February 22, 2010

Rating Matrix

Rating	:	**Buy**
Target	:	Rs 263
Target Period	:	12 months
Potential Upside	:	15 %

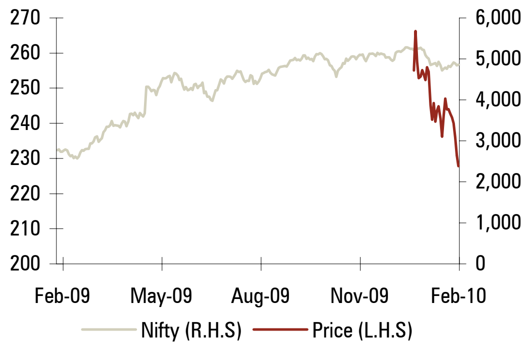
YoY Growth (%)

	FY09	FY10E	FY11E	FY12E
Net Sales	11.6	10.6	13.2	11.8
EBITDA	-20.8	150.5	12.0	4.8
Net Profit	-48.7	396.7	27.7	9.0
EPS	-36.6	339.5	11.8	7.4

Stock Metrics

Bloomberg/Reuters Code	DBCL.IN/DBCL.BO
Sensex	16204
Average volumes	90,219
Market Cap (Rs crore)	Rs 4134.9 Crore
52 week H/L	274 / 201
Equity Capital (Rs crore)	181.5
Promoter's Stake (%)	86.3
FII Holding (%)	3.5
DII Holding (%)	1.8

Price movement (Stock vs. Nifty)



Peer comparison

Return %	1M	3M	6M	12M
Jagran Prakashan	-5.1	-1.0	28.7	124.9
HT Media	-7.1	7.6	40.1	170.5
Deccan Chronicle	-8.3	-1.4	56.4	325.3
DB Corp	-9.5	-	-	-

Target Multiple

	FY09	FY10E	FY11E	FY12E
Target PE	100.3	22.8	20.4	19.0
EV/EBITDA	34.2	12.3	10.5	9.3
Price/BV	16.0	5.9	4.5	3.5

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DB Corp (DBCORP)

Rs 228

Riding on the regional bandwagon…

With its pure regional play and leadership position in key markets, DB Corp is well poised to capitalise on robust advertisement demand in the vernacular space, buoyed by consumption shifting to Tier II and Tier III cities. Riding on the regional bandwagon and implementing its aggressive marketing and pricing strategies the company has outpaced its peers. Continuing the trend, we expect the topline to grow at 11.9% CAGR (FY09-12E). With an improving operational performance and lower interest outgo on account of debt repayment, the PAT is expected to grow at 74.1% CAGR (FY09-12E). We are initiating coverage on DB Corp with a BUY rating.

DB Corp – Robust advertisement revenue growth

DB Corp's presence in Tier II and Tier III cities coupled with its stronghold in its key markets had supported strong ad revenue growth. The consolidated advertisement revenue of the company grew at a CAGR (FY07-09) of 22.1% from Rs 486.6 crore to Rs 725.6 crore, while that of our print universe grew by 18.9% over the same period. Riding on pure regional play and vernacular diversification, the ad revenue for DB Corp is expected to grow at 14.3% and 13.4% in FY11E and FY12E, implying 12.8% CAGR over FY09–12E to Rs 1042.7 crore.

Expansion in new territories to give thrust to circulation revenues

Dainik Bhaskar is the second largest read newspaper in India with an AIR of 128.8 lakh. Consolidation in existing territories and new launches would result in 6.9% CAGR (FY09-12E) in circulation revenues to Rs 245.7 crore led by 4.6% CAGR (FY09-12E) in number of copies sold per day to 43 lakh copies and 2.2% CAGR (FY09-12E) in revenues per copy.

Valuations

With increasing income in non-metros and consumption shifting to smaller towns and villages, media companies with a regional presence have been more resilient to the slowdown. We expect the current trend to continue and players that cater to regional demand would continue to command a premium over national players. At the CMP of Rs 228, the stock is trading at 17.7x FY11E EPS and 16.5x FY12E EPS. We value the stock at 19x (~5% discount to Jagran Prakashan) FY12E EPS to arrive at a target price of Rs 263. We initiate coverage on DB Corp with a **BUY** rating.

Exhibit 1: Valuation matrix

(Year-end March)	FY08	FY09	FY10E	FY11E	FY12E
Net Sales (Rs crore)	850.6	949.0	1,049.3	1,187.8	1,328.4
EBITDA (Rs crore)	170.9	135.3	338.9	379.5	397.8
Net Profit (Rs crore)	75.1	47.6	185.4	234.0	251.3
EPS (Rs)	4.1	2.6	10.2	12.9	13.8
P/E (x)	55.1	86.8	19.8	17.7	16.5
Price / Book (x)	18.8	16.0	5.9	4.5	3.5
EV/EBITDA (x)	25.7	34.2	12.3	10.5	9.3
RoE (%)	34.2	18.5	26.5	25.3	21.6
RoCE (%)	26.4	13.0	31.7	29.5	27.2

Source: Company, ICICIdirect.com Research

Shareholding pattern (post IPO)	
Sharholders	**% holding**
Promoters	86.4
Others	8.1
Institutions	5.6

Company Background

Dainik Bhaskar publishes seven newspapers in 48 editions and 128 sub editions. Its varied bouquet spans across three languages and 11 states. Its flagship newspapers — Dainik Bhaskar, Divya Bhaskar and Saurashtra Samachar — have an average issue readership of 16.4 million according to IRS 2009 Round 2. Dainik Bhaskar, with an average issue readership of 12.8 million (IRS 2009 Round 2), is the second largest daily in India and is a widely read newspaper in Madhya Pradesh, Chhattisgarh, Rajasthan, Haryana, Punjab and Chandigarh. DB Corp's Gujarati daily newspaper, Divya Bhaskar, has an average issue readership of 3.4 million according to IRS 2009 (Round 2). The company's other newspaper offerings include Business Bhaskar, DB Gold, DB Star and DNA on a franchisee basis in Gujarat and Rajasthan.

The company also publishes five periodicals, namely, Aha Zindagi (a monthly magazine published in Hindi and Gujarati), Bal Bhaskar (a Hindi magazine for children), Young Bhaskar (a children's magazine in English) and Lakshya, a career magazine in Hindi.

DB also operates an FM radio business under the brand name My FM through its subsidiary, Synergy Media Entertainment (SMEL). My FM is an FM radio channel broadcasting entertainment programmes (other than news and news-related programmes) in 17 cities, viz. Jaipur, Ahmedabad, Chandigarh, Amritsar, Jalandhar, Indore, Bhopal, Gwalior, Udaipur, Ajmer, Surat, Bilaspur Nagpur, Kota, Jabalpur, Raipur and Jodhpur. Through SMEL, the company operates total 17 FM radio stations.

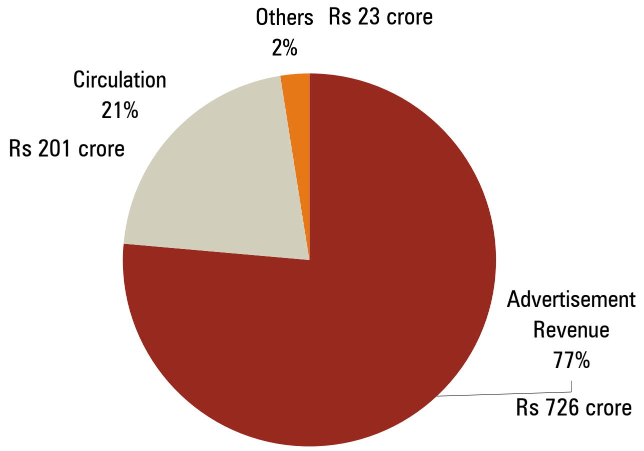
Through I Media Corp Ltd (IMCL), the company also operates internet portals (www.bhaskar.com, www.divyabhaskar.co.in and www.indiainfo.com) that contain editorial content from the daily editions of the newspapers in the form of e-papers and SMS portals.

