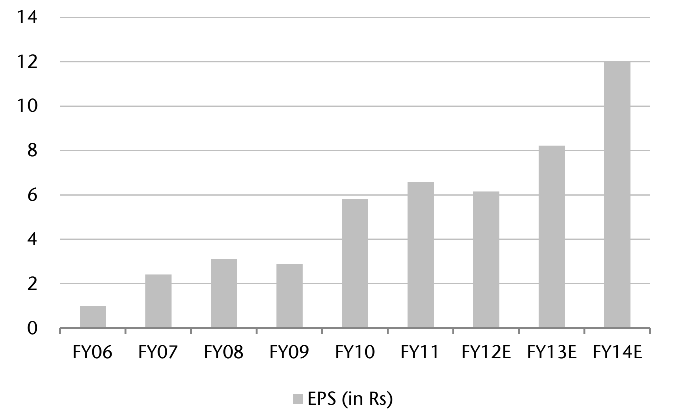
Jagran's standalone margins have been among the best in the industry, FY10 and FY11 EBITDA margins stood at 31%. Due to current circulation expansion and slow economy they are now facing pressure. We expect Jagran's margins to contract by 300bps in FY12 but improve sharply over FY13 and FY14. The improvement will be as newsprint prices moderate and circulation growth returns to trend from the current high levels. Employee and other costs have remained in check for Jagran and we expect them to continue to do so going forward.

Exhibit 87: Margins will improve steadily…



Source: Company Data, Jefferies

Exhibit 88: …leading to higher EPS growth



Source: Company Data, Jefferies

Given the improved margins and higher revenue growth we expect earnings to grow rapidly from FY13. We expect EPS to grow at 22% CAGR between FY11-FY14.

Balance sheet remains strong

Jagran's balance sheet remains strong with the firm being net cash positive. In addition the firm has witnessed steady growth in operating cash flow. Jagran has some capex requirement till FY13 which can be financed through internal cash generation.

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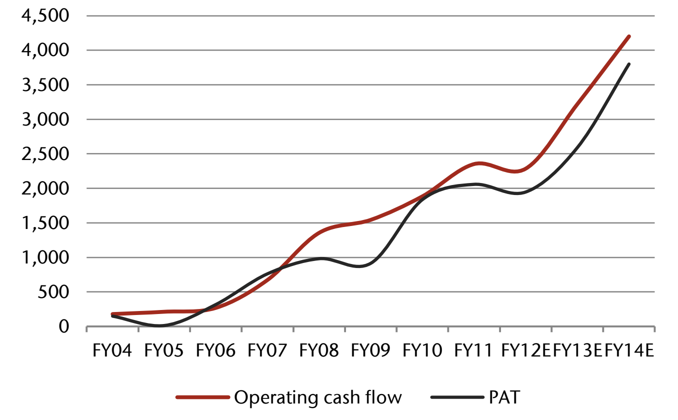
Jagran's high dividend payout and low capex has led to high return on equity. FY11 RoAE stood at 31%. Given high profit growth and dividend payout this will see an improvement going forward. We expect RoAEs to improve to 44% in FY14 as profitability jumps in FY14.

Low capex requirement combined with high operating cash flows to keep payout high

Cash flow generation to keep dividend high

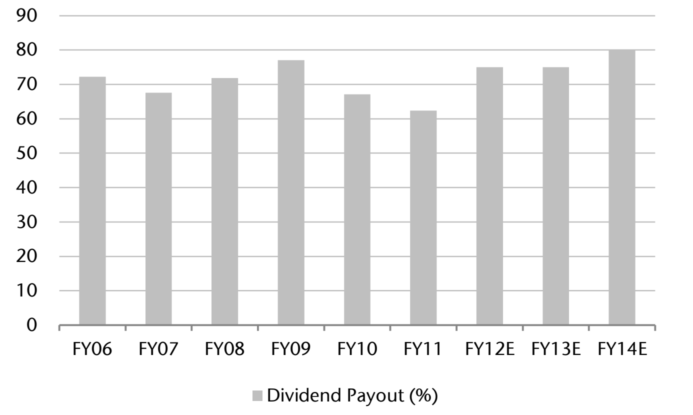
High operating cash flow and limited capex has allowed Jagran to maintain a high dividend pay-out policy. Historically it has paid out 70% of the profits. Going forward though the capex is higher in FY12 and FY13, the cash flow generation will allow it to maintain the payout ratio. We then expect the payouts to remain high at current levels in FY12 and FY13 and rise to 80% in FY14. The current levels of payout will imply a dividend yield of 4% for the firm, one of the highest in India.

Exhibit 89: Operating cash flows have increased steadily…



Note: Values in Rs mn; Source: Company Data, Jefferies

Exhibit 90: …leading to high dividend payout



Source: Company Data, Jefferies

Liquidity ratios remain stable

Debtor days of the firm have remained stable at 70 days. For the print segment most of the debtors are paid in 60 days, while for the OOH business the debtor days are higher at 100-120 days. Event business has no debtor days as revenues are taken in advance. We pencil debtor days to remain at current levels.

In line with stable debtor days, the current ratio for the firm is above 1.5x. It has fallen from above 2x in FY11 due to acquisition of Mid-day. We expect the ratio to recover to 2x in FY12.

Exhibit 91: Liquidity ratio remains stable for the firm

	FY10	FY11	FY12E	FY13E	FY14E
Net debt to equity	-0.2	0.0	0.0	-0.1	-0.2
Inventory turns	5.1	5.6	5.6	6.0	6.0
Debtor days	70.2	69.1	70.0	65.0	60.0
Current ratio	2.2	1.7	1.8	2.1	2.4
Return on Average Equity	31.3	31.6	26.8	33.1	44.5

Source: Company Data, Jefferies

Expansion plans

No capex plans for Dainik Jagran. Capex mostly in Mid-day and Cityplus

Jagran has a capex plan of Rs 1.3bn over the next 18 months. There are no major plans for DJ and most of this capex will be in Mid-day, Cityplus, i-next, Inquilab and Punjabi Jagran. In Mid-day the focus is on Mumbai and increasing circulation and readership there. Inquilab's plans are for Bihar expansion.

Focus on inorganic expansion going forward

Inorganic the way

Jagran has not embarked on any big expansion plans except for Mid-day recently compared to peers like DB Corp. Jagran's strategy is to expand through acquisition. While the firm is looking for M&A opportunities in the Hindi belt its options are limited. The one exception where the firm may enter organically is MP/CG which has low competition and

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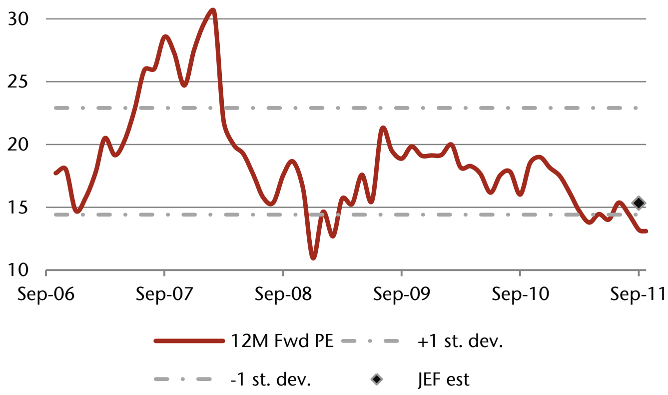
the firm is eager to expand. However, lack of legal rights has restricted the firm's entry under the Dainik Jagran title.

Valuations at discount

Valuations pricing in 2009 level slowdown

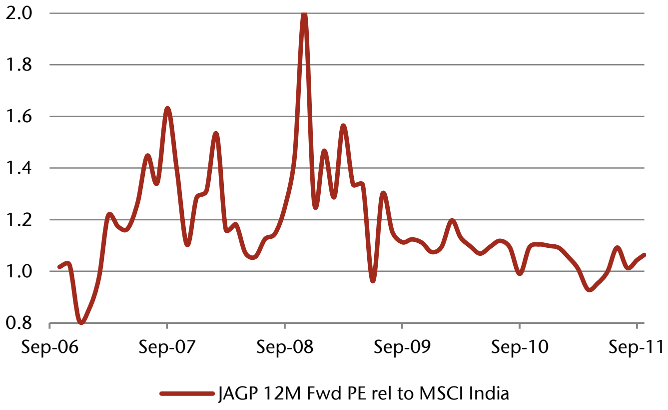
The firm is currently trading at valuation levels similar to those seen in 2008-09. It is currently trading at valuations similar to MSCI India despite a much higher EPS growth. Compared to the Index EPS growth CAGR of 14%, we expect JAGP EPS to grow at 19% CAGR.

Exhibit 92: Valuations close to historical lows



Source: Datastream, I/B/E/S estimates, Jefferies

Exhibit 93: Valuations similar to Index despite higher growth



Source: Datastream, I/B/E/S estimates, Jefferies

Target multiple of 18.7x

Initiate with Buy, TP of Rs 153

Given the high EPS growth and high dividend pay-out, and above-average RoEs we believe that the firm's valuation should be much higher. While we believe that the current consensus estimate will see downward revision, we believe that current prices factor in the revisions and provide attractive entry points. We initiate with a Buy on Jagran Prakashan. We value the firm at an average of DCF valuation and PE multiple. Our target price for the firm is Rs 153 which gives 46% potential upside.

Exhibit 94: Significant upside to current valuation

Growth rate in phase II (%)	17
Phase II length	5
Terminal growth rate (%)	2
WACC (%)	12.6
(in Rs mn)	
PV of firm	48,562
Initial phase	6,714
Phase II	14,865
Terminal Value	26,982
Net Debt	-101
Target Value	48,662
Nos. of Shares (mn)	316
Price (A) (in Rs)	154
P/E Multiple	18.7
Price (B) (in Rs)	152.9
Target Price (in Rs)	**153**
Current Price (in Rs)	**104.9**
% Upside/(downside)	**46**

Source: Company Data, Jefferies

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Risks

The newspaper segment is highly correlated with the market and is extremely interesting to players who are looking to enter the space or expand their base. As such the risks to the firm are more macro related.

1. The newspaper business is linked to GDP growth; we expect that the Hindi speaking region will grow at a steady pace, with growth rate higher than the country. While we believe this will be the case for the foreseeable future, there is risk of its failing to do so.
2. Newspaper market expansion is dependent on improving literacy rates. We expect literacy rates to continue to improve at current rate. A failure to do so will impact the firm's growth avenues.
3. Increase of competition will impact the profitability of the players. While we have factored in an easing of competition going forward, there is a possibility of competition increasing if new entrants appear.
4. Newsprint prices are a crucial risk for the firm. We have factored in a stabilization of newsprint prices and gradual 5% growth from FY13 onwards. Newsprint being a global commodity could see wider fluctuations.
5. New acquisitions if done at expensive valuations are a risk. The firm is looking to expand and lack of opportunity may force it to pay expensive valuations.

Management Profile

Mr. Mahendra Mohan Gupta
Chairman and Managing Director
Mr. Mahendra Mohan Gupta has a Bachelor's Degree in Commerce. Mr. Gupta has more than 48 years of experience in the print media industry. He has held key positions in the industry including Chairman of United News of India ("UNI"), and President of The Indian Newspaper Society ("INS"). Mr. Gupta is also a Member of Parliament (Rajya Sabha).

Mr. Sanjay Gupta
CEO & Whole Time Director
Mr. Sanjay Gupta is a whole-time Director and also holds the positions of Editor of Dainik Jagran and CEO. He holds a Bachelor's Degree in Science. Mr. Gupta has more than 26 years of experience in print media. He is also responsible for Jagran's operations in the North, comprising New Delhi, Haryana, Punjab, Himachal Pradesh and Jammu & Kashmir.

Mr Sailesh Gupta
Executive Director/ Advertising Head
Mr. Shailesh Gupta holds a Bachelor's Degree in Commerce. Mr. Gupta has more than 18 years of experience in the print media industry. He is a Member of the Council of Audit Bureau of Circulations, The Indian Newspaper Society and heads the company's advertisement and marketing department.

Mr Dhirendra Mohan Gupta
Executive Director/ Director-in-Charge
Mr. Dhirendra Gupta holds a Bachelor's Degree in Arts. He has more than 43 years of experience in the print media industry. He is the Director-in-charge of Jagran's operations in the western regions of Uttar Pradesh and Uttaranchal.

Mr R.K. Agarwal
Chief Financial Officer
Mr. R. K. Agarwal is Chief Financial Officer of Jagran Prakashan Ltd. Mr. R. K. Agarwal holds a Bachelor's Degree in Commerce and is a qualified chartered accountant and fellow of the Institute of Chartered Accountants of India.

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Financials

Exhibit 95: Income statement

Rs mn	2009	2010	2011	2012E	2013E	2014E
Net Sales	**8,234**	**9,419**	**12,211**	**13,581**	**15,848**	**19,034**
Change (%)		*14.4*	*18.4*	*11.2*	*16.7*	*20.1*
Raw Material	3,179	2,736	3,590	4,421	4,890	5,492
Employee Cost	1,065	1,212	1,727	1,957	2,234	2,551
Other Direct Expenses	1,078	1,211	1,533	1,705	1,948	2,191
SDA Expenses	1,345	1,358	1,794	1,963	2,223	2,568
EBITDA	**1,567**	**2,901**	**3,568**	**3,535**	**4,552**	**6,232**
% of net sales	*19.0*	*30.8*	*29.2*	*26.0*	*28.7*	*32.7*
Depreciation	383	507	655	737	828	785
Interest	59	66	91	95	90	107
Other Income	227	343	256	160	176	248
EO Income / (Exp)	0	0	-23	0	0	0
PBT	1,352	2,670	3,056	2,863	3,809	5,589
Tax	438	833	976	916	1,219	1,788
Rate (%)	*32.4*	*31.2*	*31.9*	*32.0*	*32.0*	*32.0*
PAT	914	1,837	2,078	1,947	2,590	3,801
Adjusted PAT	914	1,837	2,101	1,947	2,590	3,801
change (%)	*-6.8*	*100.9*	*12.0*	*-6.3*	*33.1*	*46.7*

Source: Company Data, Jefferies

Exhibit 96: Balance Sheet

Rs mn	2009	2010	2011	2012E	2013E	2014E
Share Capital	602	602	633	633	633	633
Reserves	4,997	5,523	6,390	6,876	7,524	8,284
Net Worth	**5,599**	**6,125**	**7,022**	**7,509**	**8,157**	**8,917**
Deferred Tax	521	580	617	617	617	617
Loans	1,415	1,214	1,924	2,060	2,159	2,387
Capital Employed	**7,535**	**7,919**	**9,564**	**10,187**	**10,933**	**11,921**
Gross Fixed Assets	4,795	5,636	7,300	8,911	9,595	10,095
Less: Depreciation	1,513	1,945	2,576	3,313	4,142	4,927
Net Fixed Assets	**3,282**	**3,691**	**4,725**	**5,598**	**5,453**	**5,168**
Capital WIP	707	251	744	0	0	0
Investments	1,568	1,666	2,018	2,018	2,018	2,018
Current Assets	**3,599**	**4,172**	**4,979**	**5,595**	**6,633**	**8,085**
Inventory	318	533	639	787	815	915
Debtors	1,580	1,812	2,310	2,605	2,822	3,129
Cash & Bank Balance	828	852	362	536	1,328	2,374
Loans & Advances	653	715	1,415	1,415	1,415	1,415
Other Current Assets	220	260	252	252	252	252
Current Liabilities	**1,622**	**1,860**	**2,902**	**3,024**	**3,171**	**3,350**
Creditors	578	944	1,096	1,219	1,365	1,545
Other Liabilities	308	352	448	448	448	448
Provisions	736	564	1,357	1,357	1,357	1,357
Net Current Assets	**1,977**	**2,312**	**2,077**	**2,570**	**3,462**	**4,735**
Appl. Of funds	**7,534**	**7,919**	**9,564**	**10,187**	**10,933**	**11,921**

Source: Company Data, Jefferies

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Exhibit 97: Cash Flow statement

Rs mn	2009	2010	2011	2012E	2013E	2014E
PAT	914	1,837	2,078	1,947	2,590	3,801
Depreciation	383	507	655	737	828	785
Interest Exp	59	66	91	95	90	107
Other Income	-227	-343	-256	-160	-176	-248
Profit on Sale of Fixed Assets	11	2	-6	0	0	0
Profit on Sale of Investments	74	67	-14	-14	-14	-14
Fixed assets written off	22	3	23	0	0	0
Increase/ decrease in Wkg Capital	308	-255	-218	-320	-99	-228
CF from Op Activities	**1,544**	**1,885**	**2,352**	**2,285**	**3,220**	**4,202**
Change in Fixed Assets	-1,098	-915	-1,689	-1,611	-683	-500
CWIP	-229	457	-494	744	0	0
Change in Investments	265	-98	-352	0	0	0
Other	121	270	253	174	190	263
CF from Investing Activities	**-941**	**-286**	**-2,281**	**-693**	**-493**	**-237**
Issue of shares	0	0	30	0	0	0
Changes in debt	624	-201	711	136	99	228
Interest and other finance charges paid	-59	-66	-91	-95	-90	-107
Dividend paid	-705	-1,233	-1,285	-1,460	-1,943	-3,041
Others	0	0	145	0	0	0
CF from Financing Activities	**-140**	**-1,500**	**-489**	**-1,419**	**-1,934**	**-2,919**
Net change in Cash	**463**	**98**	**-419**	**173**	**793**	**1,045**

Source: Company Data, Jefferies

Exhibit 98: Key Ratios

	2009	2010	2011	2012E	2013E	2014E
Basic (Rs)						
EPS	3.0	6.1	6.6	6.2	8.2	12.0
BPS	18.6	20.3	22.2	23.7	25.8	28.2
DPS	2.3	4.1	4.1	4.6	6.1	9.6
Payout (%)	77.1	67.1	61.8	75.0	75.0	80.0
Valuation (X)						
P/E	34.5	17.2	16.0	17.0	12.8	8.7
P/B	5.6	5.2	4.7	4.4	4.1	3.7
EV/EBITDA	20.2	10.5	9.3	9.3	7.1	5.1
EV/Sales	3.8	3.2	2.7	2.4	2.0	1.7
Dividend Yield (%)	2.2	3.9	3.9	4.4	5.9	9.2
Profit Ratios (%)						
RoE	16.6	31.3	31.6	26.8	33.1	44.5
RoCE	12.8	23.8	23.8	19.7	24.5	33.3
Turnover Ratios						
Debtor Days	70	70	69	70	65	60
Inventory Days	37	71	65	65	61	61
Creditor Days	38	65	58	55	55	55
Asset turnover	2.1	2.4	2.2	2.4	2.9	3.7

Source: Company Data, Jefferies

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DB Corp – largest print media house

Executive Summary

DB Corp has the largest span

Expanding aggressively

Play on the language print growth and aggressive expansions

Initiate with Buy, TP of Rs 260

DB Corp is India's largest print media house. It is also the most aggressive player with leadership in the Hindi belt and in Gujarat. It focuses on Tier ii and III cities, making it a major beneficiary of regional growth. The company is expanding in Maharashtra this year and has just finished its Jharkhand expansion. These expansions, in conjunction with slowing ad markets, will impact profitability in FY12. But from FY13 onwards, as revenues from these expansions flow in and the ad market improves, we expect profitability to clock 30% EPS CAGR over FY13 and FY14. We believe while the market has priced in the near-term negatives, it has not factored in the acceleration ahead. We initiate with a Buy on the stock with a target price of Rs 260.

An all-India pursuit

Most aggressive player in the print segment

Expanding in Maharashtra currently

Top 2 positions in all of its footprint markets

Focus on Tier II and III cities in both print and radio business

DB Corp is India's largest print media house. DB is the most aggressive player in the print segment and is now expanding in the Maharashtra market. DB now has a well-diversified portfolio with presence in 13 states and four languages. The diversified portfolio also comes with leadership (Top 3) slot in accelerating Hindi belt states along with Gujarat. It is the leader in MP/Chhattisgarh, Chandigarh and Haryana, No 2 in Gujarat, Rajasthan and Punjab. It also has a radio business which runs stations in 17 cities. DB's strategy of focussing on Tier II and III cities makes it more linked to the regionalization theme. Even the recent Maharashtra expansion is focused on tier II and III cities first. With a large footprint in the non-metros and with accelerating growth here, DB will be a significant beneficiary of the regionalization theme. The leadership position in these markets will help it convert the revenue growth into earnings and cash flows.

Expansion mode to impact profits

Higher than industry revenue growth on the back of expansions

Sharp fall in FY12 due to aggressive expansion and market slowdown

Rapid growth from FY13 onwards

High cash flow generation to finance capex requirement

DB Corp's diversified leadership will help it attain better-than-industry revenue growth going forward. However, revenue growth will be subdued in FY12 as the current slowdown deepens and ad spends are curtailed. From FY13 onwards, strong growth should return as advertisement spend bounces back from its current lows. In FY12, however, the recent expansion will impact profitability sharply. We expect margins to fall sharply in FY12 and recover moderately over the next two years. Margins and RoEs will remain below the current high level as expansion plans continue till FY13 and possibly FY14. Earnings growth should return from FY13 and we expect earnings to grow at 30% CAGR over FY13 and FY14. The balance sheet remains strong and cash flows from mature markets remain strong to finance future expansions. We expect dividend pay-outs to fall in FY12 as the firm builds cash in preparation for the Phase III of radio auctions.

Valuation

Growth fears have led to underperformance

Valuations not factoring in medium term

High stable cash flows not priced in

Growth fears have resulted in underperformance for most print stocks, and DB Corp, with its aggressive expansion plans, has underperformed the most, trading at 16x 12M forward PE and 14.8x FY13 PE. While the market has factored in the near-term slowdown it has not given cognizance to the acceleration ahead, in our view. Given the strong growth prospects as benefits of expansion flow in and the cost impact ends, we believe the stock is undervalued. Given the high cash generation and future growth we value the firm at an average of the FY13 PE and DCF-based target value. We initiate with a Buy and a Target price of Rs 260, implying 31% potential upside to the current market price.

Risks

The main risks to our valuation are 1) slower GDP growth, 2) slowdown in literacy rate improvement, 3) increase of competition which will impact the profitability of the players, 4) fluctuations in newsprint prices, 5) execution of recent expansions competitive intensity in these markets and 6) overbidding risks in Phase III radio auctions.

