

# Deccan Chronicle

 Rs107  
 UPGRADE TO OUTPERFORMER

## RESULT NOTE

Mkt Cap: Rs26bn; US \$619m

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**Result:** FY08

**Comment:** Too cheap to ignore!

## Key valuation metrics

Year to 31 March (Rs m)	Net Sales	% change yoy	Net Profit	% change yoy	EPS (Rs)	% change yoy	PER (x)
FY07	5,527	67.0	1,614	138.4	6.8	-58.9	15.8
FY08	8,946	61.9	3,034	88.0	12.5	84.9	8.6
FY09E	12,465	39.3	3,651	20.3	15.0	20.3	7.1
FY10E	14,700	17.9	4,419	21.0	18.2	21.0	5.9

Deccan Chronicle (DCHL) has reported consolidated revenues of Rs8.95bn, EBITDA of Rs5.5bn and PAT of Rs3bn in FY08. The growth was driven by 45% growth in advertising revenues and Rs720m contributed by Sieger Solution (the internet business). EBITDA margins during the year have expanded from 46.7% in FY07 to 61.2% in FY08 on the back of rapidly growing advertising revenues and lower marketing spends. DCHL has during the year securitized ~Rs2bn of receivables taking a one time discount of Rs250m. DCHL has reportedly reduced debtor days to 90 days from 200 days a year back.

We have had a negative bias on Deccan Chronicle since initiation in June 2007 and our stance has been vindicated by its near 50% underperformance to the Sensex in the last one year. Our concern with regards to DCHL stemmed from discomfort over the receivable cycles at about 200 days (industry average at 55-60 days), fund raise far ahead of the capex, sustainability of the business economics (60%+ operating margin) as indeed scalability of the business given the regional focus. While some of the aforesaid concerns remain as indeed our structurally bearish stance on print media (has delivered a negative return globally over the last decade), we believe that DCHL has witnessed a sharp de-rating in the past one year. With stock trading at 7x FY09E earnings, near term triggers in the form of stake sale to New York Times in Sieger Solutions (internet business) and optional value of IPL, we believe that the stock has bottomed out (net cash of Rs5bn) and could see a pullback from the current levels. Merely on account of cheap valuations, we upgrade our call on DCHL to Outperformer.

## HIGHLIGHTS OF FY08 RESULTS

- Deccan Chronicle (DCHL) has reported consolidated revenues of Rs8.95bn, EBITDA of Rs5.5bn and PAT of Rs3bn in FY08.
- The growth was driven by 45% growth in advertising revenues and Rs720m contributed by Sieger Solution (the internet business). Subscription revenues grew by 8% at Rs440m.
- DCHL has during the year marked its entry into Bangalore. It has also launched its financial newspaper – Financial Chronicle in the markets of Mumbai, Bangalore, Hyderabad and Chennai. DCHL's presence now pans across 14 editions
- EBITDA margins during the year have expanded from 46.7% in FY07 to 61.2% in FY08 on the back of rapidly growing advertising revenues and lower marketing spends.

- However, we expect margins to fall in FY09, on account of increasing newsprint prices and gestation losses in Bangalore and Financial newspaper.
- DCHL has securitized Rs2bn of its receivables with ICICI taking a one time head cut of Rs250m. This helps in bringing down DCHL's receivables days to 90 days
- During the quarter, DCHL's revenues have grown by 39% at Rs2bn, EBITDA of Rs1.2bn and PAT of Rs27m. PAT has been affected sharply on account of higher tax provisioning of 99% to adjust for full year tax.
- DCHL's internet business – Sieger Solutions has entered into agreement with New York Times to give back end support and manage NYT's web business. Management believes that this would add Rs1.5bn of incremental revenues
- DCHL is in talks with New York Times for 5% stake sale in Sieger Solutions, which did profit of Rs350m in FY08.
- DCHL owns Hyderabad team in IPL (at USD107m). As per the management, they have clocked in revenues of Rs1.07bn and incurred expenses to the tune of Rs880m (will be included in financials of FY09).