Exhibit 2: Achievements so far...

Year	Milestones
1958	Dainik Bhaskar launched its first edition in its hometown Bhopal
1983	Launch of Dainik Bhaskar's Indore edition, followed by Raipur editions in Chhattisgarh
1990's	Dainik Bhaskar becomes No.1 newspaper in Madhya Pradesh
	Launched in Bilaspur (Chhattisgarh) followed by Jaipur, Ajmer, Jodhpur, Bikaner, Udaipur and Kota in Rajasthan
2000	Two more states added to the portfolio with the launch of Chandigarh and Haryana
2003	DB Corp enters Gujarat with the launch of its first Gujarati daily in Ahmedabad
2004	Divya Bhaskar launches two more editions in Gujarat with Surat and Baroda editions
	Divya Bhaskar also takes over "Saurashtra Samachar", the leading Gujarati newspaper. It also enters Maharashtra with the Mumbai edition
	DB Corp Ltd also launches its new Hindi magazine, AHA! Zindagi, the first of its kind on lifestyle and positive thinking
2006	Dainik Bhaskar enters Punjab with two editions, Amritsar and Jalandhar
	Divya Bhaskar launched its Rajkot and Jamnagar editions
	AHA! Zindaga magazine launched in Gujarati Language
	Launch of IMCL - a new media company and launch of MY FM in Jaipur
2007	Launch of Bhuj edition of Divya Bhaskar
	Dainik Bhaskar launches its New Delhi edition followed by Ludhiana edition
	DNA launched in Ahmedabad and Surat as a franchise by DB Corp Ltd
	It launches Bal Bhaskar and Young Bhaskar for kids and Lakshay
	MYFM launched in 16 cities
2008	Launch of Business Bhaskar, a financial Hindi newspaper. It was launched in seven cities.
	Launch of Shimla edition, Himachal Pradesh

Source: Company, ICICIdirect.com Research

Exhibit 3: Revenue mix (FY09)



Source: Company, ICICIdirect.com Research

Exhibit 4: DB Corp — Leadership in key markets

Source: Company, ICICIdirect.com Research

Investment Rationale

Robust advertisement revenue growth

Advertisement is a major revenue driver for the media industry. Over the past three years, industry advertisement revenue has grown at a CAGR of 17.1%. However, due to the recent turmoil in the world economic scenario, advertisement budgets have shrunk across industries. Consequently, we expect slow growth in this revenue stream in FY10E.

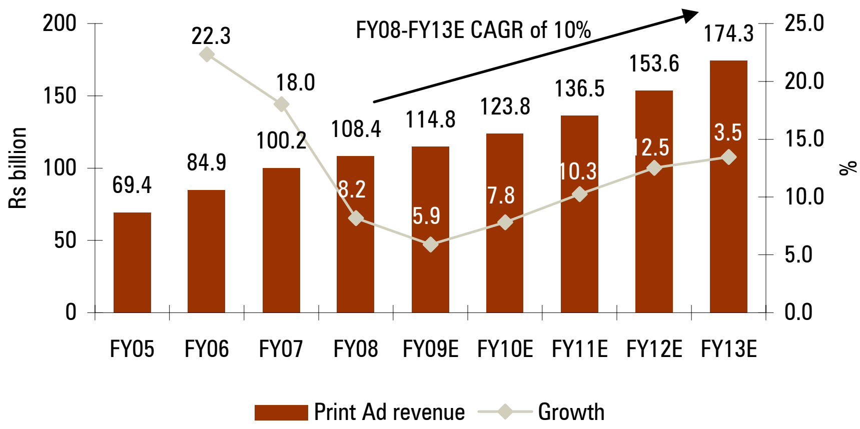
Nevertheless, the long-term scenario looks positive for the Indian advertisement industry. India is still under penetrated and behind developed nations and even China when compared on ad to GDP ratio. This indicates further potential for rise in ad spend for the Indian media industry. Ad spend as a percentage of GDP has been on an upward trend for more than a decade. It grew from 0.31% in FY98 to 0.47% in FY08.

Advertisement in print

Advertisement revenue is one of the major revenue drivers for print media companies. It contributes almost as high as 90% of the total revenue for English dailies and about 70% for Hindi dailies. On an industry wide basis, advertisement contributes about 65% of the total print media revenue.

Growth in advertisement revenue led by expansion in emerging sectors like organised retail, telecom, insurance and education is expected to outpace circulation growth. Advertisement revenue is expected to grow at a five year CAGR (FY08-13E) of 10.0%

Exhibit 5: Print industry advertisement revenue



Source: FICCI report 2009, ICICIdirect.com Research

Growth in advertisement revenue led by expansion in emerging sectors like organised retail, telecom, insurance and education is expected to outpace circulation growth. Advertisement revenue is expected to grow at a five year CAGR (FY08-13E) of 10.0% while circulation revenue is expected to grow at 7.4% over the same period.

DB Corp — advertisement revenue growth

Owing to the economic slowdown in FY09 the advertisement industry witnessed slower growth in revenues. DB Corp's presence in Tier II and Tier III cities coupled with its stronghold in its key markets had supported strong ad revenue growth. Advertisement contributes about 77% to the total topline of the company. The consolidated advertisement revenue of the company grew at a CAGR (FY07-09) of 22.1% from Rs 486.6 crore to 725.6 crore, while that of our print Universe grew by 18.9% over the same period.

Riding on pure regional play and vernacular diversification, ad revenue for DB Corp is expected to grow at 14.3% and 13.4% in FY11E and FY12E, respectively, implying 12.8% CAGR over FY09–12E to Rs 1042.7 crore

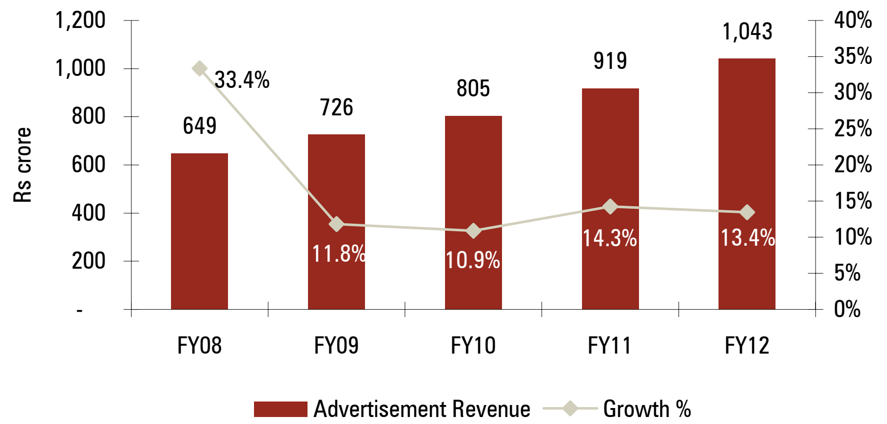
Ad revenue growth in 9MFY10 has shown a positive trend. While the economy is recovering from the slowdown, the story is not the same for all media companies. Only companies with a regional focus were able to post a growth in ad revenue, while almost all companies with a national presence in the advertisement business have seen flattish ad revenue in 9MFY10. Being a pure regional play DB Corp's advertisement revenue has grown by 12.2% YoY in 9MFY10.

DB Corp focuses on local small time retailers for advertisement revenue and derived ~63% of the total ad revenue in FY09 from such retailers. This was one of the major reasons for the robust performance of the company in turbulent times, when other national players were struggling.

Led by increasing literacy rates and rising demand for the print medium in Tier II and III cites and towns, regional ads are set to grow unabated. Traditionally, the fourth quarter remains dull for the print media sector. We expect ad revenues to grow by 6.7% YoY in Q4FY10, implying a full year growth of 10.9% for FY10E.