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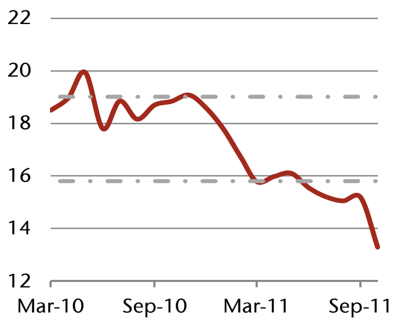
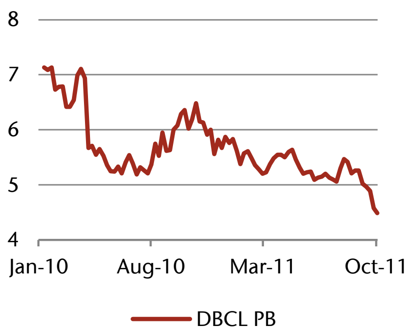
DB Corp – Company Profile

Exhibit 99: 12M Fwd. PE



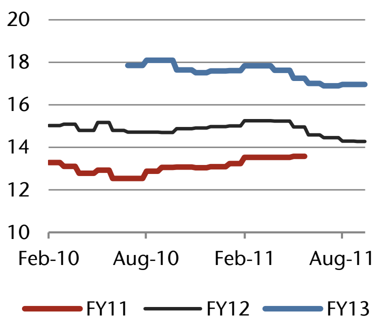
Source: Datastream, Jefferies

Exhibit 100: Price to Book value



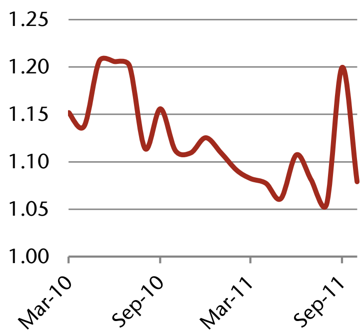
Source: Datastream, Jefferies

Exhibit 101: EPS revision chart



Source: Datastream, Jefferies

Exhibit 102: DBCL 12M Fwd PE rel to MSCI India



Source: Datastream, Jefferies

Exhibit 103: Capital Structure

No of subsidiaries	2
No of group cos as shareholders	7
Promoter Ownership	86. 5
FII Ownership	5.1
DII Ownership	3.5
Pledged shares - current % of promoter share	39.5
6M Change in % of shares pledged	3.9
Warrants outstanding as % of equity	0.0
Quasi equity (CBs) as % of net worth	0.0
Goodwill as % of net worth	0.3
Capital raised as % of change in net worth (5YR)	58.6
Contingent liability as % of net worth	7.4
ECB/FCCB as % of total debt	53.3
Investments as % of assets	1.4
Capex announced (as % of net worth)	19.3
Working Capital as day of sales (x)	108

Exhibit 104: Forex impact

Export as % of sales	0.0
Imports as % of sales	6.6
Net currency exposure as % of sales	-6.6
Hedges outstanding as % of sales	0.0

Exhibit 105: Market Data

Average value traded as % of free float/market cap (6M avg.)	0.43
Avg delivery vols as % of vols (6M avg.)	77.3
PVGO/market cap	44.7%
Beta	0.32

Exhibit 106: Financial Data

	Company Median	Company Std Dev	Market Median	Market Std Dev	z-score FY12E
Sales growth (CAGR)	18.8	8.3	19.0	7.3	-0.6
Other income as % of PBT	7.3	6.1	29.4	7.0	-0.2
EBITDA Margins	21.2	8.6	14.9	1.2	0.3
Interest cost as % of PBT	29.0	21.3	20.7	14.6	-1.1
Tax rate	37.7	16.8	26.2	1.3	-0.5
EPS growth (CAGR)	46.9	100.3	28.5	14.4	-0.7
Average payout	21.3	8.3	9.6	5.3	1.0
FCF as % of PAT - Range/Avg	53.9	224.0	70.2	32.9	0.2
Historic average growth in gross block	31.4	15.5	20.4	6.8	-1.0
Historic average RoE	39.2	8.1	20.0	3.8	-2.1

* z-score = (FY12 estimate – historical median) ÷ Std deviation

Exhibit 107: Dupont Analysis

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Asset Turnover	1.1	1.0	1.1	1.1	1.1	1.2
EBIT margins (%)	12.3	28.4	28.1	20.1	20.5	23.0
Interest Burden (PBT/EBIT)	0.7	0.9	1.0	1.0	1.0	1.0
Tax Burden (PAT/PBT)	0.6	0.7	0.7	0.7	0.7	0.7
Equity multiplier (Assets/equity)	3.4	1.6	1.4	1.3	1.3	1.3
ROE	19.6	28.2	31.2	20.8	22.3	25.9

Exhibit 108: Earnings sensitivity

% Change in EPS for 1% change in	FY12E	FY13E	FY14E
Raw Material cost	-1.5	-1.5	-1.3
INR/USD	-0.3	-0.3	-0.3
Circulation Volumes	-1.1	-1.0	-0.9
Circulation price	0.8	0.6	0.5
Ad Revenues	3.1	2.8	2.5

Source: Company Data

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An all-India pursuit

Most aggressive player in the print segment

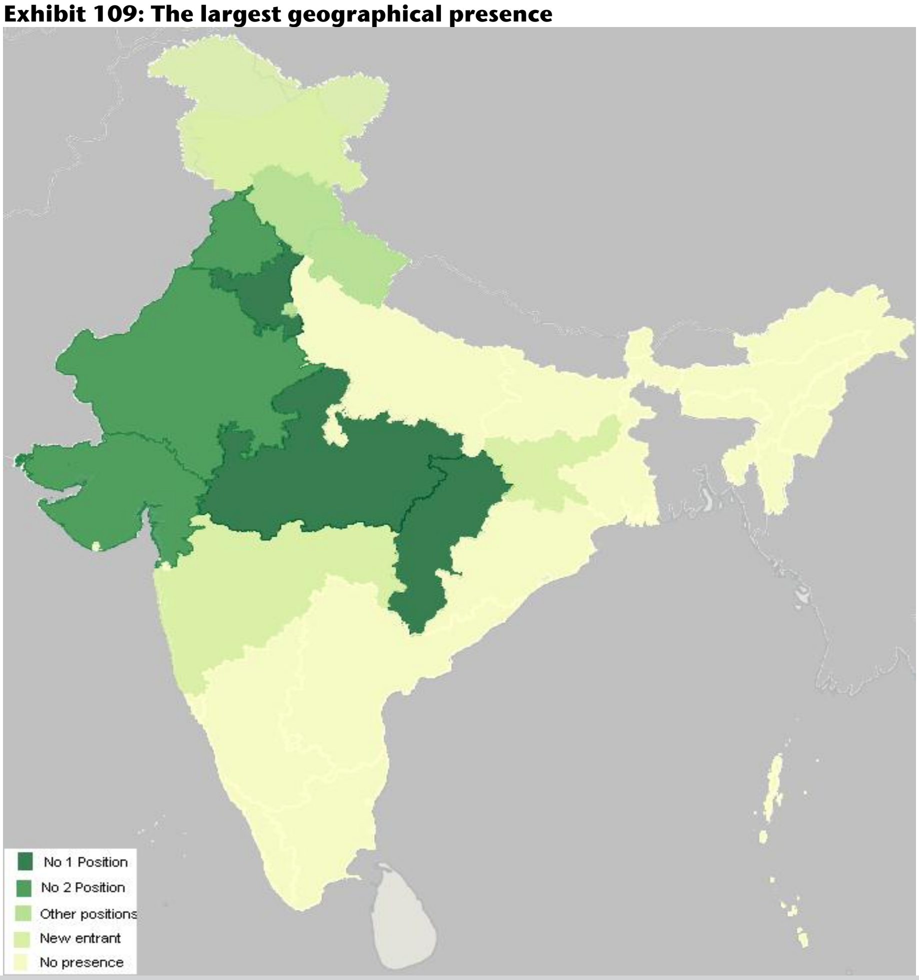
Expanding in Maharashtra currently

Top 2 positions in all of its footprint markets

Focus on Tier II and III cities in both print and radio business

DB Corp is the largest print media house in India. It has a presence in most North and Central Indian states. More importantly it is one of the Top 2 players in most markets. Its presence in 13 states and four languages makes for a diversified portfolio. DB also has a radio division which operates 17 radio stations. DB is the most aggressive player in the print segment and is now expanding in the Maharashtra market. It is the only player focussed on organic expansion. DB's focus is on the Tier II and III markets and all its business are geared to these cities. DB's footprints are in some of the faster developing states of Gujarat, Chhattisgarh, MP and recently Jharkhand and Maharashtra. The non-metro focus and leadership position has allowed DB to grow at above-industry levels. With a large footprint in the non-metros and with accelerating growth here, DB will be a significant beneficiary of the regionalization theme.

Exhibit 109: The largest geographical presence



Note: DB Corp's presence; Source: Company Data, Geocommons, Jefferies

Aggressive expansion strategy

Most read print group in India

Presence in 13 states and four languages

Jharkhand and Maharashtra are the recent expansions

DB Corp is the most aggressive player in the print segment in terms of expansion. This has resulted in it having the largest footprint both in terms of states and in terms of readership. While Jagran's Dainik Jagran is the most read daily in India, DB Corp is the most read as a group. As a result of its expansion drive, DB now publishes papers from 13 states of India and in four languages. The leading newspaper of the group is Dainik Bhaskar, which is India's second most read daily with presence in 13 states and 200+ editions and sub-editions. It also publishes Divya Bhaskar a Gujarati daily which is the No 2 daily in Gujarat. In addition it also started an English language daily in a JV with Zee under the title DNA. In the past year it has launched in two new markets – Jharkhand and

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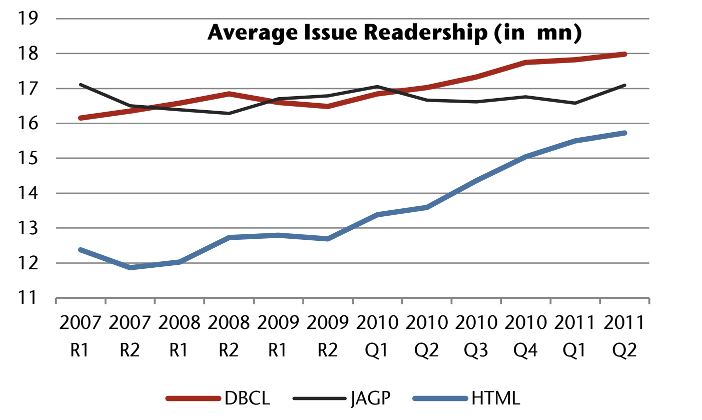
Maharashtra. The Jharkhand expansion is now completed while the Maharashtra expansion has started with three launches.

High cash flows, management focus and a strong strategy have allowed success in its expansions

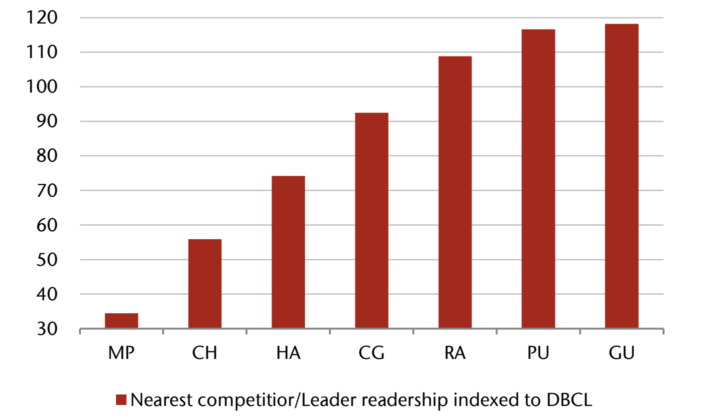
Three factors have allowed DB to pursue the expansion strategy 1) significant cash flow 2) management focus and more importantly 3) a proven expansion strategy. While cash generation is a common characteristic of established players in the print segment, few have embarked on an aggressive expansion as DB has done. This has been due to both management focus and also a well-defined expansion strategy which has helped it quickly gain readership. DB's management has been focused on expanding its footprint from the beginning and continues to do so.

Exhibit 110: DB is the largest read print media house...



Source: Company Data, IRS, Jefferies

Exhibit 111: ...with leadership in most markets



Note: In states where DB is not the leader, the number is for the top player, readership is indexed with DB readership as 100 in various states; Source: Company Data, IRS, Jefferies

Proven strategy

In contrast to most players who have struggled to gain significant foothold in new markets and overthrow the leader, DB has done so repeatedly by using a unique launch strategy.

Extensive ground work to connect with readers and develop local players

Before launching the paper in any new territory, DB Corp reaches out to the readers to understand their requirements. DB has in the past conducted surveys in a vast number of households before launching newspapers. This simple strategy allows it to localize the paper and attract readers, and has allowed DB to achieve a Top 2 slot in most markets within a year of launch.

Early start on expansion strategy in 1995

In addition DB forayed into new markets well before other players and in a period when most Indian companies were complacent, in 1995. This allowed it to gain early advantages in the bigger ad markets like Rajasthan and Gujarat and also test and refine its strategy.

Pause ahead?

Possible pause ahead as management bandwidth is limited with number of states and new business

Increased and alert competition in most states

The pace of expansion has accelerated in the past few years with last year seeing the launch of editions from Jharkhand and this year from Maharashtra and possible plans for Bihar next year. While earlier most of the promoters were actively involved in the business providing the necessary bandwidth, this has now changed with just one of the promoters remaining actively involved in the business. Increasing competition in the newspaper segment and established players now more active in defending their territory, expansion possibilities have become more limited. DB may see a pause in its expansion after Maharashtra and focus on monetizing its leadership position.

Diversified leadership benefit

Well diversified portfolio with focus on Tier II and III cities

As a result of the expansion strategy DB now has a well-diversified portfolio with presence in 13 states and four languages. The diversified portfolio comes with leadership – a Top 3 slot in accelerating Hindi belt states along with Gujarat and recently Maharashtra. In

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Significant beneficiary of the regional theme

Leadership to be maintained over long term

addition DB's strategy to focus on Tier II and III cities links it closer to the regionalization theme. Even the recent Maharashtra expansion is focussed on the tier II and III cities first; similarly the radio business has stations only in Tier II and III cities. With a large footprint in the non-metros and with accelerating growth here, DB will be a significant beneficiary of the regionalization theme. The leadership positions in these markets will help it convert the revenue growth into earnings and cash flows.

The current leadership position in most markets is not expected to change significantly. The competitive pressure will also ease in some markets with no new expansion plans by any new player.

MP/Chhattisgarh – Undisputed leadership

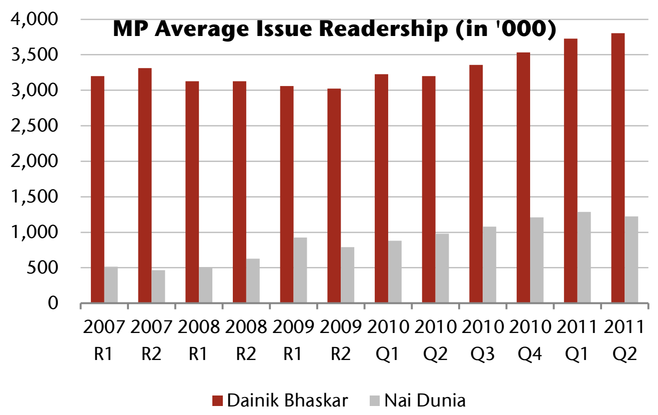
Leader in MP/CG by a wide margin

No strong No 2 despite entry by number of players

Fast growing market; DB market share of 55%

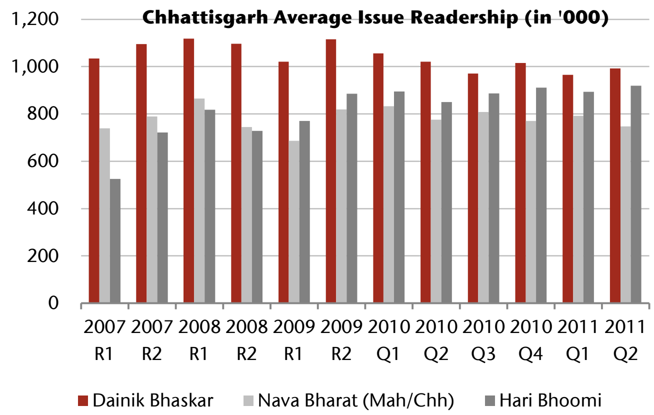
DB Corp started its operation from MP under the Dainik Bhaskar title. This is reflective in its leadership there. Dainik Bhaskar commands the bulk of this readership with the next closest competitor commanding less than one-third of DB's readership. This leadership has allowed DB to capture 55% of the ad market in these states. MP/CG is the third largest ad-market in the Hindi belt, at around Rs 5.5 bn. MP/CG's GDP and ad growth has accelerated which will positively impact DB. In FY10 MP's economy grew at 8.2% compared to India's growth of 8% while the ad market grew at 25% in FY11.

Exhibit 112: Dainik Bhaskar remains unchallenged in MP



Source: Company Data, IRS, Jefferies

Exhibit 113: Leadership still maintained in Chhattisgarh



Source: Company Data, IRS, Jefferies

DB Corp editions does not publish from 18 of 48 districts

While Dainik Bhaskar is printed from the whole of MP, it is not done by DB Corp. Editions from 18 of the 48 districts in Maharashtra and Western UP are published by Bhaskar Prakashan Pvt Ltd pursuant to an agreement between the promoters on title rights, the rest of the state is under DB Corp.

Lucrative market for new players, but no entry plans from strong players

MP is a strong candidate for future expansion for most Hindi players. Many have in the past few years forayed into it but have not been able to break much ground. Jagran's entry under its main title is restricted in MP due to title rights. Both Jagran and Hindustan vie for the market but have no concrete plans as of yet. Both plan to enter the state by acquiring one of the other players.

Gujarat a strong presence

No 2 position in the fastest growing state

Competitive intensity to remain stable due to 3 strong players

Gujarat is the fastest growing state in the country with 10%+ GDP growth. This is reflected in its ad market which is also the fastest growing in India. The Gujarati ad-market is currently at Rs 5bn and is growing at around 22%+. DB has a strong presence in the state and is the No 2 player here. It publishes papers under two titles, both in the Gujarati language, Divya Bhaskar and Saurashtra Samachar. Despite the fast growing ad market, the competitive intensity is expected to remain stable as the presence of three strong players limits the entry of any new player.

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Punjab, Haryana and Chandigarh going steady

No 2 player in Hindi market in CPH

Punjab, Haryana and Chandigarh are the other big Hindi markets where DB is present. DB caters to the Hindi speaking market in these states. The three combined have an ad market of Rs 5bn. DB is the leader in Chandigarh and Haryana market and No 2 in Punjab. The competitive intensity in Punjab increased last year with Jagran's launch of its Punjabi daily.

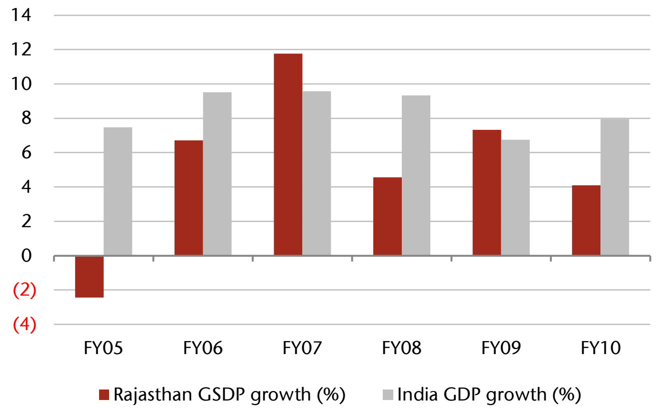
Rajasthan a close No. 2

Close No 2 in Rajasthan

Laggard market with slow growth

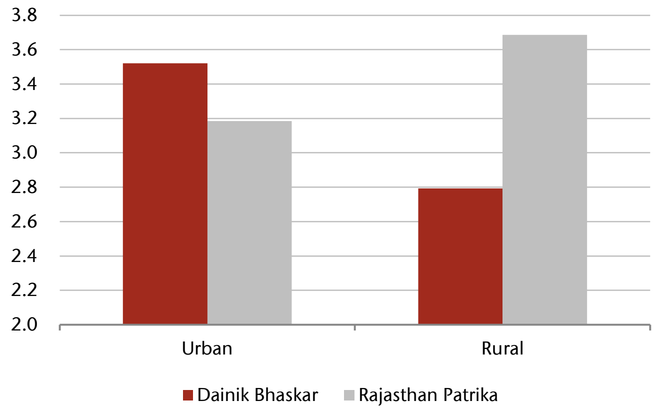
DB's presence in Rajasthan is under the Dainik Bhaskar title. Rajasthan is the second largest Hindi ad market at Rs 6bn. DB forayed into Rajasthan in 1995 and since has been in contention with Rajasthan Patrika (the incumbent) for the top slot. While one of the larger ad markets, Rajasthan has been a laggard in terms of its economic growth with its economy clocking sub 6% growth; this reflects in the ad market.

Exhibit 114: Slower GSDP growth in Rajasthan...



Source: RBI, CSO, Jefferies

Exhibit 115: ...benefits urban focus of DB



Note: Average Issue Readership in Rajasthan (in mn); Source: Company Data, IRS, Jefferies

Urban leadership benefits as most ads focused in metros due to slower growth

While DB is a No 2 player overall, in the urban markets it is the leader. With slower GDP growth, the ad market in Rajasthan is still more focused in urban areas, which benefits DB. The slow growth and two strong players have deterred any new entry into the market.

Jharkhand entering monetization phase

Expanded in FY11 in Jharkhand with 3 editions

Revenue flow starting to flow in one edition

DB launched Dainik Bhaskar last year in Jharkhand, and now has 3 editions in the state – Dhanbad, Jamshedpur and Ranchi. The launch has been quite successful and the current subscription renewal drive saw 100% renewal. Jharkhand has a circulation of around 250,000 copies, and has started receiving local ad revenues. With all the three top players present in Jharkhand, competitive intensity is high. This should drop as players focus on monetization and turning profitable in the state. The Jharkhand ad market is only Rs 2bn, but is growing quickly.

Maharashtra: tough road ahead

3 launches in Maharashtra currently

Plan for 5 more with one in current year

DB started its expansion in Maharashtra this year. It has launched Divya Marathi, a Marathi language daily, in three cities and has plans for one more this year. Management plans to launch 4 more editions next year. The three launches this year are in Aurangabad, Jalgaon and Nasik. Aurangabad and Nasik together command a circulation of 250,000 copies.

Large market with strong competition

Maharashtra is a large market of Rs 7-8bn and growing fast. The Maharashtra expansion will be the toughest expansion for DB, in our view, given its size and competition. Lokmat is the largest and strongest player in this market with Daily Sakal a distant No 2. Lokmat has a strong base in Maharashtra and in addition to print also has interest in regional media. In the editions that DB has launched, Lokmat has resisted strongly, even implementing a similar strategy of household surveys to improve its paper.

May slow expansion pace due to strong competition and slower market in footprint areas

Additionally the current GDP slowdown may force DB to postpone further expansion plans. We do not expect DB to launch any more editions this year.

