

Another strong quarter

Bank of America
Merrill Lynch

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Strong ad growth; likely strong FY12

Post strong 3Q we tweak our estimates to factor robust ad revenue growth during the quarter and retain Buy rating with PO of Rs335. Likely strong momentum in ad volume growth driven by increasing consumption levels in Tier 2/3 cities and potential price hikes in 4Q, should help drive 18% yoy growth in ad revs in FY12 in our view. Given success in recent launches (Jharkhand), investor concerns on potential higher losses from market expansion should ease. Retain DB Corp (DBCL) as top pick in print media space.

Ad revs up 29% yoy, margins steady despite recent launches

Ad revenue growth at 29% yoy (6% ahead of BofAMLe) was much stronger than expected and was driven by ~29%yoy growth in Print ad revenues and ~37%yoy growth in radio revenues. Recurring EBITDA margins stood at 34% and were in line with our estimate. Reported margin include one time cost for Jamshedpur launch and was 100bps lower than BofAMLe. PAT grew 30% yoy to Rs659mn.

Broad based growth; volumes likely to sustain

On the analyst call management highlighted that growth was broad based with all key sectors contributing to growth. Nearly 70% of growth was driven by volumes during 3Q and it expects volume growth to continue in FY12 as well. Share of national ads increased to 43% vs 41% in 2Q with retail clients contributing 57% to ad revenues. Management indicated potential for price hikes from March 2011.

Forecast 17% earnings CAGR

We forecast EPS CAGR of 17% over FY11-13E and retain Buy rating with PO of Rs335. Prefer DBCL over Jagran given strong earnings growth potential, diversified revenue mix and our view that higher investments made in market expansion & plant upgradation should drive faster ROCE expansion than peers.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	476	1,828	2,540	2,743	3,506
EPS	2.82	10.00	13.76	14.87	19.00
EPS Change (YoY)	-37.2%	254.4%	37.7%	8.0%	27.8%
Dividend / Share	0.540	2.32	3.22	4.35	5.56
Free Cash Flow / Share	(10.76)	9.74	11.40	13.79	17.86

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	92.14x	26.00x	18.89x	17.49x	13.68x
Dividend Yield	0.208%	0.892%	1.24%	1.67%	2.14%
EV / EBITDA*	33.26x	14.29x	12.04x	10.69x	8.77x
Free Cash Flow Yield*	-3.79%	3.71%	4.39%	5.30%	6.87%

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

Price	Rs259.95
Price Objective	Rs335.00
Date Established	25-Oct-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs201.10-Rs310.20
Mrkt Val / Shares Out (mn)	US\$1,050 / 184.5
Average Daily Volume	61,770
BofAML Ticker / Exchange	XDDCF / BSE
Bloomberg / Reuters	DBCL IN / DBCL.BO
ROE (2011E)	34.0%
Net Dbt to Eqty (Mar-2010A)	19.2%
Est. 5-Yr EPS / DPS Growth	18.0% / 18.0%
Free Float	14.0%

Key Changes

(Rs)	Previous	Current
2011E EPS	13.67	13.76
2012E EPS	14.71	14.87
2013E EPS	18.64	19.00

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Refer to important disclosures on page 8 to 10. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6. Link to Definitions on page 6. 11012678

25 January 2011

iQprofileSM D.B.Corp Ltd

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	9,610	10,630	12,454	14,483	16,668
Gross Profit	4,021	5,918	7,191	8,468	9,818
Sell General & Admin Expense	(2,548)	(2,488)	(3,051)	(3,344)	(3,798)
Operating Profit	1,183	3,051	3,610	4,093	5,075
Net Interest & Other Income	(402)	(245)	(13)	30	170
Associates	NA	NA	NA	NA	NA
Pretax Income	782	2,806	3,597	4,123	5,245
Tax (expense) / Benefit	(423)	(1,057)	(1,077)	(1,389)	(1,748)
Net Income (Adjusted)	476	1,828	2,540	2,743	3,506
Average Fully Diluted Shares Outstanding	169	183	185	185	185