Riding on a pure regional play and vernacular diversification, ad revenue for DB Corp is expected to grow at 14.3% and 13.4% in FY11E and FY12E, respectively, implying 12.8% CAGR over FY09–12E to Rs 1042.7 crore.

Exhibit 6: DB Corp ad revenue growth



Source: Company, ICICIdirect.com Research

Expansion in newer territories —next growth driver for circulation

Advertisement revenue is directly linked to economic growth, while circulation is led by an increase in penetration and literacy rate. Circulation revenue is primarily a volume game. Companies are expanding their operations and focusing on Tier II and Tier III cities to increase circulation in the vernacular or Hindi space. India has the second largest readership base of 255 million, with 85% reach in urban markets and a stifled reach of only 33% in rural areas. This provides ample room for further penetration.

Large players like Times of India, Dainik Bhaskar, HT Media, Jagran Prakashan and Deccan Chronicle are continuously expanding and leveraging their brand to enter the local space. These companies have started publishing city centric supplements or have entered the regional space with vernacular or Hindi editions.

Overall industry circulation revenue is expected to grow from Rs 64.2 billion in FY07E to Rs 91.7 billion in FY13E, implying a CAGR of 7.4%.

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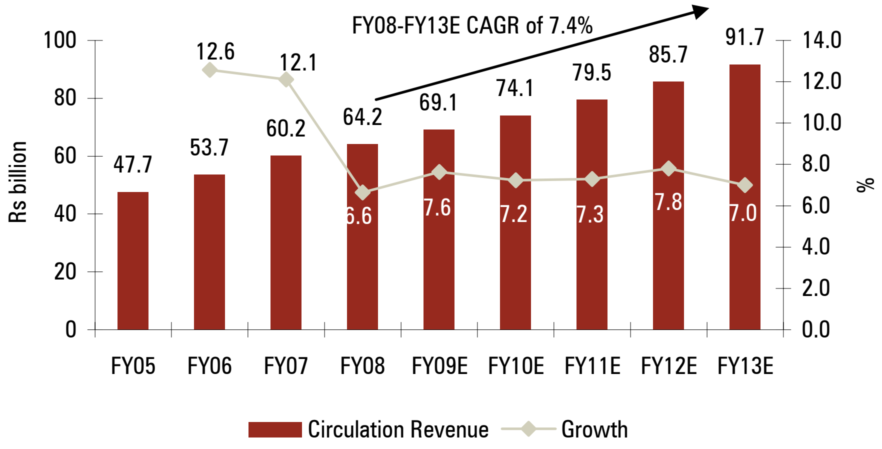
Exhibit 7: Industry circulation revenue



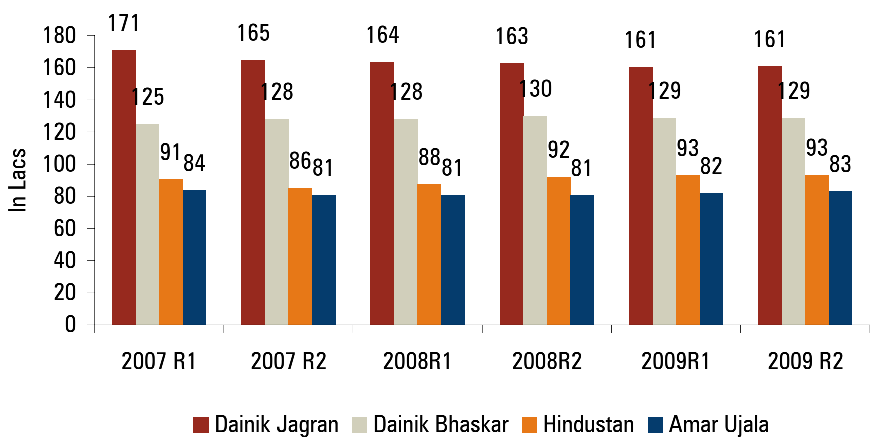
Source: FICCI Report 2009, ICICIdirect.com Research

Circulation to inch up on the back of expansion into new territories

Dainik Bhaskar, the Hindi news daily of the company, is the second largest read newspaper in the country with average issue readership (AIR) of 128.8 lakh according to IRS 2009 Round 2

Dainik Bhaskar, the Hindi news daily of the company, is the second largest read newspaper in the country with average issue readership (AIR) of 128.8 lakh according to IRS 2009 Round 2. It has a strong leadership position in Punjab – JAL (Jalandhar, Amritsar and Ludhiana), Madhya Pradesh, Chhattisgarh, Chandigarh and Haryana. Divya Bhaskar, DB Corp's Gujarati daily, is also the second most read newspaper in Gujarat with AIR of 33.5 lakh after Gujarat Samachar with an AIR of 46.0 lakh.

Exhibit 8: AIR of top four Hindi news daily in India



Source: IRS 2009 Round 2, ICICIdirect.com Research

The company has been successful in entering new territories and reaching leadership positions in a short span by displacing very old and legacy newspapers in respective territories

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Exhibit 9: DB Corp - Geographical expansion

Territory	Launch Date	Closest competitor	Present since	AIR in lacs (IRS, 2009 R2) DB	Competitor
Rajasthan*	1990's	Rajasthan Patrika	1950s	15.3	12.2
Punjab - JAL	2006	Punjab Kesri	1951	5.2	4.9
Haryana	2000	Dainik Jagran	1990	13.2	9.1
Gujarat*	2003	Guajart Samachar	1923	17.7	18.1
Chandigarh	2000	The Tribune	1892	1.8	1.0

** Rajasthan – Jaipur, Jodhpur, Kota and Bikaner; Gujarat – Ahmedabad, Vadodara, Surat and Rajkot*

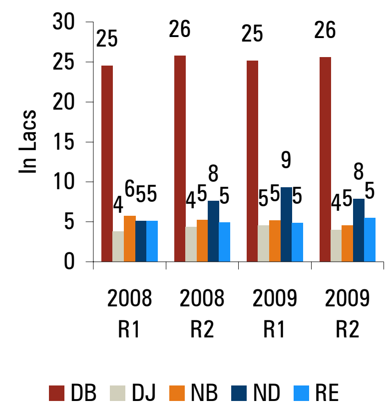
Source: Company, ICICIdirect.com

Dainik Bhaskar is the clear market leader in both Madhya Pradesh and Haryana with an AIR of 26 lakh and 13 lakh, respectively

Dainik Bhaskar is the market leader in Chhattisgarh with an AIR of 11 lakh copy per day. Divya Bhaskar, the Gujarati daily, is second most read newspaper in Gujarat with an AIR of 34 lakh after Gujarat Samachar, which stands at an AIR of 46 lakh

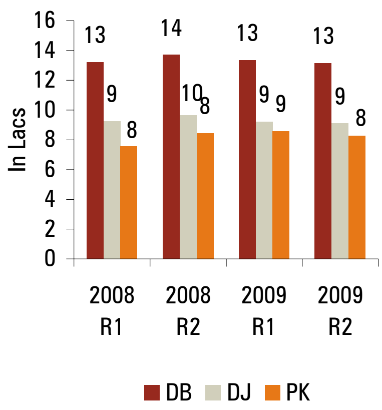
The company has increased its readership in Punjab from 3 lakh copies per day in IRS 2008 Round 1 to over 5 lakh copies per day in IRS 2009 Round 2, overtaking the 55 year old newspaper Punjab Kesari. Also, in Rajasthan it is the second most read newspaper after Rajasthan Patrika

Exhibit 10: AIR in MP



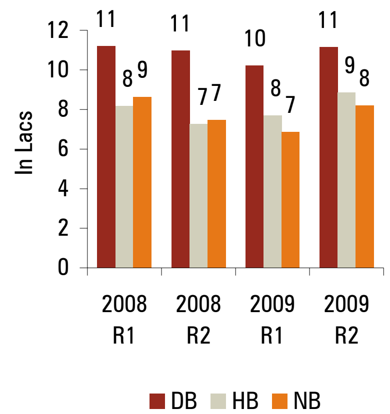
Source: IRS 2009 R2, ICICIdirect.com Research