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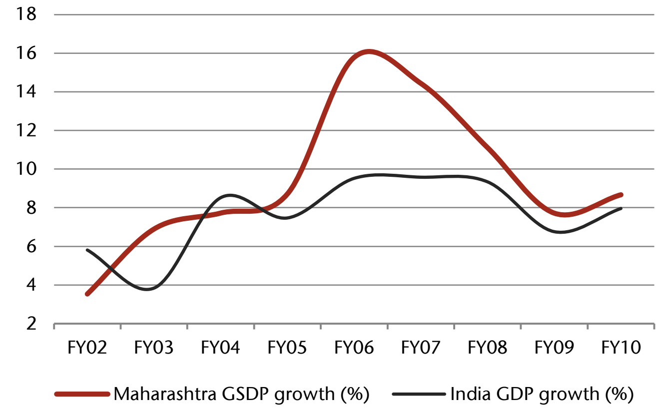
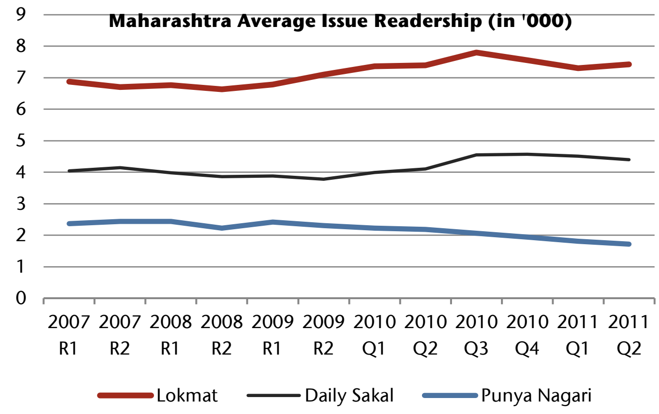
Exhibit 116: Maharashtra is a fast-growing market...



Source: RBI, CSO, Jefferies

Exhibit 117: ...with only one strong player



Source: Company Data, IRS, Jefferies

Low cost subscription schemes to attract readers

The Maharashtra editions were launched with subscription schemes of Rs 800-900 per year with quarterly gifts for subscribers, reducing the effective cost of paper to less than Re 1 per copy. This has resulted in heavy losses which will impact the firm's profitability for the next two years.

UP and Bihar the missing links

UP restricted due to legal title rights issues

Bihar and UP are two states that are missing from DB's portfolio. Both are natural extensions for DB with their language (both are predominantly Hindi-speaking states) and geographical proximity. UP is the largest ad market of around Rs 8bn. DB's entry in UP is restricted due to a legacy rights issue. Rights for the Dainik Bhaskar title in UP vest with an unrelated entity of DB, restricting its entry into the market.

Bihar plans after Maharashtra

May be shelved due to small potential with strong incumbents and small market size

DB had planned to launch in Bihar in the current fiscal year but postponed it to next year due to its Maharashtra launch. Bihar is a much smaller market compared to Maharashtra and has three big players, which reduces its attractiveness. We believe that a Bihar expansion, if it happens, will be delayed till late FY14 as Maharashtra will take much of the management and capex bandwidth of the firm.

Other businesses still in their infancy

In addition to the print business, DB also has three other segments - radio, Internet and Event management. Internet and Event management are still nascent and both together make up only 1.5% of the revenue base. There are no immediate expansion plans for the Internet, though it is expected to be making losses. Event management is gaining strength and has grown at a healthy 20%+ rate for the past two years.

Radio playing well

Radio focused in Tier II and III cities

Benefits from print leadership

DB's radio business is under the label MY FM. It operates 17 radio stations, all of which are in its footprint areas. MY FM is focused on Tier II and III cities and as such is still in a nascent stage compared to its peers who operate in Metros. However, the radio business benefits from the print's leadership in getting revenues as radio acts as a reminder medium for advertisers who advertise in the print segment.

Local advertising oriented in contrast to the other listed entities

MY FM revenues are more local advertising oriented with 60% of revenues coming from local ads compared to players like ENIL and HT for whom local ads are only 40%. The high content of local ads has helped it grow at 20%+ for the past eight quarters. Local ads also see better pricing than national ads on the radio front with local garnering 10% higher rates. The growth for radio channels benefits from the regional growth theme.

Business now contributing to EBITDA

The radio business has now reached critical mass with inventory utilization for FY11 at 70%. This higher utilization has allowed the business to turn EBITDA-positive and post EBITDA of Rs 17mn in1QFY11 with margins of 14%.

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Phase III to benefit significantly both on cost and revenue front

We expect radio growth to moderate going forward, being more driven by growth in minor stations and rate improvement in major cities. Further benefits from radio will happen on account of regulations clarity on two fronts: 1) resolution of the royalty issue which will significantly decrease royalty charges and 2) Phase III which will allow networking, reducing cost, and increase the number of channels.

Expansion mode to impact profits

Revenue growth to outpace industry reflecting diversified portfolio and recent expansions

Strong growth from FY13 30% CAGR over FY12-14

Cash flow from current operations enough to finance new expansions

DB Corp's diversified leadership will help it attain better-than-industry revenue growth going forward. However, revenue growth should be subdued in FY12 as the current slowdown deepens and ad spends are curtailed. Strong growth should return in FY13 as advertisement spend rebounds from its lows. Profitability, however, will be impacted sharply in FY12 due to the recent expansion. We expect margins to fall sharply in FY12 and recover moderately over the next two years. Margins and RoEs will remain below the current high level as expansion plans continue till FY13 and possibly FY14. Earnings growth should return from FY13 and we expect earnings to grow at 30% CAGR over FY13 and FY14. The balance sheet remains strong, as do cash flows from mature markets to finance future expansions. We expect dividend payout to fall in FY12 as the firm builds up cash in preparation for Phase III auction of radio.

Revenue growth better than peers

New expansion benefit to flow in from 2H FY12

DB Corp revenues are expected to grow better than the industry and more specifically peers. This is due to two reasons 1) expansions done in the past two years should see higher growth from their small share and 2) the diversification effect from DB's leadership presence in multiple fast growing markets increases the firm's growth. We expect revenues to slow down in FY12 on account of the GDP slowdown but return to the fast track from FY13. DB's revenues are much more dependent on advertising compared to peers.

Larger slowdown impact offset by expansion benefit

New markets expected to add 2-3% to revenue growth

DB's rapid expansion in the past few years is reflected in its revenue growth. In the past year (FY11) new markets added 2.5-3% growth to DB's ad revenue, which we believe will be repeated this year. The newer markets are expected to stabilize and achieve critical market share in 3-4 years of expansion. Going forward, we expect the growth addition from new markets to decline given higher base and higher levels of competition in Maharashtra.

This additional growth will help cancel the higher slowdown DB is expected to see than its peers due to a possibly larger slowdown in one of its main markets, Gujarat (more linked to global factors). A similar impact was seen in FY09-10 when DB grew at a slower pace than peers.

Diversified portfolio stabilizes revenues

Diversity of markets helps safeguard against local factors

State level growth and ad markets have high variance year on year on account of one-off factors. DB's diversified portfolio stabilizes its high growth against these state-specific factors. In addition, with most of DB's markets growing at above-industry growth, it allows DB also to do so.

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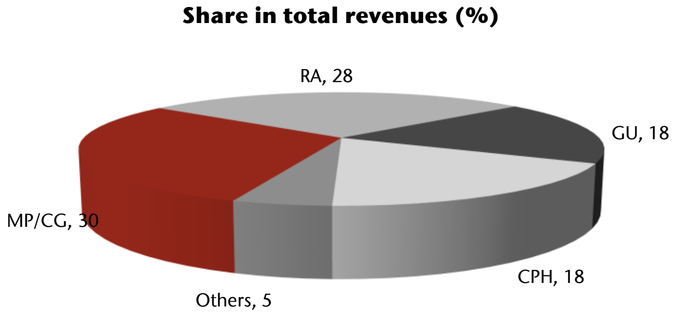
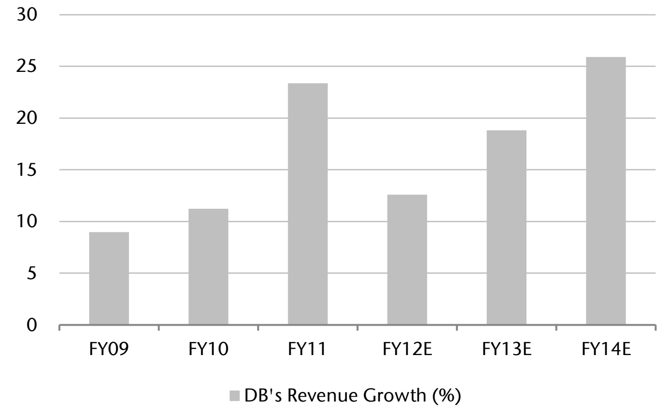
Exhibit 118: DB's diversified portfolio across states...



Source: Company Data, Jefferies

Exhibit 119: ...should allow it to earn high revenue growth



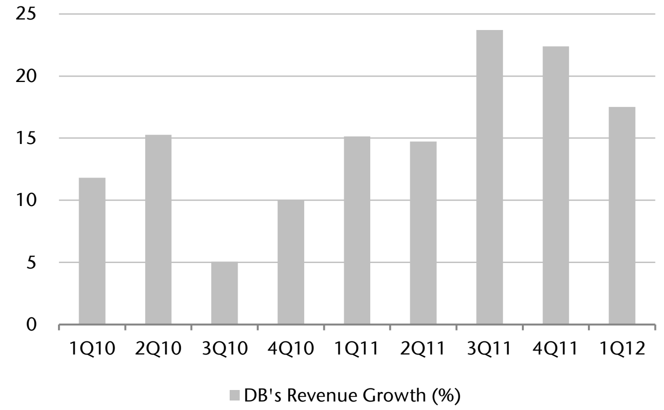
Source: Company Data, Jefferies

Strong Q1 to help in FY12

1QFY12 saw above-industry growth

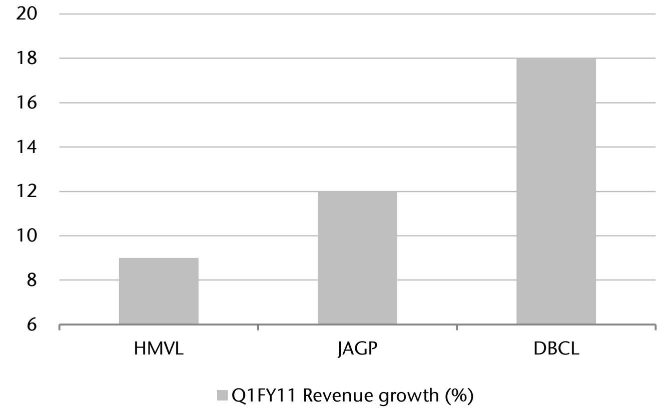
Although DB's Q1 advertising revenues saw a slowdown in the last two quarters, they were much stronger than peers at 20% (JAGP: 8% and HMVL: 15%). This was reflected in its total growth of 18%. This strong growth will help the company's full year numbers as the second half typically sees a sharper slowdown post the festive season in India which ends in October this year.

Exhibit 120: Slowdown in revenues showing signs...



Source: Company Data, Jefferies

Exhibit 121: ...though growth has far outpaced peers



Source: Company Data, Jefferies

FY12 subdued but future growth strong

FY12 will be slow in reflection of industry slowdown

FY12 is seeing a slowdown for all players and markets. Although corporates divulge different levels of slowdown, all agree ad revenues are slowing in all sectors. The slowdown has been more pronounced in sectors such as real estate and BFSI, which are two of the larger sectors. In addition, government ad revenues, which make up around 12-15% of the ad basket, have seen much slower growth due to policy paralysis. These factors will keep FY12 growth subdued not only for DB but the entire industry. The slowdown is more pronounced in national ads than in local. In FY13, however, we expect ad growth to recover, and in FY14 to return to a high growth trajectory.

Current expansions will provide additional growth and can add 2.5-3% to the growth rate. In fact Maharashtra being a large market can add 5% to the topline even when it captures only 5% of the current market. This is quite achievable although growth may take time to flow into revenues. We expect it to flow by second half of FY13.

Radio to grow steadily

Radio growth to moderate and inventory utilization maxes out in top cities

DB's radio business is expected to grow steadily. However, growth may moderate as the business has expanded and inventory utilization in the major cities is reaching near full

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utilization. We expect the current slowdown to impact radio also with growth dropping to 13% in FY12 but recovering to 20%+ from FY13.

Margins to moderate

Expansion-related costs to keep FY12 subdued

The aggressive expansion in the past and current year will impact profitability, in our view. While the revenue impact of the expansions will come in over the next 3-4 years, their cost impact will be felt in FY12 itself. While FY11 saw one of the best margins for the firm with exceptional revenue growth, margins are expected to contract sharply over the current financial year. The impact on FY12 profitability will be much higher, with expected 20% profit contraction in FY12. However, both margins and profit will see a sharp recovery from FY13 and grow at 30% CAGR over FY12-FY14.

Costs high due to expansion drive

Newsprint costs expected to increase by 30%

INR depreciation to cancel impact of slower global newsprint prices

The expansion into two states in two years is expected to cause a large increase in DB's cost base. This is visible in the first-quarter results which saw costs rise 37% YoY. The impact is due to 1) newsprint prices and 2) employee costs. DB's circulation has increased by around 20% in 1Q and is expected to increase by a similar amount for FY12. Along with this, newsprint prices have also seen a sharp rise in FY11 part of which will reflect in FY12. 1Q saw a newsprint price increase of 19% YoY and 9% QoQ. Newsprint prices will also be impacted by the rupee depreciation. Imported newsprint accounts for 20% of DB's newsprint consumption – with the rupee depreciating by 10%, this adds around 2% to DB's total newsprint cost. We factor in an increase of 12% in FY12. FY13 onwards we expect prices to moderate as global prices come down with demand dropping, reflecting the global fall in circulation.

Hiring for new editions to result in employee cost rise of 32%

Employee costs have also seen a sharp rise with new employees added for Maharashtra and Jharkhand. In addition DB is also absorbing the employees hired for the surveys and pre-operative work into its book. In 1Q employee strength increased by 7% QoQ and employee cost by 40% YoY. We expect employee cost to increase 30%+ for FY12 as the revenue slowdown forces DB to slow expansion also. We expect employee cost to remain high with expansion continuing in FY13 and possibly FY14.

Execution risks higher in Maharashtra

In addition execution risks remain high especially in Maharashtra which will be a longer launch than DB's previous launches. Possible cost escalation and extended low pricing may further hurt the profitability of the firm.

Margins at peak

Margins to see slowdown in FY12

DB margins currently are at a peak in response to healthy revenue growth and a lower cost impact of expansion in FY11. However, FY12 should see a downtrend in margins due to the dual impact of revenue slowdown and higher cost base. We expect EBITDA margins to drop more than 700bps in FY12 and recover from FY13. We expect margins to remain below FY10-1 peak till FY14 as the expansion phase continues and revenue flow from Maharashtra remains slow.

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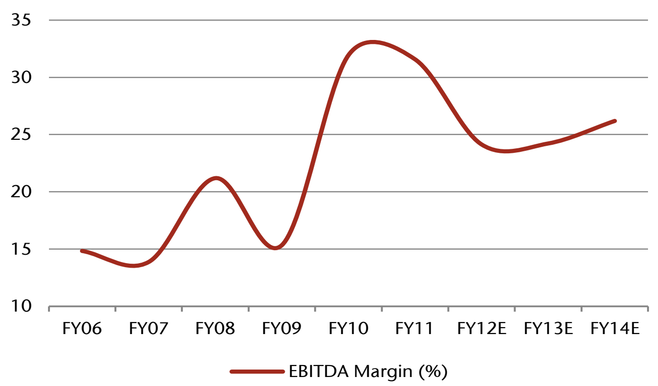
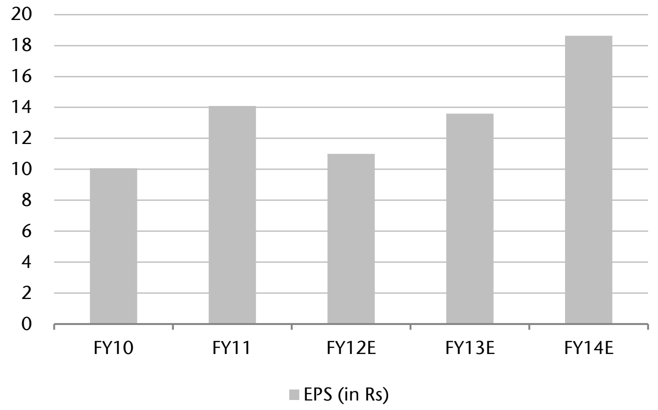
Exhibit 122: Margins cycle to turn downwards



Source: Company Data, Jefferies

Exhibit 123: EPS to grow at 30% CAGR from FY13



Source: Company Data, Jefferies

EPS growth to return from FY13

The sharp margin correction in FY12 will impact its profitability. We expect FY12 EPS to fall 22% YoY. However, post this large fall, we expect profitability to return sharply with 30% CAGR growth over FY12-FY14 on improving margins and higher revenue growth.

Ad for equity remains a worry

Ad for equity book at Rs 162 mn is a worry

Future ad for equity is restricted at 1% of revenues

Media companies over the past few years have used a new tool to increase ad revenues. In lieu of ads placed companies provide their equity to media firms as compensation. This practice is fraught with risks as equity valuation becomes an issue especially for unlisted firms. In addition most equities have a lock-in period which increases the risks of a market decline impacting valuations. DB has Rs 162 mn of such investments on its book. However, this risk has fallen with DB not doing any such deal in the last year and restricting it to 1% of revenues. In current markets there is risk of further provisioning towards this portfolio.

Balance sheet remains strong

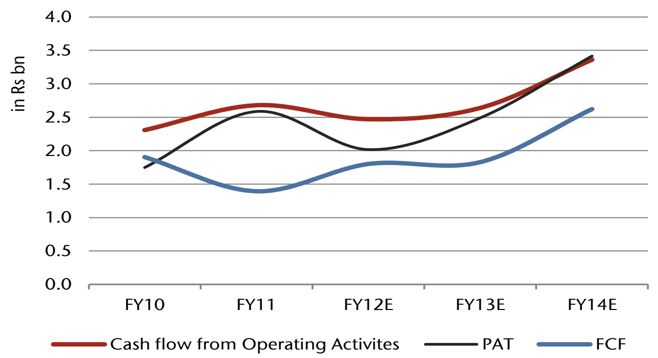
Leverage of firm remains low

DB's balance sheet remains strong even with the recent expansions. DB has implemented a policy of limiting capex to 20% of its mature market EBITDA. Thus most expansion activities are now being financed through internal cash generation. Internal cash generation has remained high and the firm has seen positive free cash flow despite the expansion and should continue doing so going forward.

Large part of loans term loans

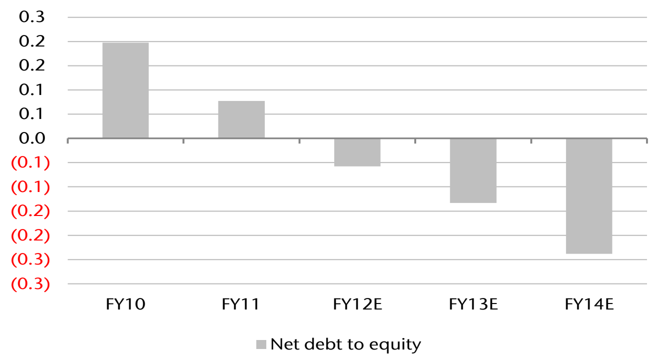
The firm's net debt to equity is just 0.1x and it is expected to turn net cash in FY12 despite the fall in profits and rise in capex. A large part of its loans are term loans compared to other firms which depend on short-term buyer's credit or cash credit loans.

Exhibit 124: Cash flows to remain positive...



Source: Company Data, Jefferies

Exhibit 125: ...and make the firm net cash positive



Source: Company Data, Jefferies

RoEs to remain high at 20%+

RoE is expected to moderate from the current high levels as profitability is impacted. We expect RoE to fall sharply in FY12 but recover from FY13. We expect RoAE to remain below the highs seen in FY10-11 as new capex is financed by internal cash generated.

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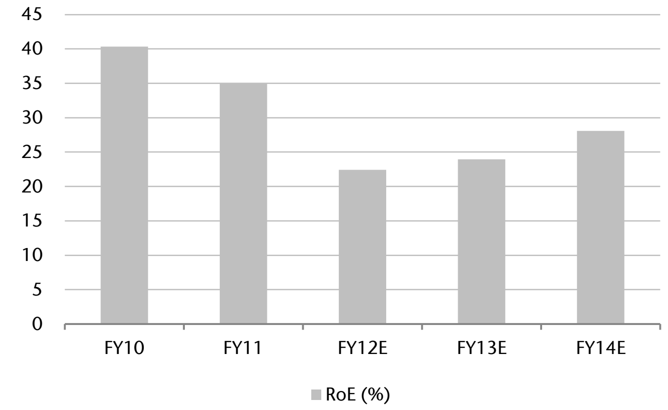
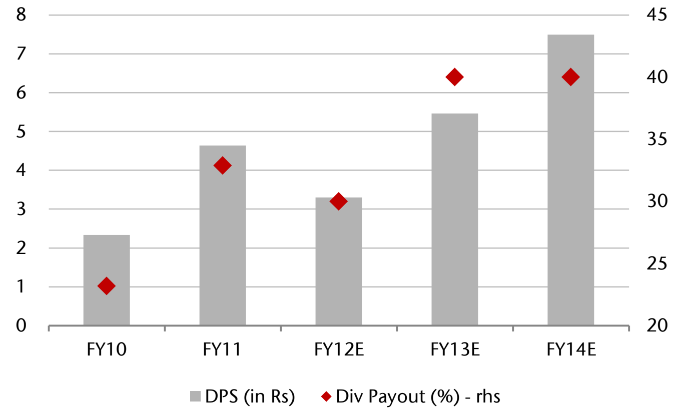
Exhibit 126: RoEs to moderate from current level



Source: Company Data, Jefferies

Exhibit 127: Dividend pay-out to improve



Source: Company Data, Jefferies

Other liquidity ratios for the firm remain stable and at par with peers despite the additional capex requirement reflecting its strong mature business in its major footprint states.

Exhibit 128: Liquidity ratios remain stable

	FY10	FY11	FY12E	FY13E	FY14E
Net debt to equity	0.2	0.1	-0.1	-0.1	-0.2
Inventory turns	4.5	5.3	5.2	5.2	5.2
Debtor days	66.7	69.5	69.5	69.5	69.5
Current ratio	2.7	2.7	2.9	3.3	4.0
RoAE	40	35	22	24	28

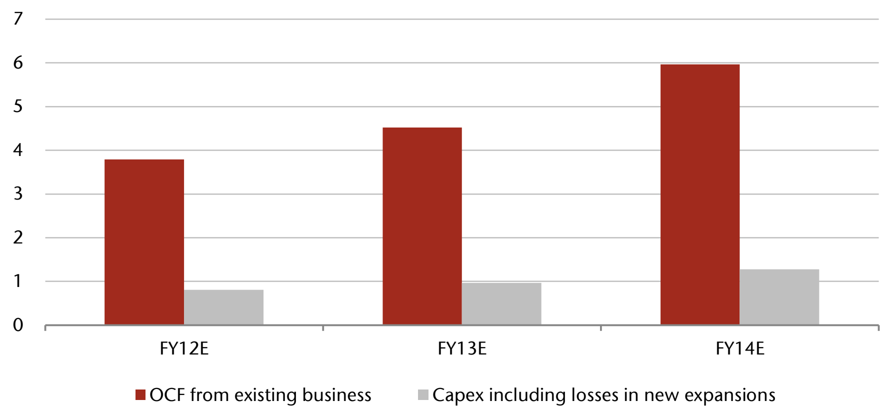
Source: Company Data, Jefferies

Cashflow generation enough to finance new capex

Cash flows from existing business 5x the capex plans

Cash flow generation from its existing business is high enough to finance its new capex plans. The company has stated that capex for the print segment will be maintained at 18-20% of EBITDA. We expect capex to be lower this year at Rs 700mn and increase next year to Rs 800mn as the slowdown forces the company to postpone some plans to next year. Operating cash flows for FY12 from the existing business will stand at Rs 3.8 bn, more than 5x the capex plans.