Key Cash Flow Statement Data

Net Income	476	1,828	2,540	2,743	3,506
Depreciation & Amortization	290	378	459	490	515
Change in Working Capital	122	(174)	(402)	(300)	(356)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	261	352	157	111	31
Cash Flow from Operations	1,149	2,384	2,754	3,045	3,695
Capital Expenditure	(2,966)	(603)	(650)	(500)	(400)
(Acquisition) / Disposal of Investments	(178)	(13)	(100)	0	0
Other Cash Inflow / (Outflow)	466	(1,279)	0	0	0
Cash Flow from Investing	(2,677)	(1,895)	(750)	(500)	(400)
Shares Issue / (Repurchase)	(9)	2,535	0	0	0
Cost of Dividends Paid	(99)	(258)	(594)	(802)	(1,026)
Cash Flow from Financing	1,517	(388)	(1,704)	(2,423)	(1,566)
Free Cash Flow	(1,817)	1,780	2,104	2,545	3,295
Net Debt	5,179	1,257	7	(1,615)	(3,844)
Change in Net Debt	2,031	(2,369)	(1,250)	(1,622)	(2,229)

Key Balance Sheet Data

Property, Plant & Equipment	6,471	6,475	6,666	6,675	6,560
Other Non-Current Assets	454	331	431	431	431
Trade Receivables	1,774	1,934	2,320	2,698	3,105
Cash & Equivalents	452	1,951	2,251	2,372	4,101
Other Current Assets	1,763	1,730	1,880	2,030	2,180
Total Assets	10,914	12,420	13,546	14,206	16,377
Long-Term Debt	5,631	3,207	2,257	757	257
Other Non-Current Liabilities	765	975	975	975	975
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,817	1,706	1,840	2,068	2,269
Total Liabilities	8,213	5,889	5,072	3,801	3,502
Total Equity	2,701	6,549	8,474	10,405	12,876
Total Equity & Liabilities	10,914	12,437	13,547	14,206	16,378

iQmethodSM - Bus Performance*

Return On Capital Employed	8.2%	19.9%	23.5%	23.6%	26.8%
Return On Equity	19.9%	40.3%	34.0%	29.2%	30.2%
Operating Margin	12.3%	28.7%	29.0%	28.3%	30.4%
EBITDA Margin	15.3%	32.3%	32.7%	31.6%	33.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.4x	1.3x	1.1x	1.1x	1.1x
Asset Replacement Ratio	10.2x	1.6x	1.4x	1.0x	0.8x
Tax Rate (Reported)	54.2%	37.7%	29.9%	33.7%	33.3%
Net Debt-to-Equity Ratio	191.8%	19.2%	0.1%	-15.5%	-29.9%
Interest Cover	2.3x	8.5x	22.6x	33.9x	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 7.

Company Description

DB Corp Ltd (DBCL) is one of the leading print media companies in India with a strong presence in the regional language markets. It publishes seven newspapers in three languages i.e. Hindi, English and Gujarati in 11 states in India. It also operates radio channels under the brand name MY FM. Its other subsidiary, I Media Corp Ltd (IMCL) operates internet portals and short messaging service portals.

Investment Thesis

We reckon DBCL as one of the key plays in the high-growth regional market. With strong presence in MP, Rajasthan, and Chandigarh and planned expansion in Bihar & Jharkhand, DBCL would effectively cover 65% of the Hindi-speaking market. These markets are growing at faster than India averages and remain underpenetrated in terms of advertisement spends. Besides, DBCL derives nearly 60pct of its revenues from local advertisers and is likely to benefit from growth in these regional markets.

Stock Data

Price to Book Value

5.7x

Table 1: Strong growth in Print & Radio

	3Q FY10	3Q FY11	YoY %
Print Ad revenues	2085	2688	29%
Radio Ad revenues	94	129	37%

Source: Company

Print business.. Robust growth continues

Print revenues grew by 29% yoy to Rs2.7bn and were much stronger than expected. Excluding election revenues (Rs70mn) reported during 3Q last year, print ad revenues actually grew by 33% yoy.