Exhibit 11: AIR in Haryana



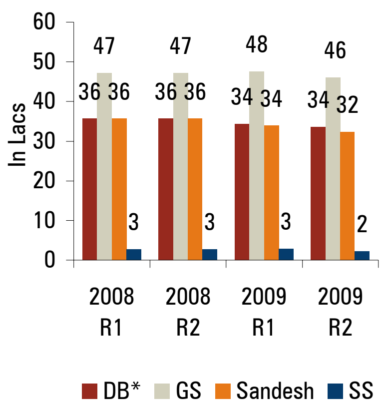
Source: IRS 2009 R2, ICICIdirect.com Research

Exhibit 12: AIR in Chhattisgarh



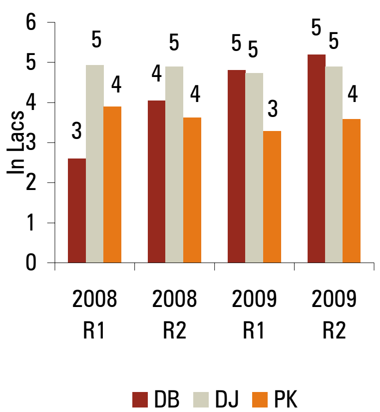
Source: IRS 2009 R2, ICICIdirect.com Research

Exhibit 13: AIR in Gujarat



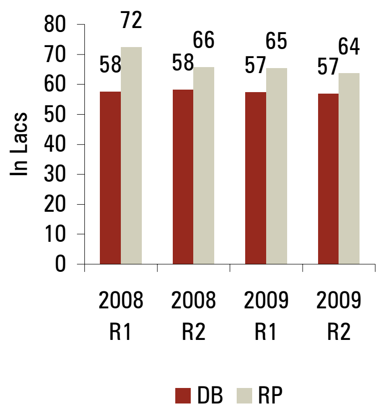
Source: IRS 2009 R2, ICICIdirect.com Research

Exhibit 14: AIR in Punjab



Source: IRS 2009 R2, ICICIdirect.com Research

Exhibit 15: AIR in Rajasthan



Source: IRS 2009 R2, ICICIdirect.com Research

* DB –Dainik Bhaskar, DJ – Dainik Jagran, NB – Nav Bharat, ND – Nai Duniya, RE – Raj Express, PK – Punjab Kesari, HB – Hari Bhoomi, DB* - Divya Bhaskar, GS – Gujarat Samachar, SS – Saurashtra Samachar, RJ – Rajasthan Patrika

Circulation revenues at Rs 194.2 crore, contributed 20.0% to the total topline during FY09. It registered a two year CAGR (FY07-09) of 9.4%, primarily on the back of newer launches in newer geographies and expansion in existing territories (especially Gujarat).

However, most importantly, circulation has increased from 32 lakh copies per day in FY07 to 37 lakh copies per day in FY09, registering a two year CAGR of 7.8%. This highlights the aggressive pricing policy and marketing strategies adopted by the company to gain inroads in new territories and increase the readership of its publications. At the end of Q3FY10, circulation stands at ~40 lakh copy per day.

Going forward, we expect the company to increase the cover price in mature markets and, simultaneously, enter newer geographies like Jharkhand, Bihar and Jammu and Kashmir. This would result in 6.9% CAGR (FY09-12E) in circulation revenue to Rs 245.7 crore led by 4.6% CAGR (FY09-12E) in number of copies sold per day to 43 lakh copies and 2.2% CAGR (FY09-12E) in revenue per copy.

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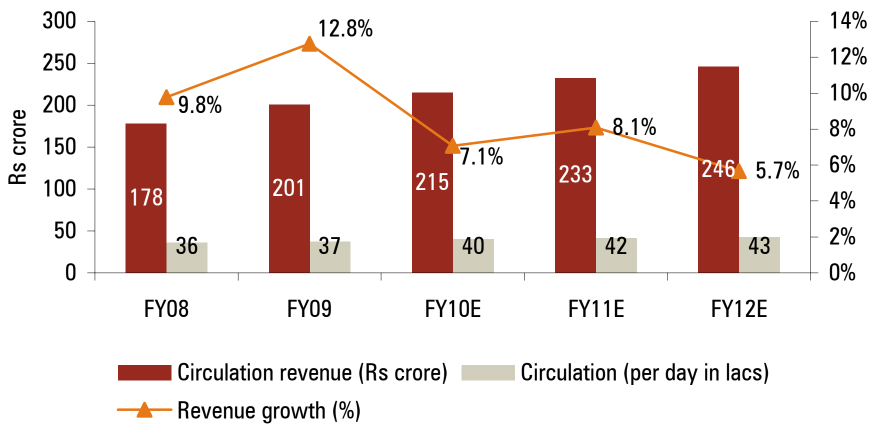
Exhibit 16: DB Corp circulation revenue



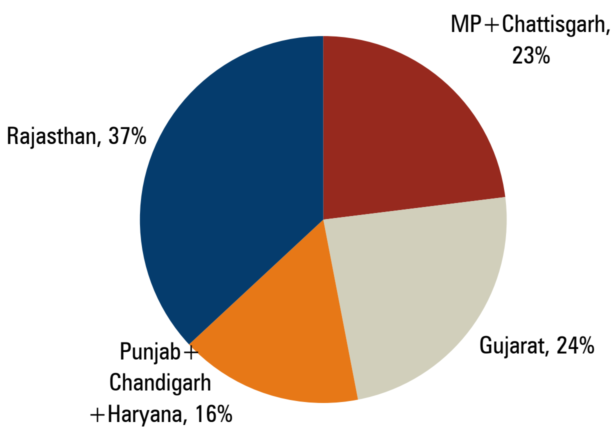
Source: Company, ICICIdirect.com Research

Uniform dependence on key markets

DB Corp is not overly dependent on any one region, unlike its competitors like Jagran Prakashan, which derives 57% of its total readers from Uttar Pradesh only.

It has a well diversified mix of readers coming from different regions, which gives it the strength to compete effectively and the flexibility to sustain a price war if the need arises

Exhibit 17: Even distribution of readers



Source: Company, ICICIdirect.com Research

The company has a well diversified mix of readers coming from different regions, which gives it the strength to compete effectively and the flexibility to sustain a price war if the need arises.

Regional play – the place to be in…

The Indian print industry is highly fragmented with over 60,000 newspapers published in 22 languages. According to IRS, Hindi newspapers have highest penetration followed by English, Marathi, Tamil and Telugu. In the backdrop of consumption increasing in smaller towns and villages, the industry has seen various vernacular launches in order to increase circulation and shield against a seasonal downturn in national advertising.

Low readership in rural India implies huge growth potential for regional/Hindi print media

Exhibit 18: Indian demographic metrics

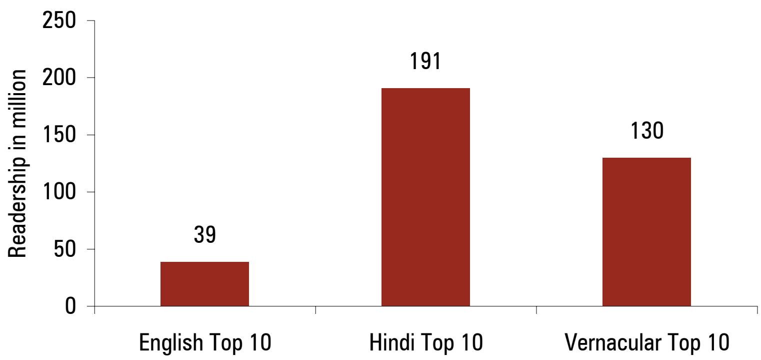
	Urban	Rural	Total
Population (Millions)	268	584	852
Literacy %	83%	62%	68%
Readership (% of literates)	42%	21%	29%

Source: FICCI report 2009, ICICIdirect.com Research, Age group 12+

Although it is the second largest print market in the world with a readership base of over 255 million, the Indian market, given its population base, is still under penetrated. Urban penetration stands at 85% while that for rural markets stands at a mere 33%. According to IRS, about 359 million people in India can read and understand at least one language but do not read any publication. With such low penetrations, we believe a huge growth opportunity lies ahead for print companies, especially in vernacular markets.