Exhibit 129: Operating cash flows much higher than capex requirement



Note: Cash flow and Capex are in Rs bn; Source: Company Data, Jefferies

Anticipation of Phase III and expansion plans to keep payout low

In addition the company will also need to build up its cash base for the Phase III radio auction where the firm is looking to acquire frequencies in cities where it has editions but no radio presence yet. These two will keep payout lower than peers like Jagran though possibly higher than HTML. We expect the payouts to be smaller in FY12 in preparation of Phase III auction and then increase steadily. The payouts may increase further if the Bihar launch is shelved and if radio capex is not high.

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Valuation not reflective of growth

Growth fears have led to sharp underperformance of stock

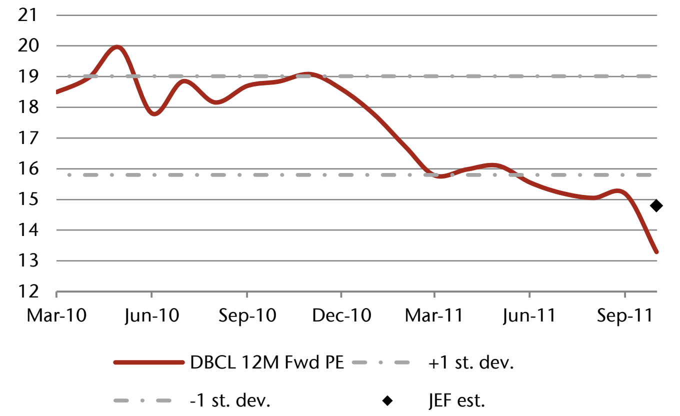
Strong growth prospects not priced in

A play on high growth and the vernacular print industry

Initiate with Buy; TP of Rs 260 Target FY13 PE of 19.2x

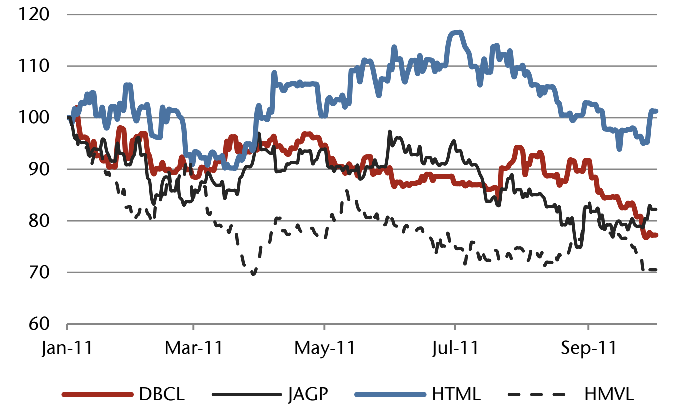
Growth fears have resulted in underperformance for most print stocks, and DB Corp, with its aggressive expansion plans, has underperformed the most. The stock has corrected by 23% YTD compared to 18% for Jagran and a rise of 1% for HT Media. As a result the firm is now trading at 16x 12M Fwd. PE and 14.8x FY13 PE. While the market has factored in the near-term slowdown, it has not given cognizance to the acceleration ahead. Given the strong growth prospects as benefits of expansion flow and the cost impact ends, we believe the stock is undervalued. Given the high cash generation and future growth we value the firm on an average of the FY13 PE and DCF-based target value. We initiate with a Buy and a Target price of Rs 260 implying 31% potential upside to the current market price. We have used 19.2x PE multiple which is the 5 year average PE for the newspaper industry in India.

Exhibit 130: Valuations for DBCL are at their lowest



Source: Datastream, I/B/E/S estimates, Jefferies

Exhibit 131: Driven by recent underperformance



Source: Bloomberg, Jefferies

Exhibit 132: Growth not yet factored into price

Growth rate in phase II	**17.5**
Phase II length	5
Terminal growth rate	2
WACC	12.8
Rs mn	
PV	47,945
Initial phase	5,485
Phase II	14,401
Terminal Value	28,059
Net Debt	641
Target Value	47,304
Number of Shares (mn)	183
Price (A) (Rs)	258
P/E Multiple	19.2
Price (B) (Rs)	262
Target Price (Rs)	**260**
Current Price (Rs)	199
% Upside/(downside)	30

Source: Company Data, Jefferies

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Risks

The main risks to the firm are from low returns and long gestation periods in Maharashtra and Jharkhand. The newspaper segment is highly correlated with the broader market and is interesting for players looking to enter the space or expand their base. As such other major risks to the firm are more macro related.

1. Execution risks and cost overrun in the new launches are the major risks for DB Corp. Both Maharashtra and Jharkhand are seeing strong competition, which may result in longer gestation period leading to higher losses.

2. The newspaper business is linked to GDP growth. We have assumed that the Hindi speaking region will grow at a steady pace, with growth rate higher than the country. While we believe this will be the case for the foreseeable future, there is a risk of it failing to do so.

3. Newspaper market expansion is dependent on improving literacy rates. We expect literacy rates to continue to improve at the current rate. A failure to do so will impact the firm's growth avenues.

4. Increase of competition will impact the profitability of the players. While we have factored in an easing of competition going forward, there is a possibility of competition increasing if new entrants come in.

5. Newsprint prices are a major risk. We have factored in a stabilization of newsprint prices and gradual 5% growth from FY13 onwards. Newsprint being a global commodity may see wider fluctuations.

6. Overbidding in Phase III of radio auctions is a risk, though with DB focussing on smaller cities, this risk is small.

Management Profile

Mr.Ramesh Chandra Agarwal
Chairman
Ramesh Chandra Agarwal holds a Post-graduate Degree (Master of Arts) in Political Science from Bhopal University, Bhopal. He has approximately 42 years of experience in the publishing and newspaper business. Currently he is also the Chairman of the Federation of Indian Chambers of Commerce and Industry of Madhya Pradesh. He has recently been awarded the Rajeev Gandhi Life time Achievement Award in Journalism.

Mr. Sudhir Agarwal
Managing Director
Mr Sudhir Agarwal is the Managing Director of DB Corp Ltd. He has been on the company's board since its inception. He has approximately 21 years of experience in the publishing and newspaper business and has been a part of the organization for same number of years. Under him the company has progressed to become one of largest read newspapers of the country, with a pan-India presence in multiple states and 3 languages.

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Financials

Exhibit 133: Income Statement

Rs mn	2009	2010	2011	2012E	2013E	2014E
Net Sales	**9,610**	**10,577**	**12,600**	**14,289**	**16,922**	**20,665**
Change (%)	*11.4*	*10.1*	*19.1*	*13.4*	*18.4*	*22.1*
Raw Material	4,074	3,279	3,839	4,988	5,761	6,719
Employee Cost	1,331	1,318	1,846	2,436	3,045	3,807
Other Direct Expenses	1,248	1,514	1,437	1,480	1,727	1,997
SDA Expenses	1,249	1,217	1,167	1,458	1,689	2,009
EBITDA	**1,474**	**3,377**	**3,978**	**3,449**	**4,110**	**5,425**
% of net sales	*15.3*	*31.9*	*31.6*	*24.1*	*24.3*	*26.3*
Depreciation	290	378	433	572	641	682
Interest	397	153	165	158	194	0
Other Income	137	203	194	169	265	359
PBT	812	2,806	3,587	2,881	3,576	4,907
Tax	423	1,057	1,000	864	1,073	1,472
Rate (%)	*52.2*	*37.7*	*27.9*	*30.0*	*30.0*	*30.0*
Minority Interest	118	80	-3	0	0	0
PAT	506	1,828	2,584	2,017	2,503	3,435
Adjusted PAT	506	1,828	2,584	2,017	2,503	3,435
change (%)	*-33.2*	*261.1*	*41.4*	*-22.0*	*24.1*	*37.2*

Source: Company Data, Jefferies

Exhibit 134: Balance Sheet

Rs mn	2009	2010	2011	2012E	2013E	2014E
Share Capital	1,812	1,860	1,837	1,837	1,837	1,837
Reserves	889	4,672	6,456	7,868	9,369	11,430
Net Worth	**2,701**	**6,531**	**8,293**	**9,704**	**11,206**	**13,267**
Deferred Tax	393	609	695	695	695	695
Loans	5,631	3,207	2,372	2,467	2,851	3,431
Capital Employed	**8,724**	**10,347**	**11,359**	**12,866**	**14,751**	**17,392**
Gross Fixed Assets	4,695	7,165	8,408	9,777	10,599	11,099
Less: Depreciation	932	1,305	1,729	2,301	2,942	3,625
Net Fixed Assets	**3,763**	**5,861**	**6,678**	**7,476**	**7,657**	**7,475**
Capital WIP	2,708	614	680	0	0	0
Investments	238	205	163	163	163	163
Current Assets	**4,205**	**5,740**	**6,028**	**7,872**	**9,842**	**12,983**
Inventory	711	722	728	957	1,105	1,289
Debtors	1,774	1,934	2,401	2,723	3,224	3,938
Cash & Bank Balance	452	1,926	1,731	3,025	4,345	6,589
Loans & Advances	1,052	1,032	1,058	1,058	1,058	1,058
Other Current Assets	217	126	110	110	110	110
Current Liabilities	**2,189**	**2,073**	**2,189**	**2,645**	**2,911**	**3,228**
Creditors	1,292	1,238	1,220	1,676	1,942	2,259
Other Liabilities	525	468	428	428	428	428
Provisions	372	367	541	541	541	541
Net Current Assets	**2,016**	**3,668**	**3,838**	**5,227**	**6,931**	**9,755**
Appl. Of funds	**8,724**	**10,347**	**11,359**	**12,866**	**14,751**	**17,392**

Source: Company Data, Jefferies

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Exhibit 135: Cash flow

Rs mn	2009	2010	2011	2012E	2013E	2014E
PAT	388	1,748	2,587	2,017	2,503	3,435
Depreciation	290	378	433	572	641	682
Interest Exp	477	343	134	146	139	175
Other Income	-137	-203	-194	-169	-265	-359
Increase/ decrease in Wkg Capital	207	43	-279	-95	-384	-580
CF from Op Activities	**1,224**	**2,309**	**2,680**	**2,471**	**2,634**	**3,354**
Change in Fixed Assets	-3,138	-386	-1,318	-690	-822	-500
CWIP	0	0	0	0	0	0
Change in Investments	-170	33	42	0	0	0
Other	137	203	194	169	265	359
CF from Investing Activities	**-3,171**	**-150**	**-1,081**	**-521**	**-557**	**-141**
Issue of shares	-118	2,427	0	0	0	0
Changes in debt	2,195	-2,424	-835	95	384	580
Interest and other finance charges	-477	-343	-134	-146	-139	-175
Dividend paid	-99	-424	-849	-605	-1,001	-1,374
Others	90	80	24	0	0	0
CF from Financing Activities	**1,591**	**-684**	**-1,795**	**-656**	**-757**	**-969**
Net change in Cash	**-356**	**1,475**	**-195**	**1,294**	**1,321**	**2,243**

Source: Company Data, Jefferies

Exhibit 136: Key Ratios

Key Ratios	2009	2010	2011	2012E	2013E	2014E
Basic (Rs)						
EPS	3.0	10.1	14.1	11.0	13.7	18.7
BPS	15.3	35.7	45.2	52.9	61.1	72.4
DPS	0.0	2.3	4.6	3.3	5.5	7.5
Payout (%)	0.0	23.2	32.9	30.0	40.0	40.0
Valuation (X)						
P/E	66.5	19.8	14.1	18.1	14.6	10.6
P/B	13.1	5.6	4.4	3.8	3.3	2.8
EV/EBITDA	26.3	10.3	8.6	9.6	7.8	5.6
EV/Sales	4.0	3.3	2.7	2.3	1.9	1.5
Dividend Yield (%)	0.0	1.2	2.3	1.7	2.7	3.8
Profit Ratios (%)						
RoE	21.2	40.3	35.0	22.4	23.9	28.1
RoCE	6.8	19.2	23.8	16.6	18.1	21.4
Turnover Ratios						
Debtor Days	67	67	70	70	70	70
Inventory Days	64	80	69	70	70	70
Creditor Days	78	88	75	80	80	80
Asset turnover	0.9	0.9	0.9	0.9	1.0	1.0

Source: Company Data, Jefferies

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HT Media – in a sweet spot

Executive Summary

Presence in English and Hindi print and radio business with metro focus

Businesses exiting expansion mode and to benefit from revenue flow

New ventures a concern

HT Media is a media conglomerate with a presence in both the English and Hindi newspaper segment. It is the leader in Delhi, Bihar and Jharkhand. HT Media is currently in a sweet spot with its core businesses exiting expansion phase. Both English and Hindi are set to see steady revenue growth and margin expansion. Its other businesses in Radio and Printing are turning profitable. We expect HT's consol EPS to grow at 27% over FY11-FY14. However, HT's plans to foray into new ventures such as Education and TV content are a worry. We initiate the stock with a Buy rating and target price of Rs 176 implying 27% upside.

Core business in a sweet spot

Top player in Delhi market

Distant No 2 in Mumbai

Top player in Bihar Jharkhand market

Exiting expansion in UP

HT Media has a presence in both the English and Hindi segments. In addition, it also has a presence in radio, Internet and printing. Its core newspaper business is currently in a sweet spot with the expansions completed and focus on monetization. HT is the leader in Delhi's English market and No 2 in Mumbai. Its financial paper Mint is No 2 in its segment. We expect Mumbai and Mint to slightly increase their market share from the current low levels. Delhi is seeing a coordinated effort to push yield increase. Its Hindi business, Hindustan, is under its 76% owned subsidiary HMVL. It is the leader in the Bihar / Jharkhand (BJH) market and No 3 in UP. It has increased its readership over the past year despite rising competition and has maintained its lead in BJH while closing the gap in UP.

Steady growth ahead

Businesses' margins near bottom

With no new expansion, margins to improve significantly

Benefit of expansions to flow from current year

Large cash on balance sheet

Both HT's English and Hindi businesses are at the turn of the revenue and margin cycle. This will allow it to grow at a faster pace with more diversity in its portfolio. Costs should remain in check due to lack of any new expansions and peaking competition. With both the English and Hindi segment growing, margins will see a sharp improvement and will rise above historical levels, in our view. We expect HT's consol EPS to grow at 23% over FY11-FY14 and standalone to grow at 17% reflecting slower growth in English segment. Burda will help FY12 profitability as it reduces its losses from a Rs 450mn EBITDA loss in FY11. Radio will see growth slowing as inventory utilization reaches its peak. The balance sheet remains strong with high cash and equivalents in anticipation of new business ventures.

Capex plans a worry

Plans to venture in new businesses like education and content for TV

Radio phase III has risks of overbidding in top cities

While HT's core businesses are in a sweet spot with strong growth and rising cash flows, the new capex plans are worrisome. Our three main concerns are 1) the education space, where HT has plans for a large entry and 2) Phase III auctions and 3) Content generation for TV. Education the main focus of the company will be a high risk, high reward venture.

Valuation

Strong core business shadowed by concerns on expansion plans

We value based on core businesses but assign a higher risk to the firm

HT Media has been the best performing stock in the sector this year and is up 2% YTD. Despite the current outperformance, the stock is trading at 13.5x FY13 PE, one standard deviation below its historical 12m fwd PE. Given the strong performance of the core business and the strong 23% EPS CAGR over the next three years, we believe there is still value in the stock. We value the firm on an SOTP basis. We value the standalone business at an average of 15.4x FY13 PE and DCF-based target value. We value HMVL at a 25% holding company discount to our target value. We initiate the firm with a Buy with a target price of Rs 176 implying a potential upside of 27%. We use a higher risk factor for the firm as we remain cautious on the new ventures. Clarity on new ventures and their size will provide us more comfort on the stock.

Risks

The main risks to our valuation are 1) High capex intensity in new business with long gestation, 2) Overbidding in radio Phase III auctions, 3) slower GDP growth, 4) Increase of competition, 5) Fluctuations in newsprint prices and 6) Slowdown in literacy rates improvement from current levels.

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HT Media – Company Profile

Exhibit 137: 12M Fwd. PE

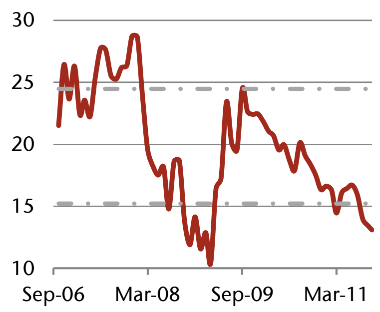
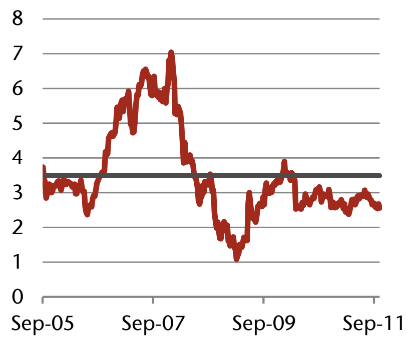
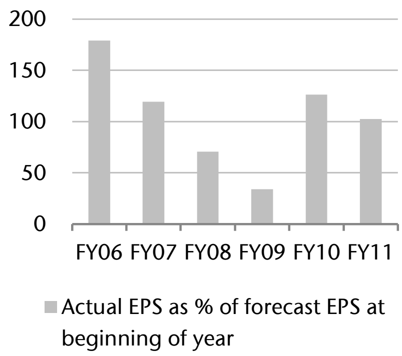


Exhibit 138: Price to Book value



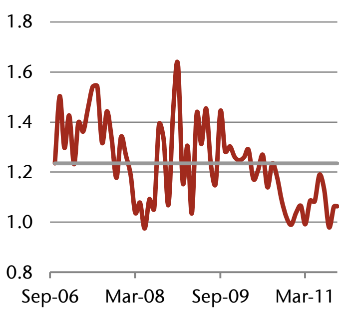
Source: Datastream, Jefferies

Exhibit 139: EPS revision



Source: Datastream, Jefferies

Exhibit 140: HTML 12M Fwd PE rel to MSCI India



Source: Datastream, Jefferies

Exhibit 141: Capital Structure

No of subsidiaries	4
No of group cos as shareholders	1
Promoter Ownership	68.8
FII Ownership	12.5
DII Ownership	13.2
Pledged shares - current % of promoter share	0.0
6M Change in % of shares pledged	0.0
Warrants outstanding as % of equity	0.0
Quasi equity (CBs) as % of net worth	0.0
Goodwill as % of net worth	0.4
Capital raised as % of change in net worth (10YR)	17.0
Contingent liability as % of net worth	4.6
ECB/FCCB as % of total debt	22.0
Investments as % of assets	43.7
Capex announced (as % of networth)	11.5
Working Capital as day of sales (x)	-3.6

Exhibit 142: Forex impact

Export as % of sales	1.1
Imports as % of sales	15.0
Net currency exposure as % of sales	-13.9
Hedges outstanding as % of sales	

Exhibit 143: Market Data

Average value traded as % of free float/market cap (6M avg.)	0. 22
Avg delivery vols as % of vols (6M avg.)	65.4
PVGO/market cap	58.9%
Beta	0.59

Exhibit 144: Financial Data

	Company Median	Company Std Dev	Market Median	Market Std Dev	z-score FY12E
Sales growth (CAGR)	16.5	15.7	19.0	7.3	-0.7
Other income as % of PBT	22.9	5.8	29.4	7.0	-2.5
EBITDA Margins	16.2	4.4	14.9	1.2	0.1
Interest cost as % of PBT	11.1	2.5	20.7	14.6	0.3
Tax rate	28.0	4.8	26.2	1.3	-0.0
EPS growth (CAGR)	16.8	4.2	28.5	14.4	-2.2
Average payout	7.8	2.0	9.6	5.3	1.0
FCF as % of PAT - Range/Avg	116.5	187.4	70.2	32.9	-0.1
Historic average growth in gross block	17.6	6.2	20.4	6.8	-0.9
Historic average RoE	13.3	6.4	20.0	3.8	-0.5

* z-score = (FY12 estimate – historical median) ÷ Std deviation

Exhibit 145: Dupont Analysis

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Asset Turnover	1.1	1.0	1.0	1.0	1.1	1.1
EBIT margins (%)	2.2	12.8	13.3	11.3	14.8	18.6
Interest Burden (PBT/EBIT)	0.0	1.0	1.1	1.0	1.1	1.1
Tax Burden (PAT/PBT)	1.2	0.7	0.7	0.7	0.7	0.7
Equity multiplier (Assets/equity)	1.5	1.5	1.3	1.3	1.2	1.1
ROE	00.1	14.1	13.9	9.8	14.0	17.6

Exhibit 146: Earnings sensitivity

% Change in EPS for 1% change in	**FY12E**	**FY13E**	**FY14E**
Raw Material cost	-1.8	-1.3	-1.0
INR/USD	-1.4	-1.0	-0.8
Circulation Volumes	-0.4	-0.3	-0.2
Circulation price	0.3	0.2	0.1
Ad Revenues	4.3	3.0	2.6

Source: Company Data

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Core business in a sweet spot

Top player in Delhi market

Distant No 2 in Mumbai

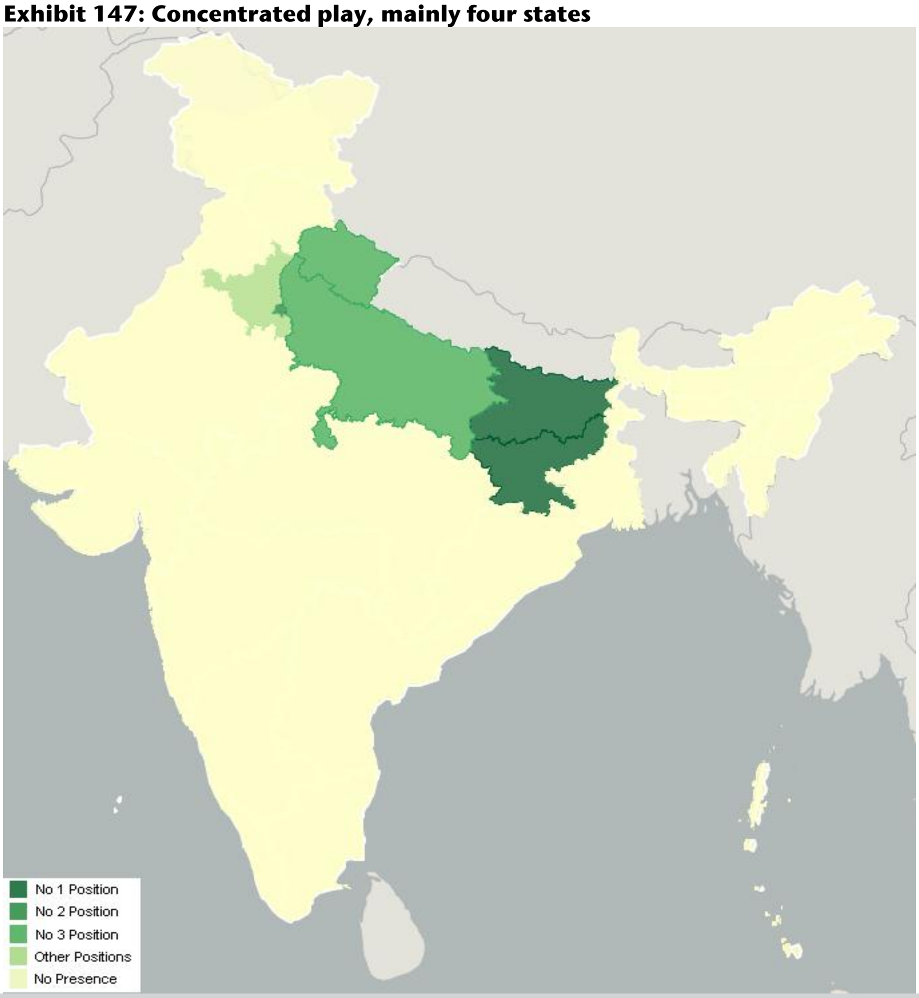
Top player in Bihar Jharkhand market

Expanding rapidly in UP

Radio business focused in Metros

HT Media is a media conglomerate with presence in both the English and Hindi segments. In addition it also has a presence in radio, Internet and printing. Its core newspaper business is currently in a sweet spot with the expansions completed and revenue from these now flowing in. HT is the leader in Delhi's English market and No 2 in Mumbai. Its financial paper Mint is No 2 in its segment. HT's main focus is on monetizing its readership in various markets. We expect Mumbai and Mint to slightly increase their market share from the current low levels. Delhi is seeing a coordinated effort by Times of India to increase yields. HT's Hindi business is under its 76% owned subsidiary HMVL. HMVL is the leader in the Bihar/Jharkhand market and No 3 in UP. HMVL has seen a rapid increase in its readership over the past year despite rising competition. The Hindi segment is more linked to the regional growth and will see faster growth especially as competitive intensity stabilizes in BJH and benefits of UP expansion flow in. HT's other businesses are now turning profitable, though they contribute a smaller amount.