While we had anticipated strong growth given festive season in 3Q, reported growth was much stronger than expected and beat BofAMLe by 6%. Radio ad revenues grew by 37% yoy to Rs129mn.

Growth in print was largely driven by volumes. Management highlighted that nearly 70% growth was driven by volume and the rest by pricing. This compares with 50% volume growth and 50% price increases reported in 2Q.

Steady margins despite recent launches

DBCL reported EBITDA margins of 33% during 3Q, 100bps lower than our estimates. This includes Rs37mn towards launch expenses for Jamshedpur edition, non- recurring in nature. Excluding this, EBITDA margins stood at 34%, in line with our estimates an 3Q FY10 margins.

Over last two quarters DBCL launched its edition in Ranchi and Jamshedpur. As per IMRB readership survey, DBCL emerged as one of the key frontrunner in readership in Ranchi. It also achieved No 1 status in Jamshedpur in term of copies circulated.

Other key highlights:

Strengthened presence in existing markets. It launched 4 new printing centers in Rajasthan (total 16) and two in Madhya Pradesh (8 centres) and plans to launch printing centers in Haryana and Gujarat.

Launched Jamshedpur edition. DBCL now has a presence in 13 states through 52 editions and 135 sub editions.

Table 2: 3Q Quarterly revenues

DB Corp Ltd (Rs.mn)	2Q FY11	3Q FY11	YoY %	QoQ	3Q FY10	BofAMLe	Variance	comments
Advt Revenue	2359	2810	29%	19%	2175	2632	6.7%	Print Ad revs grew by 29% yoy , -6% ahead of our estimate. Radio revenues grew by 34% yoy
Circulation Revenue	532	540	1%	2%	537	562	-4.0%	
Other Operational Income	119	123	21%	3%	101	123	0.0%	
Total Income	3010	3482	24%	16%	2814	3317	5.0%	
News Print cost	901	1065	26%	18%	845	1017	4.6%	
Personnel Cost	459	485	44%	6%	337	460	5.3%	
Admin, Selling & Other Exp	337	399	34%	19%	297	302	32.1%	
Total Expenditure	2059	2334	26%	13%	1855	2189	6.6%	
EBIDTA	951	1148	20%	21%	959	1128	1.8%	Recurring Margins stood at 34%. Margins include one time cost for Jamshedpur launch
Depreciation	107	110	4%	3%	106	122	-9.9%	
PBIT	844	1038	22%	23%	853	1005	3.2%	
Interest	38	34	-62%	-9%	89	56	-38.6%	
Other Income	32	30	39%	-6%	22	37	-19.7%	
PBT	838	1034	32%	23%	786	987	4.7%	
PAT	550	659	30%	20%	506	686	-3.9%	
EPS (Rs)	3.0	3.6	30%	20%	2.7	4	-3.9%	
EBITDA %	31.6%	33.0%	-111bps	138bps	34.1%	34%	-103bps	
EBIT%	28.0%	29.8%	-50bps	177bps	30.3%	30%	-51bps	
PAT %	18.3%	18.9%	97bps	66bps	18.0%	21%	-175bps	

Source: Company, BofA Merrill Lynch Global Research

Financials

Table 3: Profit & loss statement

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E
Total Revenues	9610	10630	12454	14483	16668
Other operating income	120	124	129	139	144
Total Income	9610	10630	12454	14483	16668
Raw Material Consumed	4074	3279	3856	4422	4901
Operating Exps	1456	1315	1407	1593	1950
Personnel Exps	1331	1318	1806	1896	2048
Administration Selling and Other Exps	1217	1170	1245	1448	1750
Total Operational Cost	8137	7200	8384	9899	11079
PBITDA	1473	3429	4069	4583	5590
Depreciation	290	378	459	490	515
PBIT	1183	3051	3610	4093	5075
Financial Exps (net)	510	357	160	121	41
PBT	673	2694	3450	3972	5034
PBT	782	2806	3597	4123	5245
Total Tax	423	1057	1077	1389	1748
Restated Profit after tax before minority interest	358	1749	2520	2733	3496
Minority interest in the loss of subsidiaries	118	80	20	10	10
Restated Profit after tax	476	1828	2540	2743	3506