Readership figures clearly show consumer preference for the regional press. Hindi is the most read language in the country followed by English, Tamil, Malayalam and Telugu

Exhibit 19: Newspaper readership in India



Source: IRS 2008 R1, ICICIdirect.com Research

Only one English newspaper figures in top 15 national dailies in India. This strengthens our argument in favour of regional dominance in the print media

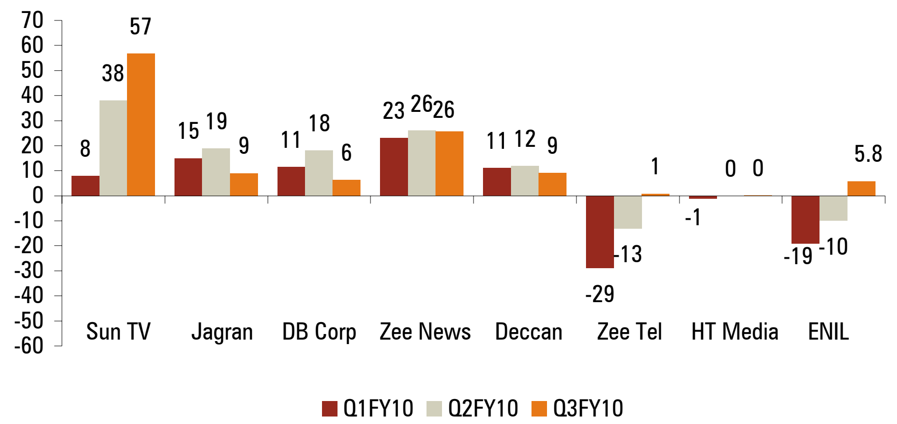
Exhibit 20: Top 15 newspaper in India

Ranking	Newspaper	Language	AIR (Lacs)
1	Dainik Jagran	Hindi	160.7
2	Dainik Bhaskar	Hindi	128.8
3	Hindustan	Hindi	93.0
4	Malayala Manorama	Malayalam	88.8
5	Amar Ujala	Hindi	81.8
6	Daily Thanthi	Tamil	76.1
7	The Times of India	English	68.7
8	Lokmat	Marathi	67.9
9	Rajasthan Patrika	Hindi	66.7
10	Ananda Bazar Patrika	Bengali	65.5
11	Eenadu	Telegu	65.3
12	Mathrubhumi	Malayalam	64.1
13	Dinakaran	Tamil	54.2
14	Gujarat Samachar	Gujarati	54.2
15	Daily Sakal	Marathi	40.2

Source: IRS 20090 R1, ICICIdirect.com Research

In the recent economic slowdown, national players were the most impacted while their regional counterparts did not really face the heat. A major slowdown was seen in national advertising while regional advertising was more resilient

Exhibit 21: Strong ad revenue growth in companies with a regional presence



Source: Respective companies, ICICIdirect.com Research

Hindi and other vernacular publications are more local friendly as compared to their English peers. Moreover, with rising affluence in non-metro cites consumption has increased in these regions. To address the increasing demand in Tier II and III towns, advertisers have also shifted their focus and increased their budgets for regional ads. In the recent economic slowdown, national players were the most impacted while their regional counterparts did not really face the heat. A major slowdown was seen in national advertising while regional advertising was more resilient.

DB Corp with its strong presence in the Hindi speaking belt and Gujarati market has exhibited strong growth in recent times. With new launches in Bihar, Jharkhand and Jammu & Kashmir in the pipeline, DB Corp is all set to capitalise on this growth bandwagon and would be a major beneficiary of the robust demand in the regional space.

Localisation of content

Catering to the immense appetite for local content in regional markets, increasing number of dailies have introduced city/region specific issues. Also, the industry has seen an increasing trend in variety and frequency of city centric supplements.

The increasing regionalisation of media is primarily driven by:

- Increasing literacy levels in rural markets leading to more demand for print media
- Higher population growth in Tier II and Tier III cities and towns
- Higher consumption potential in rural areas
- Low media penetration and relatively untapped opportunities in smaller towns and rural India

Hindi and vernacular space — a cheaper option

With increasing regional penetration, print media companies have been able to increase their circulation figures. However, gaining share in the huge regional advertisement pie has been the primary driving force behind print companies venturing into newer territories.

However, media buyers do not rate all media at the same rate. At the prevailing rates, an English reader is valued at a premium of 9.0x over Hindi readers and 13.4x over a vernacular reader. This implies that the Hindi and vernacular space is still much cheaper as compared to English, leaving ample opportunity for print companies to expand into these areas. We expect this anomaly to get corrected as regional media gets its due importance.

Traditionally, large metro cities, which also tend to have high percentage of English newspaper readership, have commanded a significant advertising rate premium over non-metro newspapers. However, the trend is changing. We expect this anomaly to get corrected as regional media gets its due importance, owing to superior consumption and higher growth potential

Exhibit 22: Premium to English over Hindi and Vernacular

Language	Per reader revenue (Rs)		
	Advertising	Circulation	Total
English	2099	728	2827
Hindi	233	208	441
Vernacular	157	203	360
Premium of English Over Hindi	9.0x	3.5x	6.4x
Premium of English over Vernacular	13.4x	3.6x	7.9x

Source: FICCI Report 2009, ICICIdirect.com Research

Radio

DB Corp also operates a radio channel 94.3 My FM through its subsidiary Synergy Media (SMEL). The company launched its first channel in Jaipur in 2006 followed by 16 other cities in 2007. My FM is mainly present in Tier II and Tier III cities.

The company has outperformed its peers within a short span of time. HT Media and Sun TV, which operate four and 44 channels, respectively, are still bleeding while My FM broke-even at the EBITDA level in Q3FY10 itself. My FM reported revenues of Rs 30.0 crore at the end of FY09, growing at 289% CAGR (FY07-09). The revenue growth in 9MFY10 was at 41% YoY. With the increasing listenership, consumer spending and radio ad spend in Tier II and Tier III cities, the radio business is expected to post robust growth, going ahead.

We expect the radio segment to post a topline of Rs 40.3 crore in FY10E and grow at 19.4% CAGR (FY10E-FY12E) to Rs 57.5 crore

We expect the radio segment to post a topline of Rs 40.3 crore in FY10E and grow at 19.4% CAGR (FY10E-FY12E) to Rs 57.5 crore.

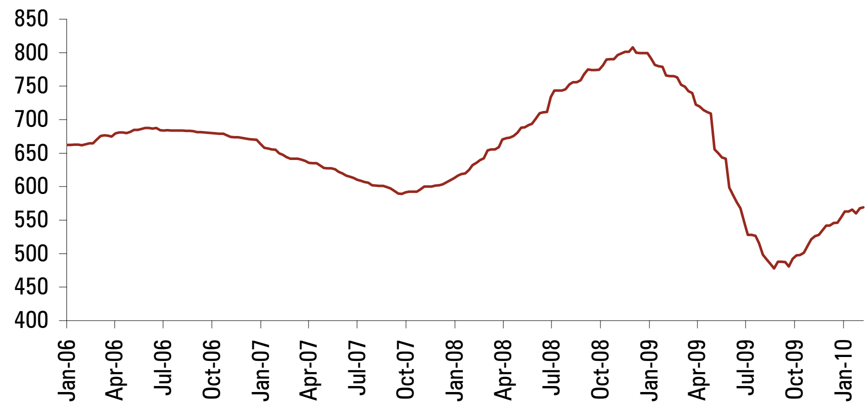
Risks and Concerns

Volatility in raw material prices

Newsprint prices witnessed a highly volatile cycle during FY09. Both international and domestic newsprint prices peaked at $960/MT and Rs 43500/MT, respectively, in the last fiscal year. On account of this, the raw material cost for print media companies had significantly shot up, affecting the profitability. DB Corp was among the least affected as the company consumes a higher proportion of domestic newsprint.