Exhibit 147: Concentrated play, mainly four states



Note: Presence of Hindustan, the Hindi paper of HT Media; Source: Company Data, Geocommons, Jefferies

English in monetization phase

Large gap from the leader due to just one established edition

HT Media prints its English newspaper under two titles 1) Hindustan Times, a national daily from Delhi and Mumbai markets and 2) Mint, a business daily. HT is the second most read English daily, though the gap with the leader is large. This is so because till recently it had only one main edition, in Delhi. The Mumbai edition is only 5 years old.

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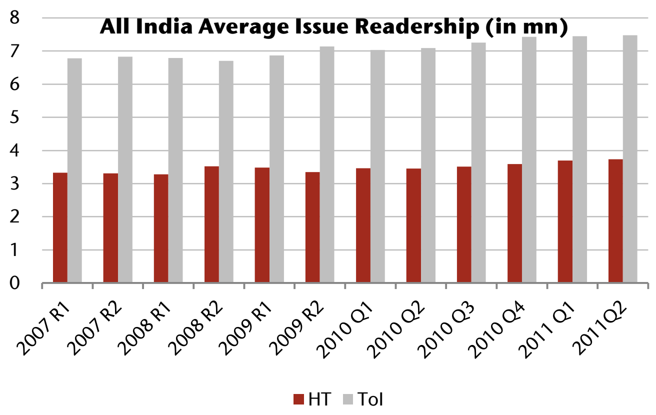
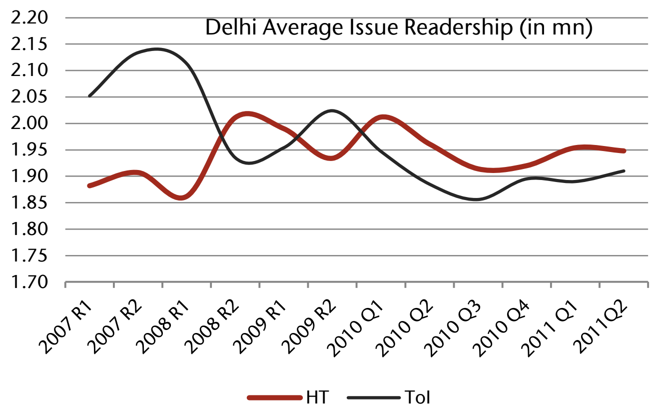
Exhibit 148: HT is distant No. 2 English newspaper in India...



Source: Company Data, IRS, Jefferies

Exhibit 149: ...but No. 1 in Delhi



Source: Company Data, IRS, Jefferies

No 2 in Mumbai and gaining readership

Business daily Mint also No 2

In Delhi HT is the No 1 player slightly edging out Times of India (ToI). In Mumbai, HT has been gaining readership share quarter on quarter but is still a distant No 2. Mint is also increasing its readership and has edged out other players to reach the No 2 position behind the Economic Times.

For all these editions the expansion phase is now over. Revenue benefits have just started flowing in and the company is focused on monetizing its readership in all the three markets. This places the English business in a sweet spot with strong revenue growth but low cost impact.

Delhi a coordinated effort

Push for advertising yield increase in Delhi from the top 2 players

Delhi is a two-player market of around Rs. 15 bn. It has been fiercely competed over by ToI and HT. The two have similar readership share with HT slightly edging out ToI. The high competition has resulted in under-monetization of the market compared to similar markets like Mumbai and Bangalore where ToI enjoys near monopoly. The ad yields of the Delhi players are Rs 1,200 for a readership base of 2.2 mn, which compares with Mumbai where the ad yield is Rs 2,000 for a readership base of 1.5mn and Bangalore which has an ad yield of Rs 1,500 for a readership base of just 0.7 mn.

De-bundling strategy being used in NCR

In order to raise the yields, both HT and ToI have adopted a de-bundling strategy. While earlier they used to charge Rs 1,200 for advertisements covering the whole National Capital Region (NCR), now the geographical reach has been de-bundled with a separate charge for Delhi and separate charges for each of the suburbs. Delhi city is charged Rs 1,000 and each suburb Rs 100. This indirectly increases ad yields to bring them closer to other markets.

Q2FY12 saw slow growth due to sharp fall in real estate advertising due to Noida land issues

The Delhi market has slowed considerably with ad growth in past quarter being near zero, as real estate ads, which make up 9% of the ad revenues, saw a sharp fall due to legal disputes around land in Noida. The other big sector, education, has also slowed down from a 25% growth to less than 12% as the low quality of new private colleges has resulted in lower student inflow. The BFSI sector, however, after seeing a slowdown has now bounced back.

Mumbai - strong growth of low base

Mumbai market share to see a small rise from current levels

Growth to remain above industry but moderate from current levels

HT entered Mumbai in 2005 and has now reached the No 2 position. HT readership has been on a steady rise and it now has 40% of ToI's readership. However, its ad market share is much smaller, only Rs 1bn out of Rs 15bn. HT has been actively trying to garner more ad market share. This is reflected in the performance with the Mumbai market growing at 30% for HT. With HT gaining ground over the next player (DNA) it gains market share from the smaller players. While ToI has a higher ad market share (70%) than leaders in other markets we do not expect this to change significantly. We factor in HT increasing its share from 6.7% in FY11 to 7.7% by FY14.

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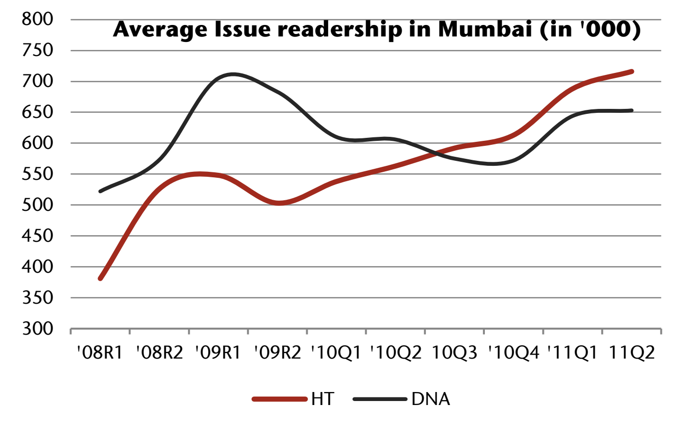
Exhibit 150: HT has been gaining readers steadily qoq



Source: Company Data, IRS, Jefferies

Exhibit 151: Ad market share still has potential upside

Source: Company Data, IRS, Jefferies

The impact of the current slowdown is felt in the Mumbai market also. HT Mumbai's revenues will see better growth on account of increasing share. We expect HT Mumbai to grow at 15% in FY12. In FY13 we expect the ad spend to recover and HT to grow at 20% for FY13 and FY14.

Expected to add to profitability from next year

The Mumbai business is still loss making; management expects Mumbai to break even this fiscal and add to profitability from next year. We expect this timeline to be delayed as the slow ad market impacts revenues.

Mint now No 2

Readership still less than half of ET

Ad revenues around 12% of ET

Mint is HT's business daily. It was launched in Feb 2007 and has consistently gained readership. It is now the second most read business daily with average readership of 222,000, 47% more than the No 3 player. Even with the rise in the readership it still only has 43% of ET's readership in the four metros (Mumbai, Delhi, Kolkata and Bangalore). As in Mumbai, management is looking for an increase in ad market share. Revenues for the business were Rs650mn in FY11 compared to Economic Times which had revenues of around Rs 5,000mn.

Increasing coverage to 10 cities

Expect better growth on account of increasing market share

Mint increased its coverage last year and now has a presence in 10 cities. Revenue growth has been a strong 40% from a small base. Similar to Mumbai we expect its share to increase slightly reflecting the increased coverage. Going forward we expect revenues growth to moderate to 15% levels in the current fiscal on account of slowdown in ad revenue. From FY13 onwards we expect the growth to recover to 20%. Mint is expected to break even in the next 3 three months and start contributing to the bottom-line this fiscal.

Hindustan on an uptrend

Hindustan is the third most read daily in India

Pure play on the growth in print in the Hindi belt

HT Media's Hindi business was demerged into its subsidiary HMVL in Dec 2009. It publishes a newspaper under the Hindustan title. Hindustan is the third most read daily in India with a presence in UP, Bihar, Jharkhand and Delhi. It has been on an uptrend, gaining readership consistently over the year. It has been expanding in UP over the past few years, and this expansion is now near complete, with Hindustan the No. 3 player. With circulation growth completed and readership growth visible in numbers, Hindustan is now in the monetization phase. Like Jagran, Hindustan is a pure play on the growth in the Hindi belt. With its leadership in Bihar and Jharkhand, which are two of the faster growing states, its revenue and profits will reflect this high growth.

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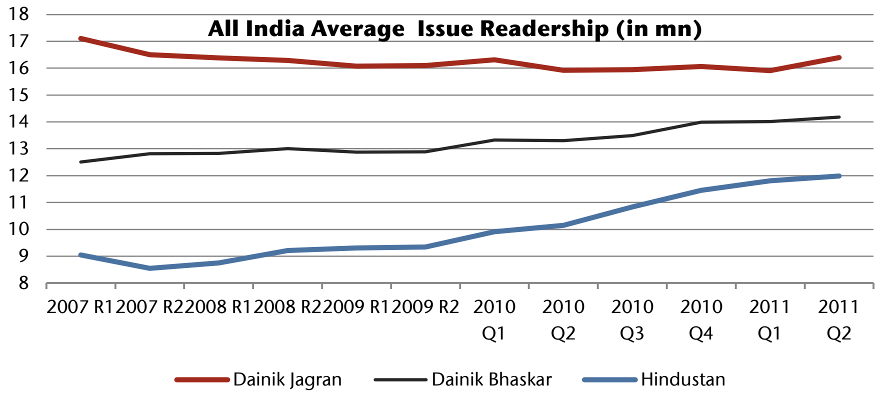
Exhibit 152: Hindustan readership gain slowing with exit of expansion mode



Source: Company Data, IRS, Jefferies

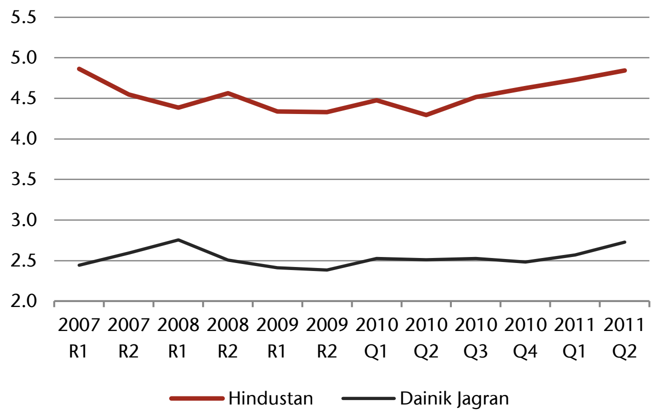
BJH competition peaked, maintained No. 1

Jharkhand saw intense competition last year with entry of DB Corp

Readership saw a 20% rise even with increased competition

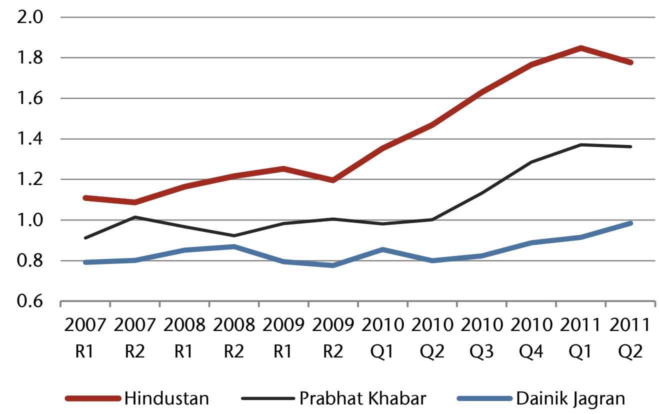
Hindustan is the leader in the Bihar/Jharkhand market with nearly twice the readership of No 2 player Dainik Jagran. Hindustan has been able to maintain its leadership and in Jharkhand's case increase its gap over the next player. Hindustan's strength in these markets is visible from the fact that in Jharkhand, which saw increased competition with DB's launch last year, Hindustan increased its readership by 20% yoy, though it has lost readership in the current survey. Part of this rapid rise is due to the sharp cut in cover price as a reaction to DB Corp's entry into the state.

Exhibit 153: Bihar readership has remained steady



Source: Company Data, IRS, Jefferies

Exhibit 154: Jharkhand has seen a sharp rise in readership



Source: Company Data, IRS, Jefferies

Competition to ease from next year

Low circulation price hurting revenues

However, competitive pressure in the two markets has peaked with DB's launch completed and some editions already a year old. In addition, DB has postponed its Bihar launch and is reconsidering its entry. The easing of competitive pressure will also allow circulation revenues for Hindustan to increase from FY13. Circulation revenues make up more than 30% of Hindustan's revenues and DB's entry pricing had forced players to offer discounts. DB is continuing with the same pricing as last year but without the discounts (through quarterly gifts) which should allow Hindustan and DJ also to reduce their discounts.

UP expansion mostly over

UP distant No 3 despite extensive expansion

UP is the largest Hindi ad market and as such important for players. It has two strong players Dainik Jagran and Amar Ujala. Hindustan had been on an expansion drive in UP over the past few years. Its readership increased 41% yoy in 1Q, but the pace of growth has now slackened. Its gap with the next big player Amar Ujala has also stabilized at around 1.9x. Hindustan plans to increase its circulation by 15% in the next year or so in UP, as do the two major players.

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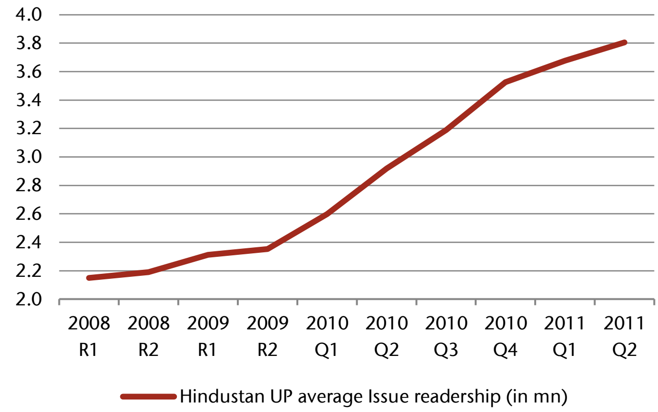
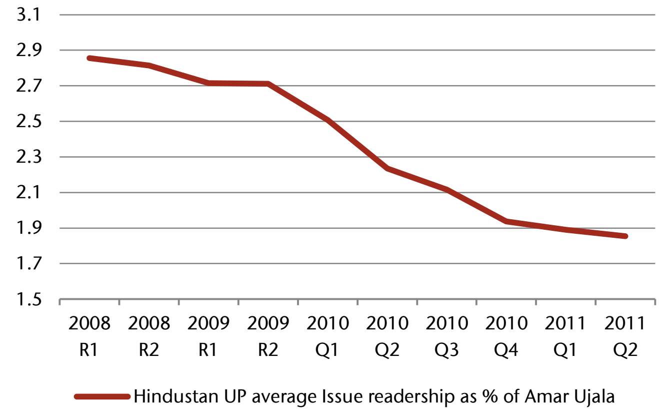
Exhibit 155: UP readership has increased sharply...



Source: Company Data, IRS, Jefferies

Exhibit 156: ...and faster than competitors



Source: Company Data, IRS, Jefferies

Market share small reflecting the low readership share

Hindustan's ad rates and market share are still small. Its ad yield is currently Rs 350 compared to Jagran's Rs 1,800 and Amar Ujala's Rs 900. Hindustan aims to double the yield in the next two years as it closes on Amar Ujala in terms of readership. Of the Rs 8bn ad market in UP, HT's share is only 12% (Rs 1bn). Jagran has 50% share of the market at Rs 4bn.

We do not expect a sharp change in the market share given advertisers' preference for market leaders. With Jagran also on an expansion drive and increasing readership, it will be difficult for Hindustan to gain significant market share. We expect it to keep a similar market share going forward. We factor in a small 50bp increase in market share from the current level considering the yoy increase in readership.

Other business turning profitable

Other businesses small, but expected to grow steadily

In addition to the newspaper business, Hindustan has interests in three other main businesses: 1) Digital, 2) Radio (Fever FM) and 3) Printing (HT Burda). Of these Radio is profitable while Burda is expected to break even this year. The digital business is still growing and is expected to remain in losses for the next 2-3 years. However, the business has an internal target of Rs 300-350 mn cap on losses.

Radio waiting for Phase III

Radio focus only in top cities

Currently present in Metros

Capacity utilization reaching 100% to slow growth going forward

Phase III could result in overbidding in top cities

HT, as part of its strategy, has confined its radio presence to four metros - Mumbai, Delhi, Bangalore and Kolkata. The radio stations, under the banner of Fever FM, had revenues of Rs 700mn in FY11 with EBITDA of Rs 120mn. Radio is reaching full capacity utilization with Delhi already having 100% utilization. Given this, the company is looking to Phase III for further expansion. The company's strategy is to expand its presence to 10-12 cities from the current 4 cities. The company's focus for new stations will be on major cities and not on Tier II and III. The top 10 metros contribute around 70% of the radio ad market and this is HT's focus. This strategy leaves out a large fast-growing segment and with competitive intensity already high in the top metros, a lack of significant print presence will pose challenges for profitability.

HT Burda still in an early stage

Burda JV still in stabilization mode

Order book building up

Last year, HT entered into a 51:49 JV with Burda Druck GmbH to outsource its printing to India. The facility is still in its early stages and is currently building its order book. It clocked revenues of Rs 620 mn in the current year with EBITDA loss of Rs 450 mn. The business is scaling up and the company expects to break even this year. With the slowdown in Europe, the order book may stay a laggard and we expect profitability to remain muted for the business over the next two years.

Internet still expanding

Multiple properties in Internet space

HT has multiple Internet properties under its 100% subsidiary Firefly e-Ventures Ltd. Its main properties are hindustantimes.com, livemint.com, livehindustan.com, shine.com,

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To remain loss making going forward

Augmenting the existing print business

htcpamus.com, desimantri.com and Mobile solutions. Shine.com is a job portal and is the fourth largest job portal in India. Its daily acquisition rate of resumes is 85% of Naukri, the largest job portal in India. The business made an EBITDA loss of Rs 300 mn in FY11 on revenues of Rs 100 mn. We expect the company to maintain losses at these levels.

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Steady growth ahead

With no new expansion, margins to improve significantly

Benefit of expansions to flow from current year

Large cash on balance sheet

Both HT's English and Hindi businesses are at the turn of the revenue and margin cycle with expansion phase completed and readership impact visible. This will allow it to grow faster with a more diverse portfolio. Costs should remain in check due to lack of any new expansions, leading to a margin expansion. With both the English and Hindi segments growing, margins will see a sharp improvement and will rise above historical levels. We expect HT's consol EPS to grow at 23% over FY11-FY14 and standalone to grow at 17% reflecting slower growth in the English segment. Burda will help FY12 profitability as it reduces its losses from a Rs 450mn EBITDA loss in FY11. Radio will see growth lower than industry as growth will be mostly from yields.

English monetization the key

Costs to remain in check; profit growth will depend on benefits of expansions

EPS CAGR of 17%

RoEs below peers

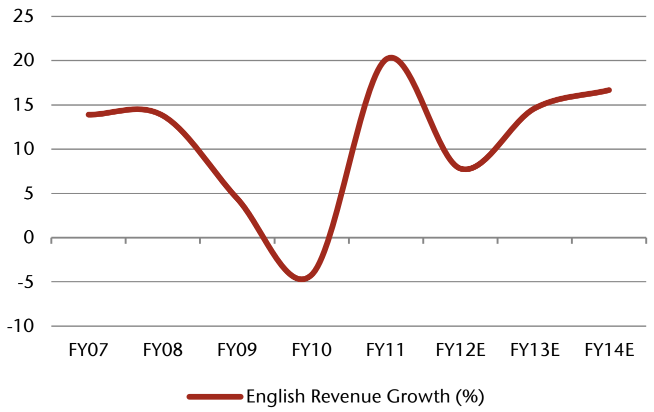
With expansion of its English newspaper and Mint completed, English growth now depends on its monetization. Costs for the segment will remain contained with no new expansion on the horizon. One-off factors in its core market will keep FY12 revenues subdued and with market recovery HT should see strong growth from FY13. Margins should similarly expand from the current low levels as growth returns in FY13. FY12 will see lower margins due to the impact of newsprint prices. We expect EPS CAGR to be 17% over FY11-FY14. However, return on equity will be below peers on account of lower pay-outs.