Source: Company, BofA Merrill Lynch Global Research

Table 4: Balance Sheet

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E
Shareholders funds					
Share Capital	1688	1828	1845	1845	1845
Reserve and Surplus	889	4659	6584	8515	10986
Total Shareholders funds	2577	6487	8430	10361	12832
Total Loan Funds	5631	3207	2257	757	257
Deferred tax Liability (net)	393	609	609	609	609
Minority Interest	124	44	44	44	44
Total Sources of funds	8724	10348	11340	11771	13742
Application of Funds					
Gross Block	4695	7165	7815	8315	8715
Net Block	3763	5861	6051	6061	5946
Capital WIP (including capital advs)	2708	614	614	614	614
Investments	238	205	305	305	305
Current Assets, Loans and Advances					
Inventories	711	722	772	822	872
Sundry Debtors	1774	1934	2320	2698	3105
Cash and bank balances	452	1951	2251	2372	4101
loans and advances	1052	1008	1108	1208	1308
Total Current Assets, Loans and Advances	3988	5614	6450	7100	9386
Total Current Liabilities and Provn	2189	2073	2206	2435	2636
Net Current Assets	1799	3542	4244	4665	6751
Miscellaneous Expenditure	217	126	126	126	126
Total Application of funds	8724	10347	11340	11771	13742

Source: Company, BofA Merrill Lynch Global Research

Table 5: Cash Flow Statement

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E
Profit Before taxn	782	2806	3597	4123	5245
Interest exps	296	245	160	121	41
Depreciation/ Amortisation	290	378	459	490	515
Operating profit before working capital changes	1384	3571	4234	4734	5800
Increase/ Decrease in working capital					
(increase)/ Decrease in Inventories	-40	-11	-50	-50	-50
(increase)/ Decrease in Sundry debtors	-21	-228	-386	-378	-407
Decrease/ (increase) in Loans and advances	-69	51	-100	-100	-100
Increase in current liabilities	241	14	134	228	201
Cash Generation from operations	1506	3397	3832	4434	5444
Taxes paid	-357	-1013	-1077	-1389	-1748
Net Cash from operating activities	1149	2384	2754	3045	3695
B. Cash Flow from investing activities					
Additions to Fixed Assets	-2966	-603	-650	-500	-400
Purchase of investments	-178	-13	-100	0	0
Net cash (used in) investing activities	-2677	-1895	-750	-500	-400
C. Cash Flow from financing activities					
Loan taken- secured	2932	287	-950	-1500	-500
Repayment of Loan- secured	-748	-2577	0	0	0
Loan taken/ repayment Unsecured	11	22	0	0	0
Dividend Paid	-84	-221	-594	-802	-1026
Dividend distribution tax	-14	-37	0	0	0
interest paid	-395	-396	-160	-121	-41
Proceeds from issuance of share of subsidiaries	0	2690	0	0	0
Net cash from / Used in Financing activities	1517	-388	-1704	-2423	-1566
Net increase/ (decrease) in cash and cash equivalents	-11	101	300	122	1729
Cash and cash equivalents at the end of the year	363	1951	2251	2372	4101
Net Increase/ (decrease) in cash and cash equivalents	-11	1587	300	122	1729