Raw material cost as a percentage of revenue went up from 39.6% in FY08 to 42.9% in FY09 for DB Corp. This highlights the high sensitivity of the EBITDA margin of print media companies to newsprint prices.

Exhibit 23: International newsprint prices in US dollar



Source: Bloomberg, ICICIdirect.com Research

For every increase of 2.5% in raw material cost the EPS would decline by 4.2% for FY12E

Exhibit 24: EPS sensitivity to Newsprint prices (FY12E)

% change in newsprint prices	-5.0%	-2.5%	0.0%	2.5%	5.0%
FY12E EPS	15.0	14.4	13.8	13.3	12.7
% Change in EPS	8.4	4.2	0.0	-4.2	-8.4
Target Price	285	274	263	252	241

Source: Company, ICICIdirect.com Research

Delay in profitability of emerging editions

Out of the company's total bouquet of 48 editions, 16 editions are still at the investment phase. These editions are still not EBITDA break-even and made a loss of ~Rs 20-25 crore in 9MFY10. We expect them to break-even at the end of FY11E. Any delay in breakeven would dent the margins and profitability of the company.

Expansion in newer territories

The company has a proven track record in launching new editions and making it successful in a short span of time. However, it could face tough competition from both Dainik Jagran and Hindustan in Bihar and Jharkhand. Although the company is aggressive and has gained commendable market share in different markets, gaining further inroads may prove difficult. This would affect the margin of the company.

We expect the company to post a growth of 10.6% in the current fiscal. Driven by increasing circulation and higher ad revenue growth, we expect the company to report revenue CAGR (FY09-FY12E) of 11.9% to Rs 1328.4 crore in FY12E, led by 12.8% CAGR in ad revenue and 6.9% CAGR in circulation revenue over the same period

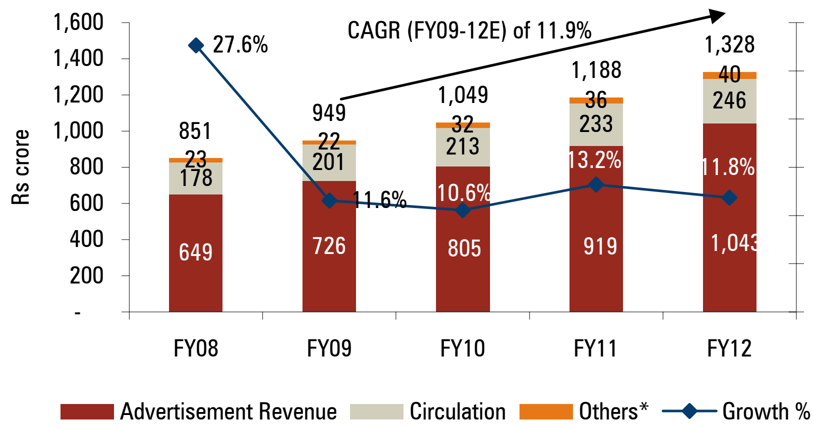
Financials

Regional focus to support strong revenue growth

The company reported its consolidated topline of Rs 949.0 crore in FY09 growing at a two year (FY07-09) CAGR of 19.33% on the back of 22.1% CAGR in ad revenue and 9.4% CAGR in circulation revenue over the same period. The company exhibited sturdy ad growth of 12.2% YoY in 9MFY10 owing to a revival in economic activities and higher spend by corporates as compared to 11.58% YoY in 9MFY09.

Riding on the regional bandwagon and leadership position, the company's total revenue is expected to grow at a robust pace. We expect the company to post a growth of 10.6% in the current fiscal. Driven by increasing circulation and higher ad revenue growth, we expect the company to report revenue CAGR (FY09-FY12E) of 11.9% to Rs 1328.4 crore in FY12E, led by 12.9% CAGR in ad revenue and 6.9% CAGR in circulation revenue over the same period.

Exhibit 25: Revenue growth



** Others include Event Management and other operating income*
Source: Company, ICICIdirect.com Research

Healthy EBITDA margin, going forward

The economic crisis led to declining revenue growth. This coupled with rising newsprint prices dented the margins of print media companies during FY09. Both domestic and international newsprint prices have peaked in FY09 due to a rise in crude prices and increased demand from US and China during Q2FY09. The major impact was, however, felt in H2FY09 as companies generally stock about three months of raw materials.

DB Corp was among the least affected companies in the print domain, as it consumes 80% of domestic newsprint. Nevertheless, average newsprint prices for the company during FY09 stood at ~Rs 31,050/MT as compared to ~Rs 25,488/MT in FY08. Newsprint peaked in Q2FY09 and started cooling off at the end of Q3FY09, resulting in dented margins in Q2FY09 and Q3FY09.

The high cost inventory has got cleared out of the system. On a consolidated basis, the company reported an EBITDA margin of 33.5% in 9MFY10 as compared to 12.1% in 9MFY09. We have estimated the average newsprint cost at ~Rs 25054/MT, Rs 27250/MT and ~Rs 29295/MT for FY10E, FY11E and FY12E, respectively. We expect the EBITDA margin to decline to 31.9% in FY11E and 29.9% in FY12E due to expansion into newer markets.

The average newsprint price for the company during FY09 stood at ~Rs 30,000/MT as compared to ~Rs 25,488/MT in FY08. We have estimated the average newsprint cost at ~Rs 25054/MT, Rs 27250/MT and ~Rs 29295/MT in FY10E, FY11E and FY12E, respectively.

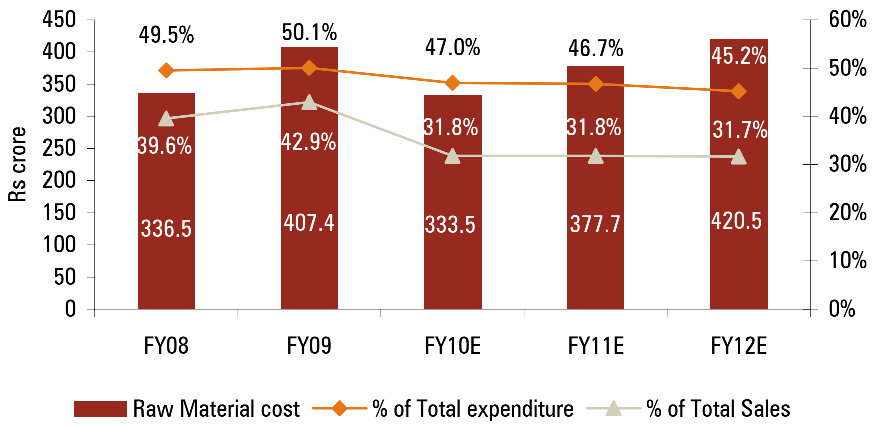
Exhibit 26: Raw material metrics

	FY07	FY08	FY09	FY10E	FY11E	FY12E
Copies sold / day (mn)	3.3	3.7	3.8	4.1	4.2	4.3
% increase		**11.4**	**3.4**	**6.7**	**3.4**	**3.3**
Pages/copy	32	32	21	21	21	21
Total newsprint (MT)	114,692	130,668	137,255	133,116	139,603	142,782
% increase		**13.9**	**5.0**	**-3.0**	**4.9**	**2.3**
Blended rate (Rs/MT)	27,366	25,488	29,976	25,054	27,250	29,295
% increase		**-6.9**	**17.6**	**-16.4**	**8.8**	**7.5**
Newsprint cost (Rs Cr)	**327**	**337**	**407**	**334**	**378**	**420**
% increase		**2.87**	**21.1**	**-18.1**	**13.2**	**11.3**