Revenue growth to remain steady

Small market share gain in Mumbai and Mint segments

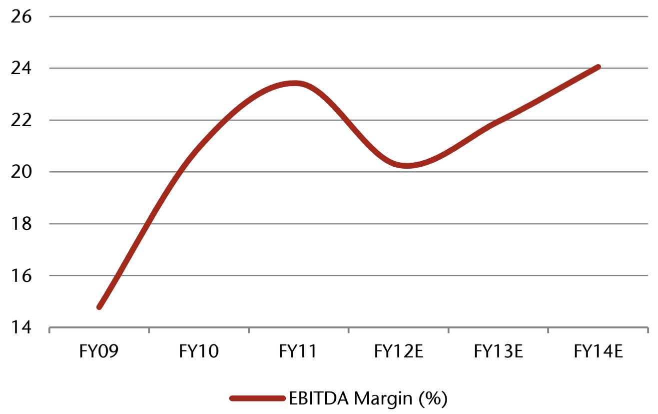
HT's revenue growth will depend on its ability to monetize the increased readership base. With a strong player in both the new markets, we expect small increase in market share for the Mumbai business and Mint. Additionally, Delhi which contributes two-thirds of HT's standalone revenues had near zero growth in the September quarter. This was due to a sharp fall in real estate ads on account of Noida land issues. While real estate should recover from this sharp fall, it will impact the current year's profitability. We expect English revenues to remain below 10% for the current fiscal. FY13 onwards we expect revenue growth to return as markets improve and the benefits of expansion in Mumbai and Mint flow into revenues. Given the under-monetization of readership we expect HT to clock above-industry growth.

Exhibit 157: Revenue growth to remain steady



Source: Company Data, Jefferies

Exhibit 158: ...leading to margin improvement



Source: Company Data, Jefferies

Mumbai and Mint to grow faster than Delhi

HT Mumbai and Mint to outperform market growth on account of small share increase

Mumbai and Mint will grow faster than Delhi as they gain market share. The two markets have grown at 30%+ over the past year we expect moderation of the growth rate. With a strong competitor and high competitive intensity we factor in only a small gain in market share. We expect Mumbai and Mint to grow at 15% in FY12 and 20% in FY13. FY14 we

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expect a similar growth as year on year market share gain declines even as market size growth increases.

FY12 revenues from Delhi impacted by Noida land issues

Delhi to see subdued FY12

Delhi saw a sharp fall in growth in Q2 due to sharp fall in real estate sector advertising. In addition, education also saw weak growth at 12% compared to 25% last year. This combined with the slowdown in all other sectors will impact Delhi's growth this year. We expect Delhi to register just 7% growth this year. FY13 onwards growth should recover in line with industry and should allow HT to implement its de-bundling strategy effectively.

Margins to improve from FY13

Margins to expand from current levels

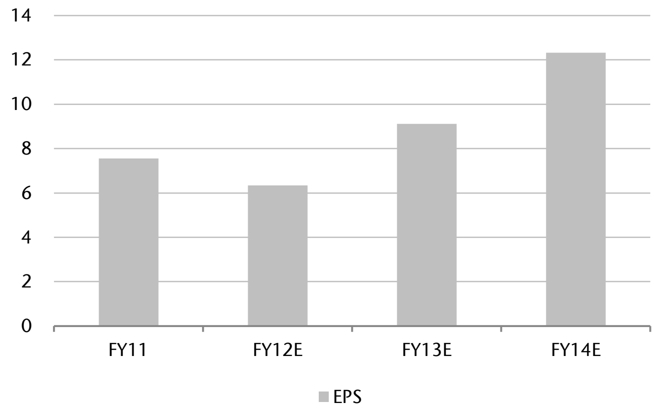
HT's margins have remained low in the past few years as it was expanding, and are currently well below the other two listed peers. With the expansion phase now over, cost increases should ease, leading to a margin expansion. We expect margins to improve by 390bps in two years, from FY12-FY14.

INR depreciation to impact HT due to high imported newsprint costs

FY12 margins to remain subdued

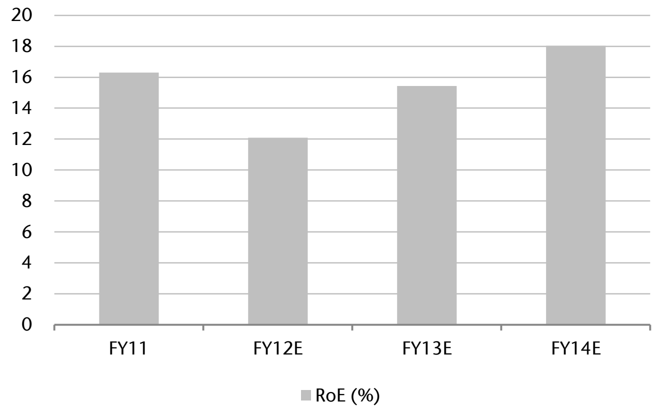
FY12 will see a dual impact on margins from 1) slow growth and 2) high raw material cost. HT mostly uses imported newsprint. While global newsprint prices have started falling, the recent depreciation of the rupee has negated this correction. This will impact the company's profitability as the landed cost has risen by 7% in the past couple of months despite prices of imported newsprint having corrected by 3%.

Exhibit 159: EPS to grow at 17% CAGR over FY11-FY14



Source: Company Data, Jefferies

Exhibit 160: RoAE will improve going forward



Source: Company Data, Jefferies

Margins to improve by around 400bp from FY12-FY14

FY13 to see recovery in margins

FY13 we expect margins to recover and improve over FY11 levels in FY14. This will be as costs are curbed with global newsprint prices remaining in check due to falling global demand. Also with no new expansion plans we expect other operating costs to remain static. We expect margins to improve by 390bps in two years, from FY12-FY14.

Return on equity to remain below peers on account of heavy balance sheet

EPS to register 17% CAGR

The higher margins and growth will lead to sharp increase in earnings for the firm. We expect EPS for the standalone entity to grow at 17% CAGR over FY11-FY14. The growth is lower than the growth in Hindi segment on account of lower revenue growth in the English print industry. FY12 we expect earnings to drop by 17%. The earnings growth will lead to an improvement in RoAE from 16.3% to 18.1%. However, RoAE will still remain below peers on account of a bulky balance sheet as discussed below.

Hindustan a cash cow

Leadership in the fastest growing states of Bihar and Jharkhand

Revenue growth to be strong

Hindustan is in a stage where its expansion is completed and growth in revenues will lead to stronger profit growth. It will be a cash cow for the firm with increasing profitability. Given that Bihar and Jharkhand make up a large part of the revenue base and are growing

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Low circulation in Jharkhand to offset some growth

Strong 29% EPS growth CAGR

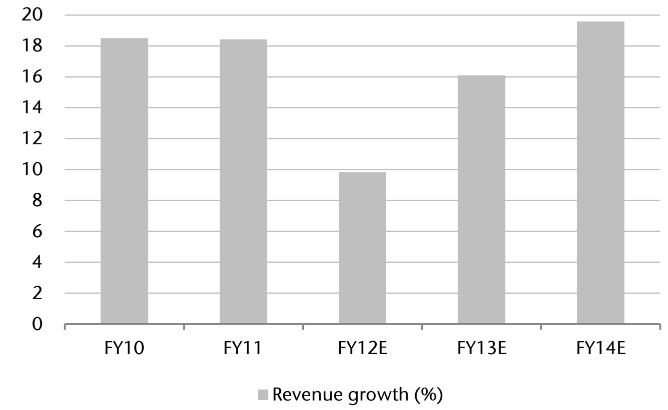
faster than the rest, it will see slightly better revenue growth. The faster growth will in FY12 be offset by low circulation cost. We expect revenue to grow at 15% CAGR over the next three years. This will lead to a stronger growth in profits, which we expect to grow at 29% CAGR.

Revenue growth to remain strong

Competition to erode some market share in Jharkhand

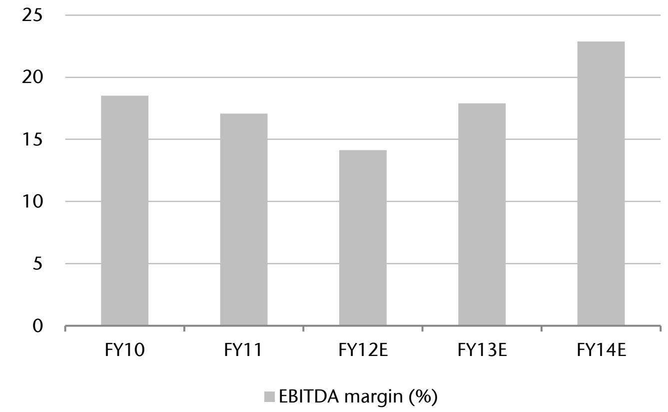
Hindustan's revenues should see strong growth as its footprint areas accelerate. Part of this will be offset by the impact of increased competition in Jharkhand. We factor in a growth of 10% in FY12 given the current slowdown. FY13 onwards we factor in higher revenue growth both on account of advertisement and circulation. We expect the segment revenue to grow at 15% CAGR over FY12-FY14.

Exhibit 161: Advertising revenue growth to remain strong...



Source: Company Data, Jefferies

Exhibit 162: ...driving margin expansion



Source: Company Data, Jefferies

Higher circulation revenues to lower growth

Circulation revenue share highest in sector

Competition driven cover price cut to impact revenues

Hindustan's circulation revenue share is one of the highest in the sector at 24%. This will impact its growth going forward as circulation cost growth is much lower than advertising. In addition the increased competition in Jharkhand has resulted in a sharp drop in cover price, which has impacted revenue growth. The cover price is expected to remain at current low levels in Jharkhand for FY12, but in FY13 we expect this to go up as competition moves out of expansion mode. Already this year while DB has kept its subscription scheme at the same level, it has removed the gifts, effectively leading to a higher cover price.

Higher ad market growth

Ad revenues growth to be strong

The lower circulation growth is compensated by higher advertising growth in Bihar/Jharkhand. Both are the fastest growing markets and make up a significant share of Hindustan's advertisement revenues. In UP we expect Hindustan to maintain its market share. We expect ad growth to grow at 18% CAGR.

Margins expansion ahead

High revenue growth and low cost with no new expansion, to improve margins

Margins for the segment had fallen in FY11 on account of increased competition in Jharkhand, higher newsprint prices and increased circulation in UP. FY12 will see a further drop in margins on account of lower revenue growth and higher newsprint cost. Newsprint cost will be kept high due to higher newsprint prices and also increased circulation. However, margins should recover sharply from FY13 and improve further in FY14 as growth recovers and newsprint prices stabilize. We factor in margin improvement of 580bps by FY14 from FY11.

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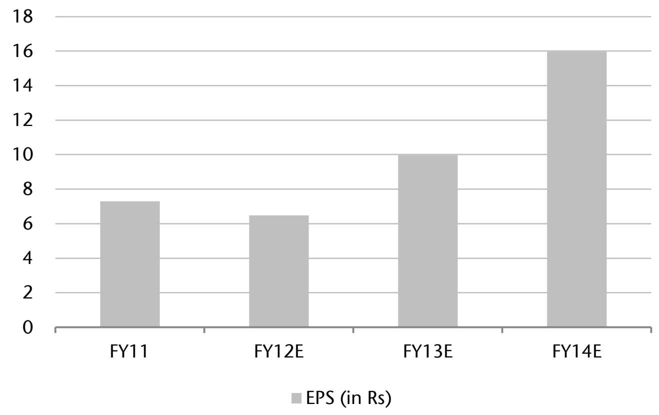
EPS growth CAGR to be 29%

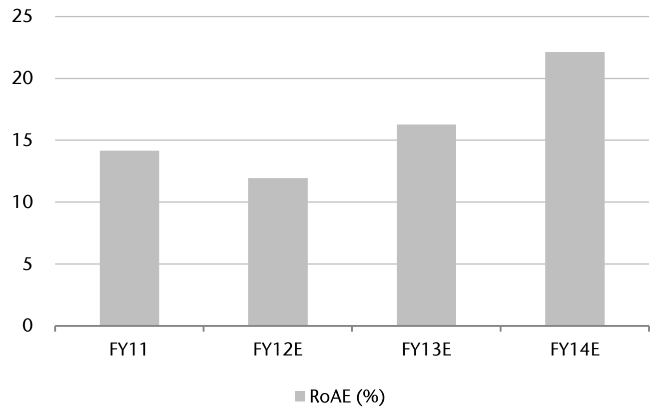
Higher margins and revenue growth will lead to better earnings for the segment. We expect the earnings to grow at a CAGR of 29% over FY11-FY14. We expect return on equity to improve from the current low levels of 14% to 22% by FY14.

Exhibit 163: EPS growth to be steady



Source: Company Data, Jefferies

Exhibit 164: Return on equity to expand significantly



Source: Company Data, Jefferies

Other businesses to remain small

HT's other businesses, while growing, will remain small. We do not expect them to contribute significantly to its total profitability.

Internet to have losses of Rs 350mn a year in medium term

The Internet business is in expansion mode and is building up. With revenues still small in this segment and a large number of players in the sector, the business will continue to make losses for some time. Management is targeting to cap the losses at Rs 300-350mn a year.

Europe crisis to impact Burda profitability

The Burda JV should take longer to build up given the global uncertainty. We expect it to reduce its losses in FY12 from the current high levels and become profitable from FY13 though its contribution will remain small. We expect revenues to grow at 10% CAGR on account of the current slowdown in Europe and high uncertainty in the region. We expect margins to increase slowly and improve to 7% in FY14.

Radio - tough road ahead

High inventory utilization to moderate growth in Radio

HT's radio business has been growing rapidly for the past few years, but it may decelerate going forward as it has reached critical mass with inventory utilization near 100% in Delhi and rising in most other cities. We expect radio revenues to grow at 16% CAGR over the next three years as inventory utilization maximizes.

Top city strategy fraught with risks of overbidding

Competition level high in top cities

Lack of print presence to lower revenues in radio

Radio's future growth will depend on Phase III. HT's strategy to have a presence in just the top 10 metros limits its growth opportunities. The radio business profits most if the player has a presence in another sector. Even in HT's case, it has been able to make most inroads and achieve maximum utilization in Delhi where it has a strong print presence. The top cities already have a significant radio presence and are highly competitive. This, combined with lack of print presence, raises doubts on the venture.

In addition auction prices in the top metros run the risk of escalation similar to those seen in 3G. The number of frequencies available in Phase III in top cities is much lower, raising the cost of high prices.

We expect radio to grow slower as capacity constraints in Delhi limit growth. We expect radio to grow at 12.5% CAGR over the next three years. The pace is slower than the radio

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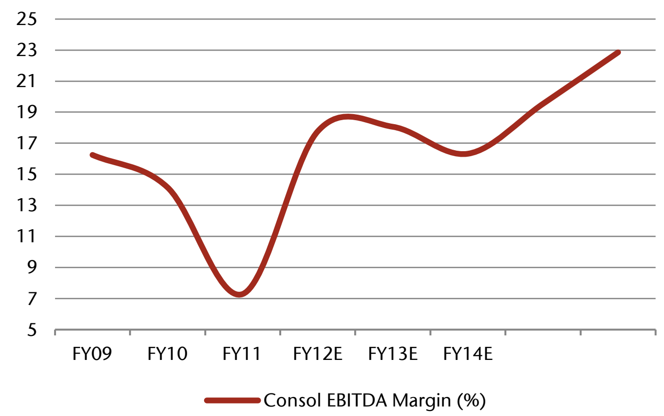
industry's growth. Given the growth, radio will contribute only 4% of HT's revenue similar to current levels.

Consolidated earnings to grow at 23%

Return on equity to improve but remain below peers

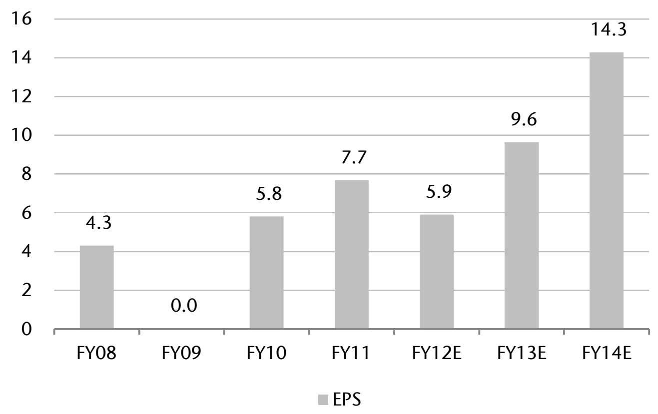
With strong performance from the English and Hindi segments and with Burda turning profitable, consolidated earnings will see a 23% CAGR growth over the next three years, mainly due to a sharp jump in consolidated margins both English and Hindi generate earnings without any new capex. Margins are expected to improve by 480bp as revenue grows at 13% CAGR. The high earnings growth will lead to improvement in RoAE from 15.9% to 19.0% by FY14. RoAEs, despite the improvement, are much below peers' 30% on account of a large balance sheet.

Exhibit 165: High revenue growth led margin expansion



Source: Company Data, Jefferies

Exhibit 166: ...driving strong EPS growth



Source: Company Data, Jefferies

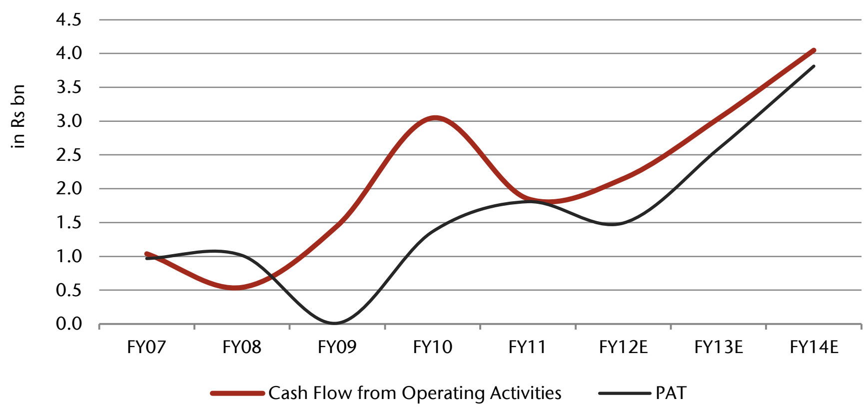
Balance sheet remains strong

Large cash on balance sheet...

...in anticipation of new businesses

HT Media's balance sheet remains strong with the firm having net cash of Rs3.8 bn. Operating cash flow remains high and will see steady growth going forward, reflecting the large cash generation of the new business. Its capex requirement is limited to Rs 1,000 mn this year on administrative capex and no new business capex is required in the core business. Going forward only a small maintenance capex is required in the business. However, the company has plans for ventures outside the core business for which is gearing up the balance sheet.

Exhibit 167: Cash flow remains on steady uptrend



Source: Company Data, Jefferies

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RoEs suppressed due to high cash

Return on equity for the firm will remain subdued despite the high profit growth. This is because the firm payout is low and it has large cash and investments on its balance sheet. The company is mulling venturing into new business and has as such not decided to pay out the cash as dividend.

Inventory higher

High imported newsprint content leads to large inventory

Inventory for the firm is high compared to peers, as HT mostly uses imported newsprint, which has a lead time of 45 days forcing players to keep three months inventory.

Liquidity ratios strong

In line with the large cash flow generation and cash on balance sheet, the company's liquidity ratios remain stable. Return on equity is improving even as it remains much below peers on account of low payouts.

Exhibit 168: Large cash impact visible on RoEs

	FY10	FY11	FY12E	FY13E	FY14E
Net debt to equity	0.0	-0.3	-0.3	-0.4	-0.5
Inventory turns	4.0	4.3	4.0	4.0	4.0
Debtor days	62.6	52.1	56.0	56.0	56.0
Current ratio	1.2	1.3	1.3	1.6	1.9
Return on Average Equity (%)	15.0	15.9	10.2	14.9	19.0

Source: Company Data, Jefferies

Capex plans a worry

Recently expanded into education and content for TV

While HT's core businesses are in a sweet spot with strong growth and rising cash flows, the new capex plans are worrisome. In the past year HT has entered into two new businesses 1) content generation for TV and 2) Education. Content generation for TV remains small with no large capex plans, but the venture is quite different from the current high cash flow core business. Our main concerns are: 1) the education space, where HT has plans for a large entry and 2) radio Phase III auctions

Education space – high risk, high reward

Mulling a large entry into education space

High risk, high reward venture

Large gestation period with high capex requirement

In the past year HT forayed into education with a JV with Mahesh Tutorials to run a coaching centre. The current capex plan for it is around Rs 100mn. HT is also mulling an entry into the education space in a larger way especially in the undergraduate space. While the return on investments for the project may be high, it will be a long gestation project with large capex. It will be a high risk, high reward venture. The company has not yet finalized the plans for the entry but has been preparing its balance sheet for an extended venture into the space. This is the reason for low payouts despite high cash generation and low capex requirement in new businesses.

Indian education is very fragmented with a number of players. In the past few years a number of players have entered the undergraduate space in response to large demand for engineering and medical degrees in particular among students in India. The business is highly capex intensive as it requires setting up of facilities and large operational losses till it reaches breakeven.

Radio Phase III – Overbidding risk

Radio business has overbidding risk in Phase III

Top cities eyed by many players and have limited frequencies

As we have highlighted before, HT's strategy is to be present in just the top cities. It has plans to scale its radio presence to 10 cities from the current 4 as it believes radio is currently under-scaled. With limited frequency supply in top cities and a number of players looking for entry into these cities due to the larger market, there is a risk of overbidding. As the recent 3G auctions showed e-auction prices can reach astronomical levels with even a single irrational player. The overbidding risk is then quite high especially in the top 10 cities.

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Still some upside left

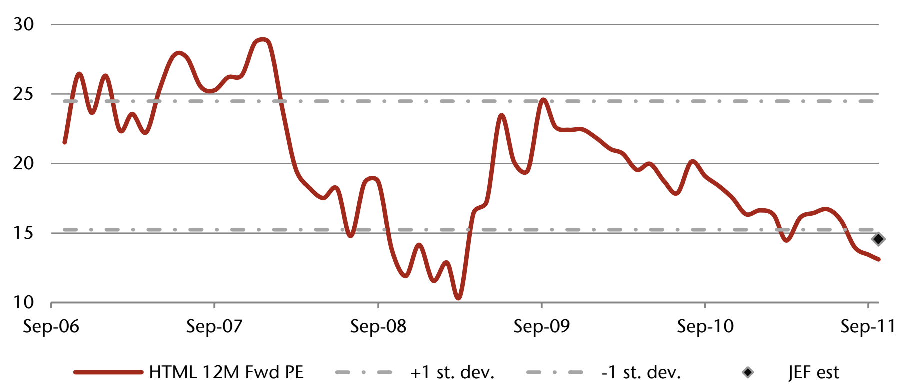
Strong core business shadowed by concerns on expansion plans

Still some value left in the firm

We value based on core businesses but assign a higher risk to the firm

HT Media has been the best performing stock in the sector this year and is up 2% YTD. With strong earnings growth and low capex requirement, the firm is a favourite among investors. Despite the current outperformance, the stock is trading at 13.5x FY13 PE, one standard deviation below its historical 12m fwd PE. Given the strong performance of the core business and the strong 23% EPS CAGR over the next three years we believe there is still value in the stock. We value the firm on an SOTP basis - the standalone business at average of 15.4x FY13 PE and DCF-based target value, and HMVL at 25% holding company discount to our target value. We initiate the firm with a Buy with a target price of Rs 176 implying an upside of 27%. We use a higher risk factor for the firm as we remain cautious on the new ventures. Clarity on new ventures and their size will provide us more comfort on the stock.