Source: Company, BofA Merrill Lynch Global Research

Table 6: Ratios

Ratios	FY09	FY10	FY11E	FY12E	FY13E
Growth- yoy %					
Sale of Newspaper	9%	6%	2%	11%	7%
Advertisements	12%	11%	22%	18%	17%
Others	16%	19%	7%	7%	6%
Profitability					
EBITDA%	15%	32%	33%	32%	34%
EBIT%	12%	29%	29%	28%	30%
Valuations					
CEPS (Rs)	5	12	16	18	22
BV (Rs)/ share	15	35	46	56	70
P/E (x)	96	27	20	18	14
P/CEPS (x)	60	22	17	15	12
P/BV (x)	18	8	6	5	4
EV/EBIDTA (x)	34	15	12	11	8
EV/ EBIT (x)	43	17	14	12	10
RoCE (%)	7	19	23	24	26
RoE (%)	18	28	30	26	27

Source: Company, BofA Merrill Lynch Global Research

Price objective basis & risk

D.B.Corp Ltd (XDDCF)

Our PO of Rs335 is based on 13x EV/EBITDA FY12E at a 10% premium to JPL, in line with five-year averages for print stocks and is supported by DCF value. We prefer EV/EBITDA to P/E given high capital intensity of business and differentiated depreciation policies/ high dividend payout makes earnings growth incomparable. It factors strong revenue growth of 18.5% in advertisement revenues over the next three years and our view that regional markets are growing at a faster rate than India average.

Downside risks: Slowdown in macro economy, risk from higher newsprint prices and higher-than-anticipated losses from Bihar/ Jharkhand launch.

Link to Definitions

Media & Telecom

Click [here](#) for definitions of commonly used terms.

Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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25 January 2011

India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	D.B.Corp Ltd	XDDCF	DBCL IN	Pratish Krishnan
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan
	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	Rollta India	RLTAF	RLTA IN	Pratish Krishnan
	Rollta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Infotech Enterprises Ltd	IFKFF	INFTEC IN	Pratish Krishnan
	Patni	PATIF	PATNI IN	Mitali Ghosh
	Patni Computer	PTI	PTI US	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
UNDERPERFORM				
	Genpact Ltd	G	G US	Mitali Ghosh
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

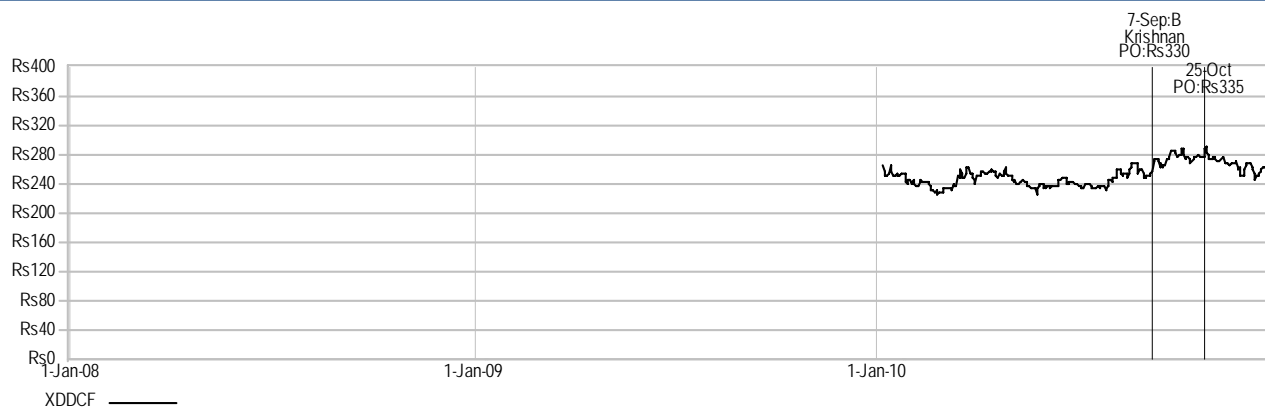
*iQmethod*SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Important Disclosures

XDDCF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

Investment Rating Distribution: Media & Entertainment Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	56.48%	Buy	25	46.30%
Neutral	21	19.44%	Neutral	8	40.00%
Sell	26	24.07%	Sell	8	32.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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