Source: Company, ICICIdirect.com Research

Newsprint prices peaked in Q2FY09 and started cooling off at the end of Q3FY09, resulting in dented margins in Q2FY09 and Q3FY09. Newsprint as a percentage of total revenue went up from 39.4% in FY08 to 42.9% in FY09. With newsprint prices cooling off, the raw material cost is expected to fall to 31.8% of revenues in FY10E

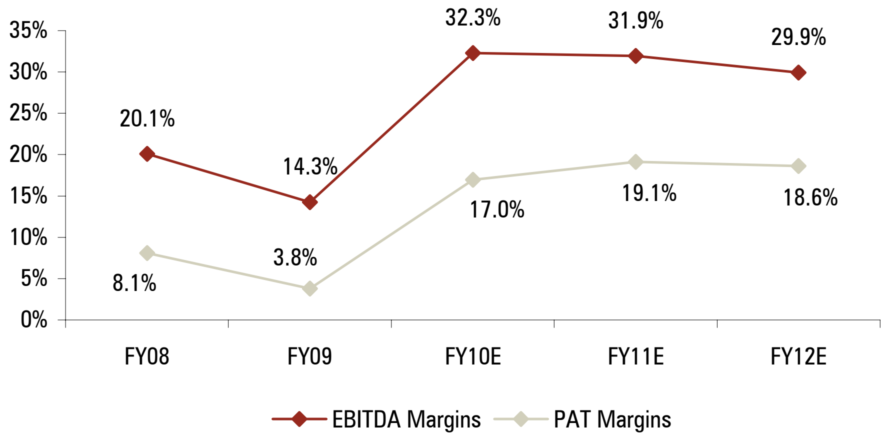
Exhibit 27: Raw material metrics



Source: Company, ICICIdirect.com Research

We expect the EBITDA margin to decline to 31.9% in FY11E and 29.9% in FY12E due to an expansion into newer markets. On the back of higher revenue growth, stabilising newsprint prices and lower interest expense on account of loan repayment, we expect the PAT margin to expand to 17.0% in FY10E

Exhibit 28: EBITDA and PAT margin



Source: Company, ICICIdirect.com Research

The PAT margin in FY09 stood at 3.8%, as compared to 8.5% in FY08. Lower revenue growth coupled with high operational cost and higher interest outgo dented the PAT margin. On the back of higher revenue growth, stabilising newsprint prices and lower interest expenses on account of loan repayment, we expect the PAT margin to expand to 17.0% in FY10E. We estimate that interest cost would go down to Rs 24.7 crore in FY10E and Rs 8.1 crore in FY12E as compared to Rs 40.2 crore in

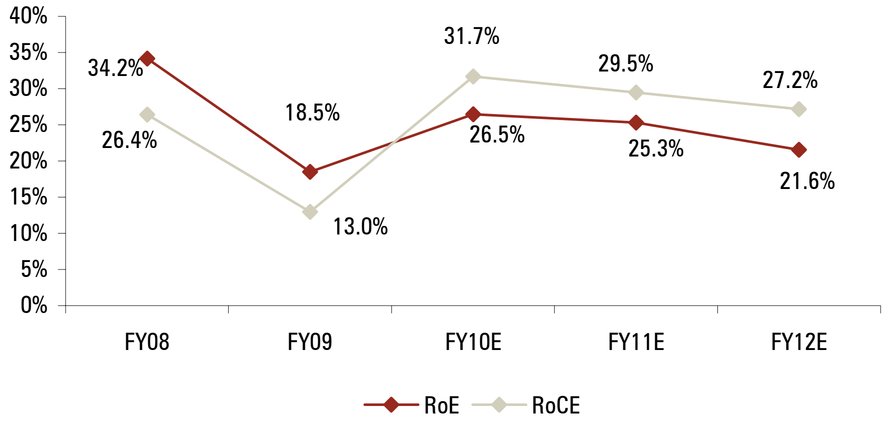
We expect an RoE and RoCE of 25.3% and 29.5%, respectively, in FY11E. Going forward, return ratios are expected to decline marginally

FY09. Going forward, we expect the PAT margin to stabilise at 18.6% by FY12E.

Healthy return ratios

RoCE during FY09 reached the lowest level of ~18.5%, induced by high cost inventory led dismal operating performance. With an improvement in macroeconomic conditions and increasing visibility, we expect RoE and RoCE of 25.3% and 29.5%, respectively, for FY11E. Going forward, return ratios are expected to decline marginally with a decline in profitability.

Exhibit 29: RoE and RoCE



Source: Company, ICICIdirect.com Research

With increasing income levels in non-metros and consumption increasing in smaller towns and villages, media companies with a focus on regional advertisement have been more resilient to the slowdown. They have been able to post handsome growth in advertisement revenues, while their national competitors have witnessed a decline in revenue

At the CMP of Rs 228, the stock is trading at 17.7x FY11E EPS of Rs 12.9 and 16.5x FY12E EPS of Rs 13.9. We value the stock at 19x (~5% discount to Jagran Prakashan) FY12E EPS to arrive at a target price of Rs 263. This implies an upside of 15.5% over the current price. We are initiating coverage on DB Corp with a **BUY** rating.

Valuations

With increasing income levels in non-metros and consumption increasing in smaller towns and villages, advertisers have started to focus on non-metro towns and allocate higher budgets to non-metro advertising. Consequently, media companies with a focus on regional advertisement have been more resilient to the slowdown. They have been able to post handsome growth in advertisement revenues, while their national competitors have witnessed a decline in revenues.

We expect the current trend to continue for a while. Players like DB Corp, which cater to regional demand, would continue to command a premium to national players.

The revenue and EBITDA of the company have grown at the fastest pace in the industry over FY07-09 (compared to newspaper revenue of the peers). However, due to high interest cost, the PAT declined by 7.1% over FY07-09, while that for the market leader Jagran Prakashan grew by 9.6% over the same period. The company has repaid some of its debt while the interest expense for 9MFY10 has declined to Rs 20.2 crore from Rs 29.4 crore in 9MFY09. With further repayment of debt from the IPO proceeds, this expense is expected to decline even further.

P/E based valuation of Rs 263/ share

At the CMP of Rs 228, the stock is trading at 17.7x FY11E EPS of Rs 12.9 and 16.5x FY12E EPS of Rs 13.9. We value the stock at 19x (~5% discount to Jagran Prakashan) FY12E EPS to arrive at a target price of Rs 263. This implies an upside of 15.5% over the current price. We are initiating coverage on DB Corp with a **BUY** rating.

Exhibit 30: Comparative Valuation

Year End Mar 31	HT Media	Deccan	Jagran	DB Corp
Current Price (Rs)	155	148	118	228
Rating	REDUCE	STRONG BUY	-	BUY
Price target	143	195	-	263
Implied upside (%)	-8	32	-	15
Valuation				
FY09 P/E	4,008.6	25.9	38.8	86.8
FY10E P/E	28.9	11.8	23.8	19.8
FY11E P/E	21.5	11.8	19.6	17.7
FY12E P/E	16.2	9.7	15.4	16.5
FY09 EV/EBITDA	43.6	11.8	23.8	34.2
FY10E EV/EBITDA	15.0	6.4	13.4	12.3
FY11E EV/EBITDA	11.4	5.4	10.5	10.5
FY12E EV/EBITDA	8.8	4.2	7.9	9.3
CAGR (%) Growth rates (FY09-12E)				
Revenue	9.1	13.2	13.0	11.9
EBITDA	62.7	28.0	34.2	43.2
PAT	514.6	37.7	36.1	74.1
EPS	514.0	37.7	36.1	74.1
Profitability				
EBITDA Margin (%), FY10E	18.2	45.2	28.5	32.3
EBITDA Margin (%), FY11E	20.9	44.0	30.6	31.9
EBITDA Margin (%), FY12E	21.6	44.8	31.9	29.9