### □ **Print Media – extending reach**

DCHL continues to capitalize upon its dominance in the Andhra Pradesh market and its strong presence in Chennai. DCHL has finally launched its long awaited entry into Bangalore market. However, the competitive scenario in the Bangalore market is relatively intense. DCHL has also launched its financial newspaper in association with The International Herald Tribune (a New York Times' property) under the brand Financial Chronicle. Currently Financial Chronicle operates in markets of Mumbai, Chennai, Bangalore and Hyderabad. While financial newsdaily is an attractive and rapidly growing market, competitive landscape is getting more intense with the The Economic Times reigning the space and plethora of new launches in the recent times or new lined up – Mint, Jagran18 (alongwith TV18), etc. DCHL currently operates across 14 editions and is expected to add 4 more during the year. As DCHL capitalizes upon its South India presence, we expect advertising revenue growth at 18% CAGR over FY08-10. DCHL has been aggressively marketing its financial newspaper.

### □ **Sieger Solutions – potential value unlock**

DCHL's internet properties – deccanchronicle.com (general news), papyrusclubs.com (education) and mydigitalfc.com (financial news) reside under its 100% subsidiary Sieger Solutions. Sieger Solution does Rs720m of revenues, primarily driven by subscription revenues from papyrusclubs.com, the site targeted to schools and youngsters. We believe that presence on internet platform becomes a must for any print media company, considering the increasing shift of readership from print to internet. DCHL has also entered into agreement with New York Times to offer support services and manage NYT's web properties. While currently NYT is reportedly spending USD70m on managing its own properties, Sieger Solutions is expected to rake in Rs1.5bn of incremental revenues through this deal. DCHL has plans to sell 5% equity in Sieger Solutions to New York Times.

### □ **While concerns continue – financials and scalability**

We have had negative bias on DCHL on account of disconnect with regards to financials (profitability as also Balance Sheet) and scalability of the business.

*Financial concerns:* DCHL's receivable days had moved up sharply from FY04-07 and were at 200 days in FY07. This is far ahead of industry average of 55-60 days. While DCHL has brought down this to 90 days in FY08 by securitization of debtors at 12% discount, we continue to believe that as DCHL continues its high credit cycles, more importantly when it enters the competitive market of Bangalore, the working capital requirement would only move up. Also, our concerns have been with regards to high fund raise ahead of planned capex. DCHL in the last three years has raised Rs6bn through equity and FCCB issuance, besides debt raise of ~Rs4.3bn. DCHL's balance sheet size has grown from Rs2bn in FY04 to Rs15.6bn in FY07. Of this only Rs4.5bn has gone towards capex (including Rs400m towards purchase of airplane), while rest has gone towards funding working capital. DCHL currently has Rs10bn of cash and Rs5bn of debt on books. Also DCHL's high margin profile – over 60% EBITDA margins, as against competition at 20%+ is bothering, as we believe that such margin profile would only invite more competition and are less sustainable.

*Scalability:* While DCHL continues to dominate the AP market, it could see a more intense competition in Chennai (Times of India getting aggressive), Bangalore (a more competitive market) and financial newspaper (where the clutter is increasing). Also we see limitation in scalability – becoming a national player. Competition would surely enter the highly lucrative market of South (DCHL makes profits of Rs3bn+ by just being a regional player, whereas HT Media makes half of its albeit wider presence). Besides national print players, we see competition from regional broadcasters (South India set to witness plethora of launch in regional entertainment and regional news broadcasting from players like NDTV, TV18, Zee, etc).