Exhibit 169: Valuations not reflective of growth in core



Source: Datastream, I/B/E/S estimates, Jefferies

Exhibit 170: Core business much more valuable

Growth rate in phase II (%)	14
Phase II length	5
Terminal growth rate (%)	2
WACC	13.5
(Rs mn)	
PV of standalone (Rs mn)	27,427
Initial phase(Rs mn)	5,868
Phase II(Rs mn)	8,367
Terminal Value (Rs mn)	13,192
Net Debt (Rs mn)	-1,728
Value of standalone (A) (Rs mn)	29,155
Number of Shares (mn)	235
PE Multiple	15.4
Value of standalone (B) (Rs mn)	32,945
Target Value of standalone (Rs mn)	31,050
HMVL Value (25% holding company discount) (Rs mn)	10,224
Target Value (Rs mn)	41,274
Number of Shares (mn)	235
Target Price (Rs)	176
Current Price (Rs)	139
Upside/Downside (%)	**27%**

Source: Company Data, Jefferies

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Risks

The main risks to the firm are from high capex in long-gestation, low-return new business. The newspaper segment is highly correlated with the market is interesting to players who are looking to enter the space or expand their base. As such other major risks to the firm are macro related.

1. High capex intensity in new business with long gestation. High capex spend in Education and TV content will impact valuations.
2. Overbidding in radio Phase III auctions can make the purchase of new frequencies unjustifiable.
3. Newspaper business is linked to GDP growth. We have assumed that the Hindi speaking region will grow at a steady pace with growth rate higher than the country as a whole. While we believe that this will be the case for the foreseeable future, there is a risk of it failing to do so.
4. The newspaper market's expansion is dependent on improving literacy rates. We expect literacy rates to continue to improve at current rate. A failure to do so will impact the firm's growth avenues.
5. Increase of competition will impact the profitability of the players. While we have factored in an easing of competition going forward, there is a possibility of competition increasing if new entrants come into markets.
6. Newsprint prices are a crucial risk. We have factored in a stabilization of newsprint prices and gradual 5% growth from FY13 onwards. Newsprint being a global commodity may see wider fluctuations.
7. New acquisitions if done at expensive valuations are a risk. The firm is looking to expand and lack of opportunity may force it to pay expensive valuations.

Management Profile

Mrs. Shobhana Bhartia
Chairperson
Mrs. Shobhana Bhartia took over as Chairperson on September 18, 2008. She is in charge of formulating and directing the editorial policies of the company and has more than 25 years of experience in the newspaper industry. She is a graduate from Calcutta University and received the Padma Shri Award from the Government of India in 2005. She has been on the board of Indian Airlines Limited and on the North Regional Board of the Reserve Bank of India. Mrs. Bhartia has been a Member of Parliament (Rajya Sabha) since 2006.

Rajiv Verma
Chief Executive Officer
Mr. Rajiv Verma joined HT Media Ltd. as CEO in 2004. Mr. Verma has been responsible for the focus on new business, like Events and Key Marketing Solutions, Ad for Equity, and Education, as well as major international collaborations with partners like Virgin Radio, Burda, The Wall Street Journal and The Washington Post. Mr. Verma has over 24 years of cross-sectoral experience with companies like Hindustan Lever, Nestle and Whirlpool. Mr. Verma is a Mechanical Engineer from Delhi College of Engineering and a member of the Kellogg Alumni Advisory Board of NorthWestern University.

Piyush Gupta
Chief Financial Officer
Mr Piyush Gupta joined HT Media in September 2008. He has extensive experience in the domain of Business Planning, Corporate Treasury and Corporate Tax. His experience spans companies like Gillette, Pepsico, Whirlpool and Wrigley in various leadership roles and domains. Before joining HT Media, Piyush was the Chief Finance Officer with Wrigley, India. Piyush is a Chartered Accountant as well as a Cost Accountant.

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Financials

Exhibit 171: Income Statement

Rs mn	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Net Sales	**13,466**	**14,130**	**17,674**	**19,185**	**21,958**	**25,656**
Change (%)	*11.9*	*4.9*	*25.1*	*8.6*	*14.5*	*16.8*
Raw Material	5,588	4,760	6,249	7,265	8,014	8,981
Employee Cost	2,420	2,520	3,009	3,392	3,855	4,381
Other Direct Expenses	1,507	1,441	1,889	2,124	2,242	2,369
SDA Expenses	2,970	2,898	3,335	3,522	3,935	4,456
EBITDA	**982**	**2,511**	**3,192**	**3,132**	**4,291**	**5,863**
% of net sales	*7.3*	*17.8*	*18.1*	*16.3*	*19.5*	*22.9*
Depreciation	688	707	842	1,030	1,119	1,179
Interest	323	295	236	226	214	184
Other Income	228	398	457	170	471	610
EO Income / (Exp)	-189	-14	0	0	0	0
PBT	9	1,892	2,571	2,046	3,428	5,110
Tax	125	536	713	573	960	1,431
Rate (%)	*1,405.5*	*28.4*	*27.7*	*28.0*	*28.0*	*28.0*
Minority Interest	127	11	-49	-85	-202	-322
PAT	11	1,366	1,809	1,388	2,267	3,357
Adjusted PAT	200	1,381	1,809	1,388	2,267	3,357
change (%)	*-6.8*	*100.9*	*12.0*	*-7.1*	*32.4*	*44.0*

Source: Company Data, Jefferies

Exhibit 172: Balance Sheet

Rs mn	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Share Capital	469	470	470	470	470	470
Reserves	8,015	9,241	12,552	13,725	15,688	18,633
Net Worth	**8,484**	**9,711**	**13,022**	**14,195**	**16,158**	**19,103**
Deferred Tax	207	178	-86	-86	-86	-86
Loans	3,998	4,198	3,128	2,773	2,504	2,133
Capital Employed	**12,689**	**14,088**	**16,065**	**16,882**	**18,577**	**21,150**
Gross Fixed Assets	8,238	10,335	12,127	13,612	14,362	15,112
Less: Depreciation	2,467	3,217	4,077	5,106	6,225	7,404
Net Fixed Assets	**5,771**	**7,118**	**8,050**	**8,506**	**8,137**	**7,708**
Capital WIP	1,946	1,289	194	0	0	0
Investments	3,035	4,755	7,595	7,595	7,595	7,595
Current Assets	**6,976**	**6,731**	**7,556**	**8,225**	**10,505**	**13,680**
Inventory	1,756	1,200	1,456	1,698	1,884	2,123
Debtors	2,199	2,422	2,525	2,860	3,296	3,876
Cash & Bank Balance	705	1,087	1,152	1,244	2,901	5,258
Loans & Advances	2,167	1,959	2,110	2,110	2,110	2,110
Other Current Assets	148	63	313	313	313	313
Current Liabilities	**5,108**	**5,588**	**6,032**	**6,253**	**6,607**	**7,055**
Creditors	2,159	3,117	3,175	3,396	3,750	4,197
Other Liabilities	2,776	2,191	2,394	2,394	2,394	2,394
Provisions	173	280	463	463	463	463
Net Current Assets	**1,868**	**1,144**	**1,524**	**1,972**	**3,897**	**6,626**
Appl. Of funds	**12,620**	**14,305**	**17,363**	**18,072**	**19,629**	**21,928**

Source: Company Data, Jefferies

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Exhibit 173: Cash flow

Rs mn	2009	2010	2011	2012E	2013E	2014E
PAT	11	1,366	1,809	1,388	2,267	3,357
Depreciation	688	707	842	1,030	1,119	1,179
Interest Exp	323	295	236	226	214	184
Other Income	-228	-398	-457	-170	-471	-610
Increase/ decrease in Wkg Capital	657	1,077	-579	-355	-269	-371
CF from Op Acitivities	**1,451**	**3,048**	**1,851**	**2,118**	**2,860**	**3,739**
Change in Fixed Assets	-1,219	-2,131	-1,850	-1,562	-827	-827
CWIP	-1,357	657	1,095	194	0	0
Change in Investments	-379	-1,720	-2,840	0	0	0
Other	228	398	457	170	471	610
CF from Investing Activities	**-2,727**	**-2,795**	**-3,138**	**-1,198**	**-356**	**-217**
Issue of shares	-1,661	2	1,878	0	0	0
Changes in debt	1,654	200	-1,070	-355	-269	-371
Interest and other finance charges	-323	-295	-236	-226	-214	-184
Dividend paid	-82	-99	-110	-139	-227	-336
Others	1,620	323	891	-108	-138	-274
CF from Financing Activities	**1,207**	**131**	**1,353**	**-829**	**-848**	**-1,165**
Net change in Cash	**-69**	**384**	**65**	**92**	**1,656**	**2,357**

Source: Company Data, Jefferies

Exhibit 174: Key Ratios

	2009	2010	2011	2012E	2013E	2014E
Basic (Rs)						
EPS	0.0	5.8	7.7	5.9	9.6	14.3
BPS	36.1	41.3	55.4	60.4	68.8	81.3
DPS	0.4	0.4	0.5	0.6	1.0	1.4
Payout (%)	780.6	7.2	6.1	10.0	10.0	10.0
Valuation (X)						
P/E	3084.5	23.9	18.0	23.5	14.4	9.7
P/B	3.8	3.4	2.5	2.3	2.0	1.7
EV/EBITDA	34.8	13.0	9.0	9.1	6.2	4.0
EV/Sales	2.5	2.3	1.6	1.5	1.2	0.9
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.7	1.0
Profit Ratios (%)						
RoE	0.1	15.0	15.9	10.2	14.9	19.0
RoCE	0.1	10.2	12.0	8.4	12.8	16.9
Turnover Ratios						
Debtor Days	60	63	52	56	56	56
Inventory Days	115	92	85	0	0	0
Creditor Days	78	125	101	96	96	97
Asset turnover	1.7	1.7	2.1	2.2	2.2	2.2

Source: Company Data, Jefferies

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Hindustan Media Venture Limited – in a sweet spot

Executive Summary

Leader in fast-growing Bihar and Jharkhand markets

Completing expansion phase in UP

29% EPS growth CAGR

New ventures a concern

Hindustan Media Venture Limited is the Hindi newspaper segment of HT Media. It is the leader in Bihar and Jharkhand and No 3 player in UP. HMVL is currently in a sweet spot, having just completed expansion in UP. It is a pure play on regional growth. With its leadership in Bihar and Jharkhand, the two fastest growing states, its revenue and profits will reflect this high growth. We expect EPS to grow at 29% CAGR over FY11-FY14. HT's plan to enter new ventures such as Education and TV content are worrisome. We initiate the stock with a Buy and target price of Rs 186 implying 47% upside.

Business on uptrend

Hindustan is the third most read daily in India

Expanding rapidly in UP

Pure play on the growth in print in the Hindi belt

HT Media's Hindi business was demerged into its subsidiary HMVL in Dec 2009. Hindustan is the third most read daily with presence in UP, Bihar, Jharkhand and Delhi. It has been on an uptrend, gaining readership consistently over the year. It has been expanding in UP over the past few years. The expansion phase is now near complete, and Hindustan is now the No. 3 player. With circulation growth completed and readership growth visible in numbers, Hindustan is now in the monetization phase. Hindustan is a pure play on the growth in the Hindi belt. With its leadership in Bihar and Jharkhand, the two fastest growing states, its revenue and profits will reflect this high growth.

High cash generation

Leadership in the fastest growing states of Bihar and Jharkhand

Low circulation in Jharkhand to offset some growth

Hindustan is in a stage where its expansion is completed and growth in revenues will lead to stronger profit growth. It will be a cash cow for the firm with increasing profitability. Given that Bihar and Jharkhand make up a large part of the revenue base and are growing faster than the rest it will see slightly better revenue growth. The faster growth in FY12 will be offset by low circulation cost. We expect revenue to grow at 15% CAGR over the next three years. This will lead to a stronger growth in profits which we expect to grow at 29% CAGR.

Capex plans a worry

Plans to venture in new businesses like education and content for TV

High risk high reward ventures

While Hindustan's core businesses is in a sweet spot with strong growth and rising cash flows, future capex plans are a worry. The two main concerns are 1) the education space, where HT has plans for a large entry and 2) Content generation for TV. Education is the main focus of the group and will be a high risk, high reward venture, much diverse from the current business.

Valuation

Large divergence in stock performance compared to parent company

Stronger growth than parent

Lower valuations

Initiate with Buy, TP of Rs 186

HMVL has been the worst performing stock in the sector this year and is down 30% YTD. The stock's underperformance has been in contrast to its promoter company HT Media which is down only 5% YTD. The stock is currently trading at 12.7x FY13 PE, one standard deviation below HT Media's historical 12m fwd PE. Given the strength of the business and strong 29% EPS CAGR over the next three years, we believe there is much value in the stock. We value the firm at an average of 17.3x FY13 PE (10% discount to historical PE of HT Media) and DCF-based target value. We initiate the firm with a Buy and a target price of Rs 186 implying an upside of 47%. We use a higher risk factor for the firm as we remain cautious on the new ventures. Clarity on new ventures and their size will provide us more comfort on the stock.

Risks

The main risks to our valuation are 1) High capex intensity in new business with long gestation, 2) slower GDP growth, 3) Increase of competition, 4) Fluctuations in newsprint prices and 5) Slowdown in literacy rates improvement from current levels.

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Hindustan is the third most read daily in India

Expanding rapidly in UP

Pure play on the growth in print in the Hindi belt

Business remains strong

Hindustan is in a stage where its expansion is completed and growth in revenues will lead to stronger profit growth. It will be a cash cow with increasing profitability. Given that Bihar and Jharkhand makes a large part of the revenue base and are growing faster than the rest it will see slightly better revenue growth. The faster growth will in FY12 be offset by low circulation cost. We expect 15% revenue CAGR over the next three years. This will lead to a stronger growth in profits which we expect to grow at 29% CAGR.

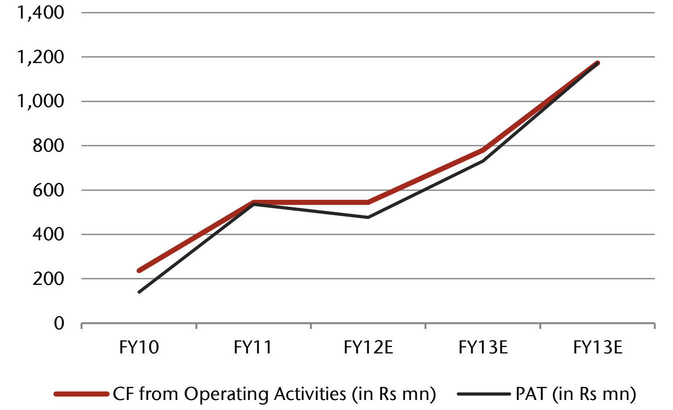
Net cash firm with large cash flow generation

Return on equity remains small

Balance sheet healthy after IPO

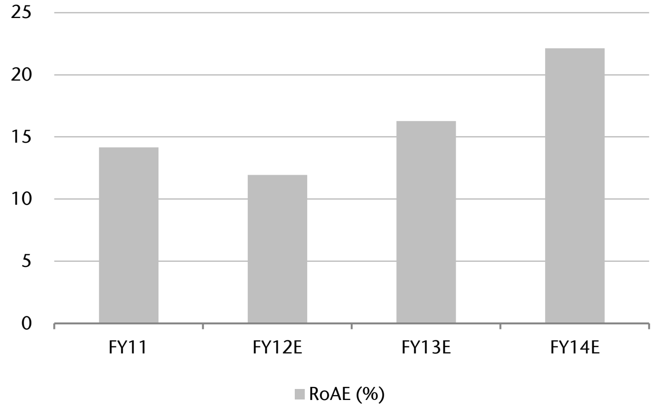
IPO proceeds have helped HMVL strengthen its balance sheet. In FY11 it turned net cash. Despite one of the strongest growth rates in the sector it has relatively low return on equity mostly due to large cash and investments on the balance sheet. Inventory for the firm is low and working capital ratio is lower than most peers. Despite the high cash flow generation, dividend payout has been low on account of it planning to venture into new businesses like education as we discussed in HT Media section.

Exhibit 175: Cash flow generation remains strong



Source: Company Data, Jefferies

Exhibit 176: Return on equity though remains small



Source: Company Data, Jefferies

Exhibit 177: High net cash keeps returns muted

	FY11	FY12E	FY13E	FY14E
Net debt to equity	-0.5	-0.5	-0.6	-0.6
Inventory turns	9.3	9.0	8.7	8.4
Debtor days	54.3	57.0	57.0	57.0
Current ratio	1.2	1.6	2.0	2.6
RoAE	14	12	16	22

Source: Company Data, Jefferies

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Much value in the stock

Large divergence in stock performance compared to parent company

Stronger growth than parent

Lower valuations

Initiate with Buy, TP of Rs 186

HMVL has been the worst performing stock in the sector this year and is down 31% YTD. This underperformance contrasts with the promoter company's 5% fall YTD. HMVL is growing faster than the HT Media standalone business and has similar management. The stock is currently trading at 12.7x FY13 PE, one standard deviation below the HT Media's historical 12m fwd PE. Given the strength of the business and the strong 29% EPS CAGR over the next three years we believe there is much value in the stock. We value the firm on an average of 17.3x FY13 PE (10% discount to 5 yr average PE of HT Media) and DCF based target value. We use a higher risk factor for the firm as we remain cautious on the new ventures. We initiate the firm with a Buy and a target price of Rs 186 implying an upside of 47%. Clarity on new ventures and their size will provide us more comfort on the stock.

Exhibit 178: Growth not yet priced in

Growth rate in phase II	17
Phase II length	5
Terminal growth rate	2
WACC	13.5
PV (Rs mn)	12,676
Initial phase (Rs mn)	1,793
Phase II (Rs mn)	4,098
Terminal Value (Rs mn)	6,786
Net Debt (Rs mn)	-1,947
Target Value (Rs mn)	14,623
Number of Shares	73
Price (A) (Rs)	199
P/E ratio	17
Price (B) (Rs)	172
Target Price (Rs)	**186**
CMP (Rs)	127
% Upside	**47**

Source: Company Data, Jefferies

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Risks

The main risks to the firm are from high capex in long gestation low return new business. The newspaper segment is highly correlated with the market is interesting to players who are looking to enter the space or expand their base. As such other major risks to the firm are macro related.

1. High capex intensity in new business with long gestation. High capex spend in Education and TV content will impact valuations.

2. Newspaper business is linked to GDP growth. We have assumed that the Hindi speaking region will grow at a steady pace with growth rate higher than the country as a whole. While we believe that this will be the case for the foreseeable future, there is a risk of it failing to do so.

3. The newspaper market's expansion is dependent on improving literacy rates. We expect literacy rates to continue to improve at current rate. A failure to do so will impact the firm's growth avenues.

4. Increase of competition will impact the profitability of the players. While we have factored in an easing of competition going forward, there is a possibility of competition increasing if new entrants come into markets.

5. Newsprint prices are a crucial risk. We have factored in a stabilization of newsprint prices and gradual 5% growth from FY13 onwards. Newsprint being a global commodity may see wider fluctuations.

6. New acquisitions if done at expensive valuations are a risk. The firm is looking to expand and lack of opportunity may force it to pay expensive valuations.

Management Profile

Mrs. Shobhana Bhartia
Chairperson
Mrs. Shobhana Bhartia took over as the Chairperson on September 18, 2008. She is in charge of formulating and directing the editorial policies of the company and has more than 25 years of experience in the newspaper industry. She is a graduate from Calcutta University and received the Padma Shri Award from the Government of India in 2005. She has been on the board of Indian Airlines Limited and on the North Regional Board of the Reserve Bank of India. Mrs. Bhartia has been a Member of Parliament (Rajya Sabha) since 2006.

Benoy Roychowdhury
Executive Director
Mr. Benoy Roychowdhury joined HT Media in 2004. He has over two decades of experience with leading organisations like Whirlpool, Procter & Gamble and Godrej. Benoy holds an Honor's Degree in Economics from Presidency College Calcutta and a Post Graduate Diploma in Business Management from XLRI, Jamshedpur.

Amit Chopra
Chief Executive Officer
Mr Amit Chopra joined HT Media in 2005 after working for more than 12 years with Hindustan Lever Limited (HLL) and a 1-year stint with EXL Services. During his tenure at HLL, he handled critical assignments in Sales & Marketing, the last one being Marketing Manager for the traditional tea business where he had the opportunity to lead a complete restructuring and renovation of the brand portfolio. Mr Chopra is a Post-graduate in Management from IIM-Ahmedabad and a Mechanical Engineer from IIT-Kharagpur.