Source: Company, ICICIdirect.com Research

Table and Ratios

Profit and loss statement

(Rs Crore)

(Year-end March)	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	850.6	949.0	1,049.3	1,187.8	1,328.4
% Growth	27.6	11.6	10.6	13.2	11.8
Raw Material Consumed	336.5	407.4	333.5	377.7	420.5
% of Sales	39.6	42.9	31.8	31.8	31.7
Operating Expenses	120.6	145.6	128.8	148.5	179.3
% of Sales	14.2	15.3	12.3	12.5	13.5
Personnel Expenses	93.6	133.1	133.0	148.5	159.4
% of Sales	11.0	14.0	12.7	12.5	12.0
SG&A Expenses	124.9	121.7	107.0	127.7	163.4
% of Sales	14.7	12.8	10.2	10.8	12.3
Other Expenses	4.19	5.87	7.97	6.00	8.00
% of Sales	0.5	0.6	0.8	0.5	0.6
Total Expenditure	679.8	813.7	710.3	808.3	930.6
% Growth		19.7	(12.7)	13.8	15.1
Operating Profit	170.9	135.3	338.9	379.5	397.8
% Growth	99.5	(20.8)	150.5	12.0	4.8
Other Income	12.1	12.0	7.0	19.6	29.4
Depreciation	22.0	29.0	38.6	45.4	49.5
EBIT	148.8	106.3	300.3	334.0	348.2
% Growth		-	-	-	-
Interest	28.1	40.2	24.7	14.6	8.1
Profit before Tax	132.8	78.2	282.7	339.1	369.6
% Growth		(41.1)	261.6	20.0	9.0
Taxation	63.0	42.3	104.7	111.9	122.0
Net Profit before MI	**69.78**	**35.82**	**177.93**	**227.18**	**247.61**
Prior Period expense	0.84	0.00	0.00	0.00	0.00
Minority Interest	(6.1)	(11.8)	(7.4)	(6.8)	(3.7)
Net Profit	**75.1**	**47.6**	**185.4**	**234.0**	**251.3**

Balance Sheet

(Rs Crore)

(Year-end March)	FY08	FY09	FY10E	FY11E	FY12E
Liabilities					
Equity Share Capital	168.8	168.8	181.5	181.5	181.5
Reserves & Surplus	51.0	88.9	518.9	743.0	984.4
Secured Loans	322.8	541.2	226.2	186.2	93.6
Unsecured Loans	20.8	21.9	21.9	21.9	21.9
Current Liabilities & Provisions	171.4	218.9	259.1	289.9	315.3
Others	58.8	51.7	44.2	37.5	33.8
Total Liabilities	**793.6**	**1,091.4**	**1,251.8**	**1,459.9**	**1,630.5**
Assets					
Gross Block	403.5	469.5	718.5	753.8	773.5
Less Accumulated Depreciation	65.1	93.2	131.8	177.2	226.7
Net Block	338.5	376.3	586.7	576.6	546.8
Capital WIP	23.8	270.8	60.8	60.8	60.8
Total Fixed Assets	362.3	647.1	647.5	637.4	607.6
Investments	6.8	23.8	23.8	123.8	223.8
Loans & Advances	97.8	105.2	116.3	131.6	147.2
Cash	80.8	45.2	191.3	234.1	312.4
Trade Receivables	175.5	177.4	173.3	223.7	220.3
Inventories	67.1	71.1	78.6	89.0	99.5
Total Current Assets	421.2	398.8	559.5	678.4	779.4
Miscellaneous expenditure	3.3	21.7	21.0	20.4	19.7
Total Asset	**793.6**	**1,091.4**	**1,251.8**	**1,459.9**	**1,630.5**

Cash Flow statement

(Rs Crore)

(Year-end March)	FY08	FY09	FY10E	FY11E	FY12E
Profit after Tax	75.1	47.6	185.4	234.0	251.3
Depreciation	22.0	29.0	38.6	45.4	49.5
Deferred Tax Liability	6.9	4.7	-	-	-
Cash Flow before WC Changes	**125.7**	**51.1**	**217.2**	**273.3**	**297.8**
Net Increase in Current Liabilities	62.2	47.6	40.1	30.8	25.4
Net Increase in Current Assets	44.8	(13.2)	(14.6)	(76.1)	(22.8)
Cash Flow after WC Changes	**232.6**	**85.4**	**242.7**	**228.0**	**300.4**
Purchase of Fixed Assets	(107.9)	(313.8)	(39.0)	(35.3)	(19.7)
Increase / (Decrease) in Investments	(6.8)	(17.0)	-	(100.0)	(100.0)
Cash Flow from Investing Activities	**(114.7)**	**(330.8)**	**(39.0)**	**(135.3)**	**(119.7)**
Inc / (Dec) in Loan Funds	(34.1)	219.5	(315.0)	(40.0)	(92.6)
Inc / (Dec) in Equity Capital	166.7	(0.0)	12.7	-	-
Inc / (Dec) in Share premium	-	0.0	254.5	-	-
Payment of Dividend and corporate tax	(9.9)	(9.9)	(9.9)	(9.9)	(9.9)
Inc / (Dec) in General Reserve	(166.9)	-	-	-	-
Less: adjustments	(12.8)	0.2	-	-	-
Cash Flow from Financing Activities	**(57.0)**	**209.8**	**(57.6)**	**(49.9)**	**(102.4)**
Op bal Cash & Cash equivalents	19.9	80.8	45.2	191.3	234.1
Closing Cash/ Cash Equivalent	**80.8**	**45.2**	**191.3**	**234.1**	**312.4**

Ratios

(Year-end March)	FY08	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)					
EPS	4.1	2.6	11.5	12.9	13.8
Cash EPS	5.3	4.2	12.3	15.4	16.6
Book Value	12.1	14.2	38.6	50.9	64.2
Operating Profit Per Share	9.4	7.5	18.7	20.9	21.9
Operating Ratios					
Operating Margin (%)	20.1	14.3	32.3	31.9	29.9
Net Profit Margin (%)	8.1	3.8	17.0	19.1	18.6
Return Ratios					
RoE (%)	34.2	18.5	26.5	25.3	21.6
RoCE (%)	26.4	13.0	31.7	29.5	27.2
Valuation Ratios					
EV/EBITDA	26.1	34.8	12.5	10.7	9.5
PE	56.1	88.4	20.1	18.0	16.8
EV/Sales	5.3	5.0	4.0	3.4	2.9
Sales to Equity	3.9	3.7	1.5	1.3	1.1
Market Cap to sales	5.0	4.4	4.0	3.5	3.2
Price to Book Value	19.2	16.3	6.0	4.6	3.6
Turnover Ratios					
Fixed Assets Turnover Ratio	2.3	1.5	1.6	1.9	2.2
Debtors Turnover Ratio	5.3	5.4	6.0	6.0	6.0
Creditors Turnover Ratio	7.2	6.0	5.3	5.2	5.3
Cash to Absolute Liabilities	0.5	0.2	0.7	0.8	1.0
Solvency Ratios					
Debt/Equity	1.6	2.2	0.4	0.2	0.1
Current Ratio	2.5	1.8	2.2	2.3	2.5
Quick Ratio	2.0	1.6	1.4	1.5	1.5

DuPont Analysis

(%)

	FY07	FY08	FY09E	FY10E	FY11E	FY12E
PAT / PBT	87.2	56.5	60.9	65.6	69.0	68.0
PBT / EBIT	84.2	89.2	73.5	94.1	101.5	106.1
EBIT / Sales	11.1	17.5	11.2	28.6	28.1	26.2
Sales / Assets	116.2	136.7	108.8	95.6	101.5	101.0
Assets / Equity	342.0	283.1	338.6	141.7	126.6	112.8
RoE	32.3	34.2	18.5	26.5	25.3	21.6

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Reduce: Up to -10%
Sell: -10% or more;

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