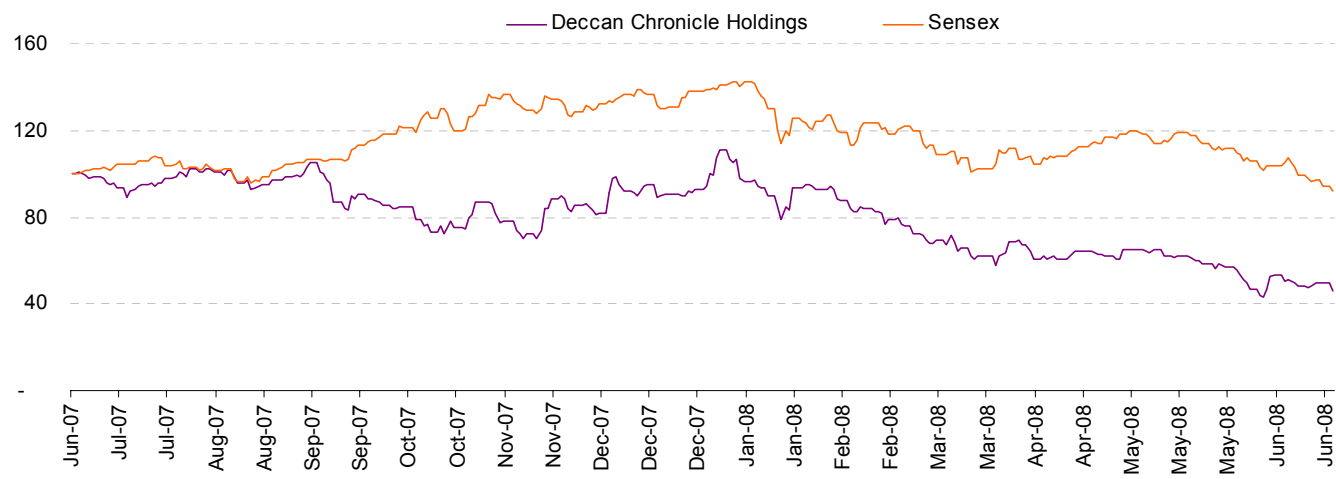
### □ ...valuations too cheap – Upgrade to Outperformer

We have had a negative bias on Deccan Chronicle since initiation in June 2007 and our stance has been vindicated by its near 50% underperformance to the Sensex in the last one year. While our concerns with regards to DCHL continue as indeed we maintain our structurally bearish stance on print media (has delivered a negative return globally over the last decade), we believe that DCHL has witnessed a sharp de-rating in the past one year. With stock trading at 7x FY09E earnings, near term triggers in the form of stake sale to New York Times in Sieger Solutions (internet business) and optional value of IPL, we believe that the stock has bottomed out and could see a pullback from the current levels. Merely on account of cheap valuations, we upgrade our call on DCHL to Outperformer.

#### Quarterly results

(Rs Mn)	Q4FY07	FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	FY08	FY09E	FY10E
<b>Net Sales</b>	<b>1,475.5</b>	<b>5,527</b>	<b>1,733.5</b>	<b>1,877.7</b>	<b>2,162</b>	<b>2,050.5</b>	<b>8,946</b>	<b>12,465</b>	<b>14,700</b>
% yoy	64.86	67.0	35.00	25.83	47.69	38.97	61.9	39.3	17.9
<b>EBITDA</b>	<b>730.8</b>	<b>2,582</b>	<b>1,036.9</b>	<b>1,177.8</b>	<b>1,412.9</b>	<b>1,232.6</b>	<b>5,472</b>	<b>6,130</b>	<b>7,261</b>
EBITDA %	49.5	46.7	59.8	62.7	65.4	60.1	61.2	49.2	49.4
Depreciation	47.2	171	71.2	66.3	70.9	71.5	300	435	505
Net interest	113.3	332	129.8	173.6	213.3	251.2	886	553	503
Other Income	205.3	323	102.6	90.8	102.5	82.9	396	475	546
Profit before Tax	775.6	2,402.1	938.5	1,028.7	1,231.2	992.8	4,682	5,617	6,799
Tax	519.7	787.8	101	202.7	201.8	965.6	1,648	1,966	380
<b>Profit After Tax</b>	<b>255.9</b>	<b>1,614.2</b>	<b>837.5</b>	<b>826</b>	<b>1,029.4</b>	<b>27.2</b>	<b>3,034</b>	<b>3,651</b>	<b>4,419</b>

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2. Neutral: Within 0-10% to Index
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