Piyush Nahar, Equity Associate, 91 22 4224 6113, pnahar@jefferies.com

Financials

Exhibit 179: Income Statement

Rs mn	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Net Sales	**4,388**	**5,197**	**5,707**	**6,626**	**7,924**
Change (%)	*18.5*	*18.4*	*9.8*	*16.1*	*19.6*
Raw Material	1,727	2,243	2,597	2,862	3,205
Employee Cost	567	636	719	819	934
Other Direct Expenses	1,281	815	938	1,040	1,144
SDA Expenses	0	615	647	718	827
EBITDA	**813**	**888**	**806**	**1,186**	**1,813**
% of net sales	*18.5*	*17.1*	*14.1*	*17.9*	*22.9*
Depreciation	147	164	197	226	250
Interest	65	43	17	19	22
Other Income	56	82	88	103	133
EO Income / (Exp)	0	0	0	0	0
PBT	656	762	680	1,045	1,674
Tax	204	226	204	313	502
Rate (%)	*31.1*	*29.6*	*30.0*	*30.0*	*30.0*
PAT	452	536	476	731	1,172
Adjusted PAT	452	536	476	731	1,172
change (%)		*18.6*	*-11.2*	*53.6*	*60.2*

Source: Company Data, Jefferies

Exhibit 180: Balance Sheet

Rs mn	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Share Capital	571	734	734	734	734
Reserves	182	3,056	3,456	4,071	5,057
Net Worth	**754**	**3,790**	**4,190**	**4,805**	**5,791**
Deferred Tax	28	36	36	36	36
Loans	1,350	205	258	345	478
Capital Employed	**2,132**	**4,031**	**4,484**	**5,186**	**6,305**
Gross Fixed Assets	1,484	1,884	2,222	2,472	2,722
Less: Depreciation	75	237	434	660	909
Net Fixed Assets	**1,409**	**1,647**	**1,788**	**1,813**	**1,813**
Capital WIP	149	38	0	0	0
Investments	312	1,890	1,890	1,890	1,890
Current Assets	**1,431**	**1,754**	**2,216**	**2,990**	**4,231**
Inventory	164	242	289	329	382
Debtors	715	773	891	1,035	1,237
Cash & Bank Balance	271	361	659	1,250	2,235
Loans & Advances	259	318	318	318	318
Other Current Assets	22	59	59	59	59
Current Liabilities	**1,171**	**1,299**	**1,410**	**1,507**	**1,629**
Creditors	901	807	919	1,015	1,137
Other Liabilities	245	375	375	375	375
Provisions	25	117	117	117	117
Net Current Assets	**261**	**455**	**805**	**1,483**	**2,602**
Appl. Of funds	**2,132**	**4,031**	**4,484**	**5,186**	**6,305**

Source: Company Data, Jefferies

Piyush Nahar, Equity Associate, 91 22 4224 6113, pnahar@jefferies.com

Exhibit 181: Cash flow

Rs mn	2010	2011	2012E	2013E	2014E
PAT	140	536	476	731	1,172
Depreciation	46	164	197	226	250
Interest Exp	37	43	12	14	17
Other Income	-47	-82	-88	-103	-133
Increase/ decrease in Wkg Capital	60	-118	-53	-88	-133
CF from Op Activities	**237**	**544**	**545**	**780**	**1,173**
Change in Fixed Assets	-1,455	-403	-338	-250	-250
CWIP	-149	111	38	0	0
Change in Investments	-312	-1,578	0	0	0
Other	47	82	88	103	133
Cash Flow from Investing Activities	**-1,870**	**-1,787**	**-212**	**-147**	**-117**
Issue of shares	573	2,607	0	0	0
Changes in debt	1,350	-1,145	53	88	133
Interest and other finance charges paid	-37	-43	-12	-14	-17
Dividend paid	0	-85	-76	-116	-186
Others	27	0	0	0	0
Cash Flow from Financing Activities	**1,912**	**1,334**	**-35**	**-43**	**-71**
Net change in Cash	**279**	**90**	**298**	**591**	**985**

Source: Company Data, Jefferies

Exhibit 182: Key ratios

	2010	2011	2012E	2013E	2014E
Basic (Rs)					
EPS	7.9	7.3	6.5	10.0	16.0
BPS	13.2	51.6	57.1	65.5	78.9
DPS	0.0	1.2	1.0	1.6	2.5
Payout (%)	0.0	15.9	15.9	15.9	15.9
Valuation (X)					
P/E	16.0	17.3	19.5	12.7	7.9
P/B	9.6	2.5	2.2	1.9	1.6
EV/EBITDA	12.4	8.3	8.8	5.6	3.2
EV/Sales	2.3	1.4	1.2	1.0	0.7
Dividend Yield (%)	0.0	0.9	0.8	1.3	2.0
Profit Ratios (%)					
RoE	120.0	23.6	11.9	16.3	22.1
RoCE	42.4	17.4	11.2	15.1	20.4
Turnover Ratios					
Debtor Days	59	54	57	57	57
Inventory Days	93	39	41	42	43
Creditor Days	109	80	80	80	80
Asset turnover	0.5	1.0	1.0	1.0	1.0

Source: Company Data, Jefferies

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[Jagran Prakashan Ltd]

Buy: INR 153 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Conservative revenue growth estimate.
- Revenue CAGR of 16%
- No major gain in market share in any state
- Growth similar to industry

  Slow growth in Mid-day
- No acquisitions baked into projections
- 2013 EPS: 8.2; Target Multiple: 18.7x; Target Price 153

Upside Scenario

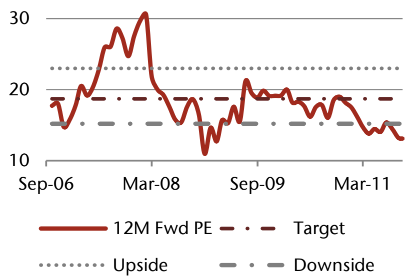
- Revenue growth stronger than industry at 18% as it gains market share
- Mid-day growth is stronger with revenue growth at 19%
- Margin expansion by 6.8%
- No further acquisition
- 2013 EPS: 9.5; Target Multiple: 23x; Target Price: $210

Downside Scenario

- Loss of market share due to increased competition
- No gains from increased circulation
- Revenue growth at 15%
- Margins remain flat
- 2013 EPS: 7.4; Target Multiple: 15.2x Target Price: 112.5

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

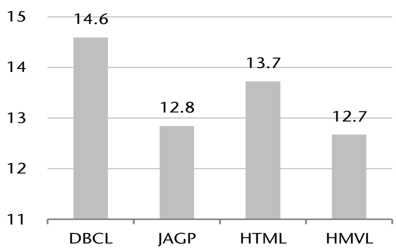
LT Earnings CAGR	**22%**
Organic Revenue Growth	**11-20%**
Operating Margin Expansion	**3.5%**

Other Considerations

The newspaper industry grows as incomes and consumption spend increase. With this the industry is expected to grow at a strong 18% rate. Expect Jagran to grow stronger as its footprint states are seeing faster growth than the rest of the country, leading to higher consumption growth and thus higher ad spend in these markets.

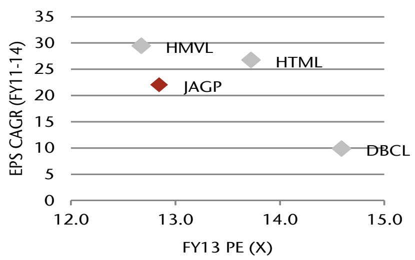
Peer Group

Group P/Es



Source: Bloomberg, Jefferies estimates

Earnings Growth vs P/E



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
JAGP	**Buy**	**153**
DBCL	Buy	260
HTML	Buy	176
HMVL	Buy	186

Catalysts

- Further readership data to show rising readership of Jagran
- Q2 results to be better than Q1 low growth
- 2012 UP elections to increase revenue base

Company Description

Jagran Prakashan is a print media firm. It publishes a Hindi language newspaper under the title Dainik Jagran. Dainik Jagran is the most read daily in India. In addition to Dainik Jagran it has other titles which include i-next, City plus, Mid-day, Mid-day Gujarati and Inquilab. It also has a presence in the Out-of-Home and Event Management business..

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[DB Corp Ltd]

Buy: INR 260 Price Target

Scenarios

Target Investment Thesis

- Conservative revenue growth estimate and low gains from Jharkhand and Maharashtra
- Organic revenue growth of 10% in FY12
- No Bihar expansion baked into projections
- Expansion related costs to continue till 2014
- 2013 EPS: 13.7; Target Multiple: 19.2x; Target Price: 260

Upside Scenario

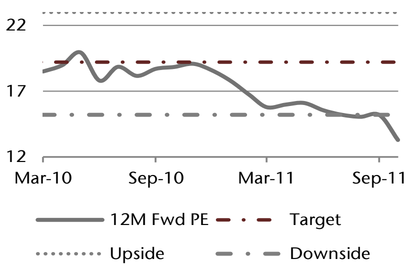
- Revenue growth stronger with high gains from Jharkhand and Maharashtra
- Revenue growth from current editions 11% in FY12
- New expansions add 2% to growth
- Costs moderate in FY14
- 2013 EPS: 15.2; Target Multiple: 23x; Target Price: 320

Downside Scenario

- Revenue growth from current editions remains muted
- Revenue growth of around 9%
- No benefit from Jharkhand and Maharashtra expansion
- Bihar expansion in FY13 keeping costs high
- 2013 EPS: 12.4; Target Multiple: 15.2x Target Price: 220

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

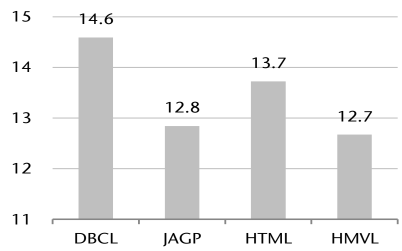
LT Earnings CAGR	10%
Organic Revenue Growth	13-22%
Operating Margin Expansion	-5%

Other Considerations

Newspaper industry grows as the income and consumption spend increases. With this the industry is expected to grow at a strong 18% rate. Aggressive expansion in new regions will add to growth in medium term. DB will see better growth due to its diverse portfolio and new expansions

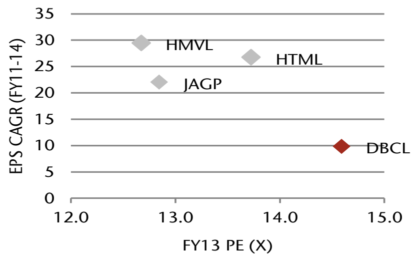
Peer Group

Group P/Es



Source: Bloomberg, Jefferies estimates

Earnings Growth vs P/E



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
DBCL	**Buy**	**260**
HTML	Buy	176
HMVL	Buy	186
JAGP	Buy	153

Catalysts

- Future readership data to show readership gain in Jharkhand
- Q2 results to show better performance on growth.
- Possible pause on Bihar expansion
- News on Maharashtra expansion

Company Description

D.B. Corp is a regional print media firm. It publishes daily newspapers in three languages from 13 states. Its main paper Dainik Bhaskar is the second most read daily in India and is a Hindi language paper. In addition, the firm has a presence in the Radio and Internet businesses.

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[HT Media Ltd]

Buy: INR 176 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Revenue growth of 8-16%, based on faster growth in Hindi space
- No significant market share loss in Bihar and Jharkhand
- No further expansions or ventures baked into projections
- Stable costs going forward and low competition in BJH and Delhi markets
- 2013 EPS: 9.6; Target Multiple: 18.3x; Target Price 176

Upside Scenario

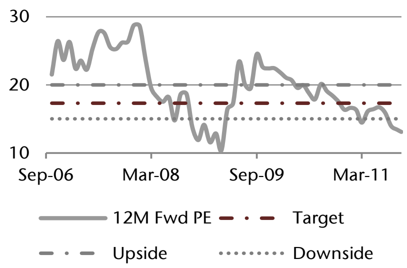
- Higher revenue growth based on larger market share in Mumbai and UP markets
- Operating margins increase as growth moves to higher levels
- No significant capex in new businesses.
- High dividend payout corresponding to high cash flows
- 2013 EPS: 10.7; Target Multiple: 20x; Target Price: 208

Downside Scenario

- Low market share gains in UP and Mumbai market due to strong response from
- Market share loss in Jharkhand due to increased competition
- Costs remain high due to increased competition
- Expansion in new ventures keep multiples subdued
- 2013 EPS: 8.6; Target Multiple: 15x Target Price: 130

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

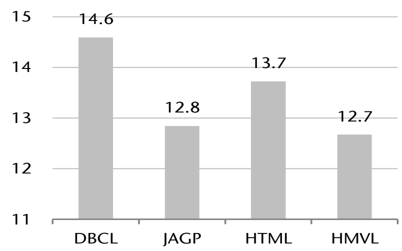
LT Earnings CAGR	**22%**
Organic Revenue Growth	**4-17%**
Operating Margin Expansion	**5.6%**

Other Considerations

The newspaper industry grows as income and consumption spend increases. With this, the industry is expected to grow at a strong 18% rate. We expect HT Media to grow strongly as its Hindi footprint states are seeing a faster growth than the rest of the country. Also, its recent expansion in Mumbai, the business daily and UP will add to growth.

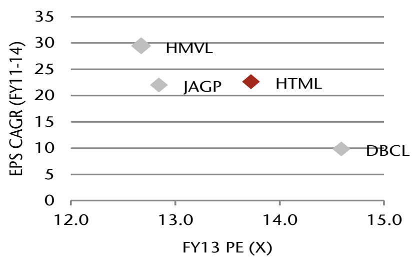
Peer Group

Group P/Es



Source: Bloomberg, Jefferies estimates

Earnings Growth vs P/E



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
HTML	**Buy**	**176**
HMVL	Buy	186
DBCL	Buy	260
JAGP	Buy	153

Catalysts

- Future readership data to show readership gain in Jharkhand
- Q2 results to show better performance on growth.
- Possible pause on Bihar expansion
- News on Maharashtra expansion

Company Description

H.T. Media is a print media firm that publishes English and Hindi language news dailies. Its English daily under the title Hindustan Times is the second most read English daily and has a strong presence in Delhi market. The firm's Hindi business is under its subsidiary Hindustan Media Venture Ltd, in which HT Media owns 76.95% stake .

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[Hindustan Media Venture Ltd]

Buy: INR 186 Price Target

Scenarios

Target Investment Thesis

- Conservative revenue growth estimate and low gains from new markets
- FY11-14 revenue CAGR of 15%
- No further expansions or ventures baked into projections
- Stable costs going forward and low competition in BJH
- 2013 EPS: Rs 10.0; Target Multiple: 17.2x; Target Price Rs 186

Upside Scenario

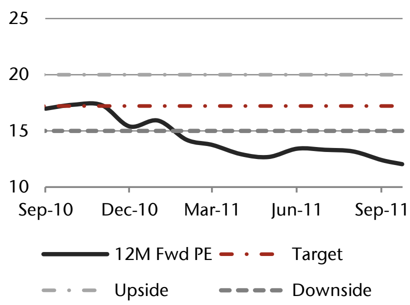
- Higher market share gain in UP
- Above-industry advertisement growth of 14-24%
- Margins expansion due to stable costs.
- No expansion in new ventures to improve multiples
- 2013 EPS: Rs 11.5; Target Multiple: 20x; Target Price: Rs 228

Downside Scenario

- Low market share gains in UP market due to strong response from
- Market share loss in Jharkhand due to increased competition
- Costs remain high due to increased competition
- Expansion in new ventures keeps multiples subdued
- 2013 EPS: Rs 7.5; Target Multiple: 15x Target Price: Rs 120

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

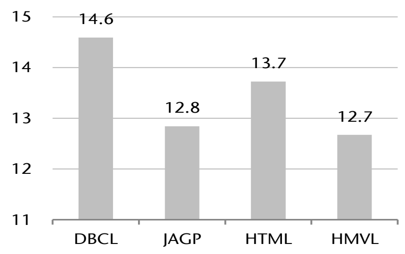
LT Earnings CAGR	**29%**
Organic Revenue Growth	**10-20%**
Operating Margin Expansion	**5.8%**

Other Considerations

The newspaper industry grows as income and consumption spend increase. With this the industry is expected to grow at a strong 18% rate. HMVL growth will be similar to industry as benefits from UP expansion offset market share loss in Jharkhand due to increased competition

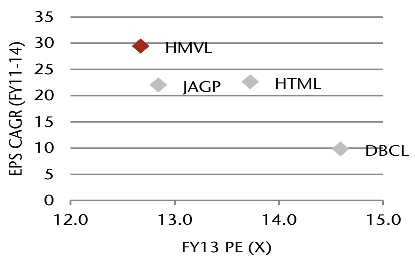
Peer Group

Group P/Es



Source: Bloomberg, Jefferies estimates

Earnings Growth vs P/E



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
HMVL	**Buy**	**186**
HTML	Buy	176
DBCL	Buy	260
JAGP	Buy	153

Catalysts

- Future readership data to show readership gain in Jharkhand
- Clarity on expansion in new businesses
- Q2 results to show better performance on growth.
- Possible pause on Bihar expansion by DB
- News on Maharashtra expansion

Company Description

HMVL is the Hindi business arm of HT Media The firm prints news dailies under the title Hindustan. It has a presence in Bihar, Jharkhand, Delhi, UP and Uttarakhand.

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Company Description

Jagran Prakashan is a print media firm. It publishes a Hindi language newspaper under the title Dainik Jagran. Dainik Jagran is the most read daily in India. In addition to Dainik Jagran it has other titles which include i-next, City plus, Mid-day, Mid-day Gujarati and Inquilab. It also has a presence in the Out-of-Home and Event Management business.

D.B. Corp is a regional print media firm. It publishes daily newspapers in three languages from 13 states. Its main paper Dainik Bhaskar is the second most read daily in India and is a Hindi language paper. The firm in addition has a presence in the Radio and Internet businesses.

H.T. Media is a print media firm which publishes English and Hindi language news dailies. Its English daily under the title Hindustan Times is the second most read English daily and has strong presence in Delhi market. The firms Hindi business is under its subsidiary Hindustan Media Venture Ltd, in which HT Media owns 76.95% stake.

HMVL is the hindi business arm of HT Media The firm prints news dailies under the title Hindustan. It has presence in Bihar, Jharkhand, Delhi, UP and Uttarakhand.

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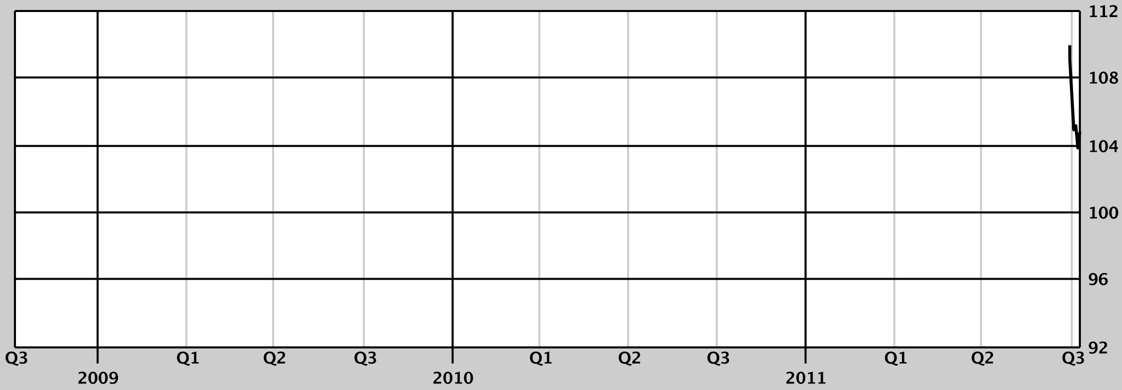
Rating and Price Target History for: Jagran Prakashan Ltd (JAGP IN) as of 10-10-2011



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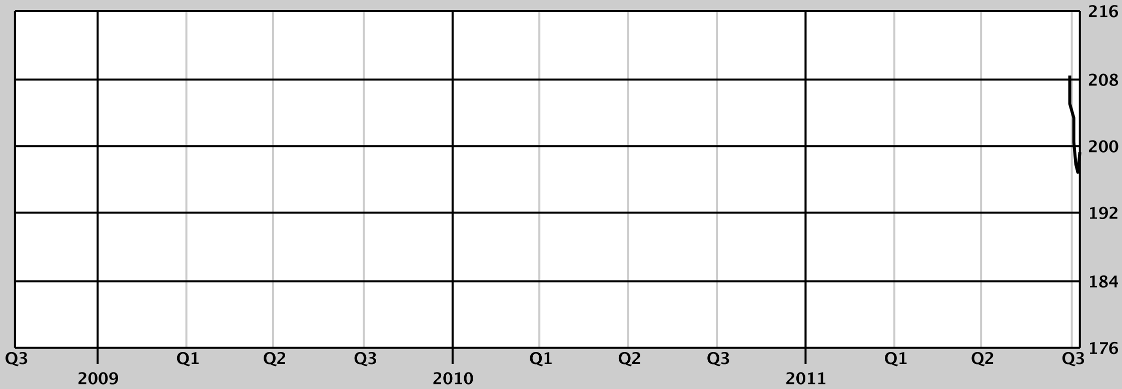

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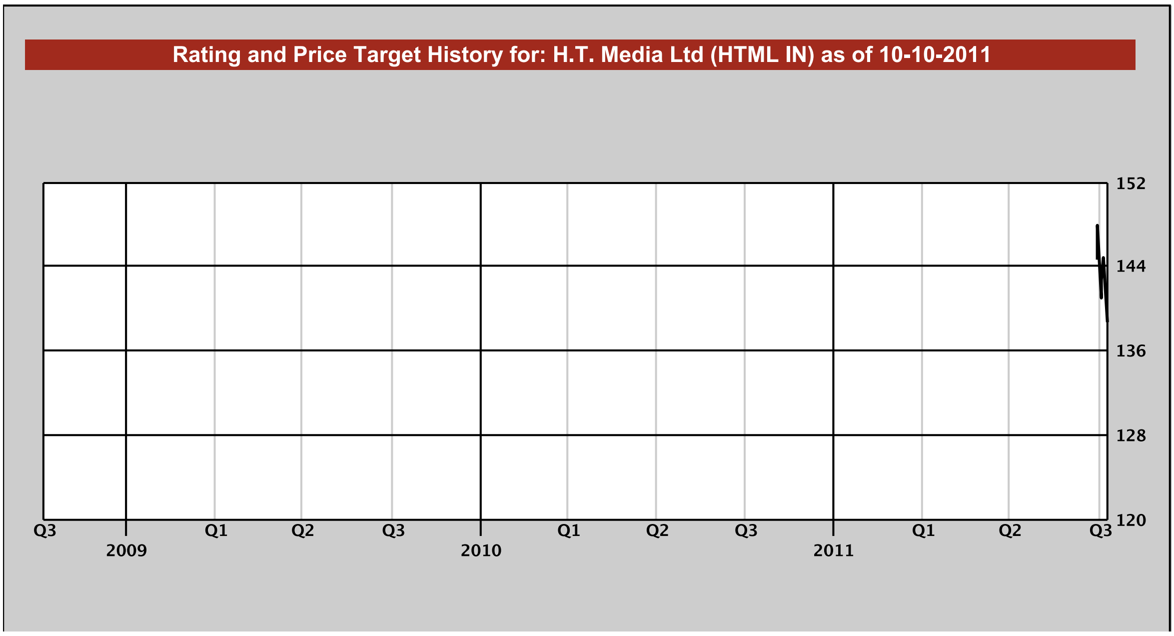

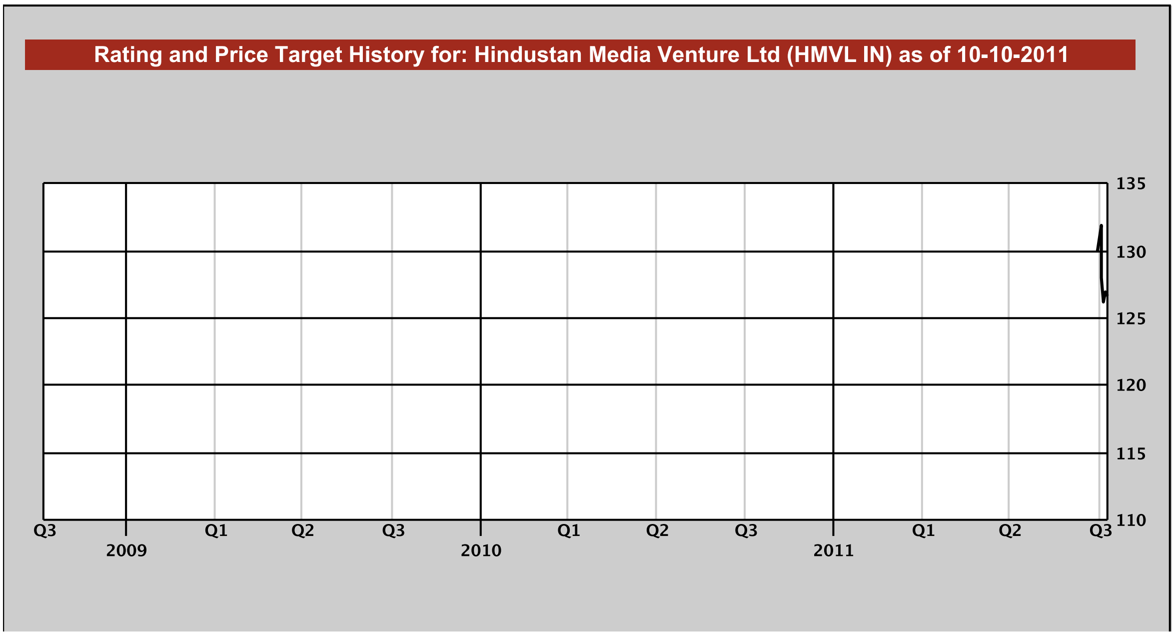

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