

Expansion in tough times to impact margins

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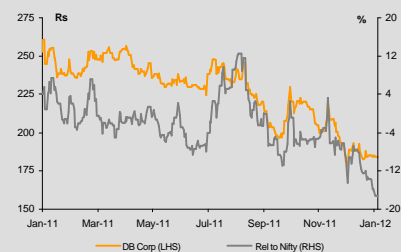
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs184	Rs228
EPS change FY12E/13E (%)	-12.0 /-12.4
Target Price change (%)	-15.9
Sensex	5,046
Nifty	16,752

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(17)	(24)	(24)
Rel. to Nifty	(9)	(17)	(14)	(14)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Print Media
Bloomberg	DBCL@IN
Equity Capital (Rs mn)	1833
Face Value(Rs)	10
No of shares o/s (mn)	183
52 Week H/L	268/170
Market Cap (Rs bn/USD mn)	34/678
Daily Avg Volume (No of sh)	16356
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	86.4	86.5	86.5
FII/NRI	5.2	5.4	8.7
Institutions	4.3	4.2	3.5
Private Corp	3.1	3.0	0.4
Public	1.0	1.0	0.9

Source: Capitaline

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- Con. Revenue at Rs3.9bn was up 13.6% yoy (in line with est.). Ad revenue of Rs3.0bn, growing by 7.8% yoy (our estimate of 10.2%). Print ad revenues grew 7.1% yoy to Rs2.9bn
- EBITDA at Rs1.0bn declined 11.4% yoy. EBITDA margin declined 724bps to 25.7%, on account of losses from Jharkhand and Maharashtra launches
- Q3FY12 PAT at Rs553mn (our est. of Rs570mn), declined 16.1% yoy due to lower EBITDA (incl. forex loss of Rs27.9mn) and higher interest cost (incl. forex loss of Rs59.4mn)
- Cut our EPS est. by 12.0%/12.4% for FY12E/13E resulting in EPS of Rs10.6/13.8 for FY12E/13E. Maintain ACCUMULATE with revised TP of Rs228 (earlier Rs271)

Ad growth weak, other revenue streams aid growth

DB Corp reported revenue growth on expected lines, aided by strong circulation revenue and other operating income (due to consolidation of MP printers acquired last quarter). Cons. ad revenue at Rs3.0bn increased 7.8% yoy was below our est. of 10.2%. Circulation revenue positively surprised with 17.2% yoy growth to Rs63.0mn, driven by the new launches and increase in cover price in some of its mature markets. Radio rev. stood at Rs157mn, up 22.1% with EBITDA margin of 28% v/s 9% in last quarter. Radio broke-even at net levels and reported PAT of Rs22mn. EBITDA declined by 11.4% yoy to Rs1.0bn and EBITDA margins declined by 724bps yoy to 25.7%. EBITDA decline is attributed to expansion in Maharashtra and Jharkhand market. PAT for the quarter stood at Rs553mn down 16.1% yoy, led by forex loss of Rs59.4mn.

Slower ad growth, high costs to remain a drag on profitability

Company's EBITDA declined 11.4% yoy to Rs1.0bn primarily due to increase of 25.9% yoy in expenditure v/s revenue growth of 13.6% yoy. Slower ad growth due to tough economic condition and ongoing expansion in Maharashtra would keep the margins under pressure. Further, rupee depreciation would also impact newsprint cost. Raw material and Employee cost saw 26.9% and 30.2% yoy increase, respectively. EBITDA loss from the emerging market during the quarter stood at Rs165mn v/s Rs231mn in Q2FY12, losses would further increase as Maharashtra expansion is not yet completed.

Outlook

DB Corp has reported strong set number in H1FY12 but the current economic condition has resulted in slower ad revenue growth. Nevertheless, we believe ad growth for DB Corp to accelerate over the coming years led by expansion in Jharkhand and Maharashtra. DB Corp's leadership position in key markets (Rajasthan, MP& Chhattisgarh, Gujarat, Haryana and Punjab) would garner strong ad revenues led by recovery in ad spends. We expect ad growth revival to happen in H2FY13E, driven by improvement in overall economic scenario.

Cut est, retain ACCUMULATE with revised TP of Rs228 (earlier Rs271)

Looking at slower ad growth and cost pressures led by new launches and higher currency exchange rate (impacting newsprint cost), we have revised our EPS estimated downwards by 12.0%/12.4% resulting in EPS of Rs10.6/13.8 for FY12E/13E. At CMP of Rs184, the stock trades at 17.4x and 13.3x on our EPS for FY12E and FY13E, resp. The company has declared interim dividend of Rs1.75/share.

Financial Snapshot

Rs Mn

Y/E - Mar	Net Sales	EBITDA (Core)	(%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (%)	P/E	EV/ EBITDA	P/BV
FY10	10630	3429	32.3	1828	10.0	283.8	28.2	16.0	10.2	5.3
FY11	12652	4031	31.9	2585	14.1	41.4	31.2	13.0	8.7	4.1
FY12E	14687	3537	24.1	1940	10.6	-25.0	20.7	17.4	9.8	3.6
FY13E	16701	4397	26.3	2531	13.8	30.5	23.6	13.3	7.8	3.2

Quarterly financials

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Sales	3,482	3,174	3,537	3,539	3,955	13.6	11.8	11,032	9,479	16.4
Raw Material	1064.5	1041.6	1183.6	1244.8	1350.4	26.9	8.5	3,779	2,798	35.1
as % of sales	30.6	32.8	33.5	35.2	34.1			34.3	29.5	
Employee Cost	484.5	492.0	575.0	613.4	630.8	30.2	2.8	1,819	1,354	34.4
as % of sales	13.9	15.5	16.3	17.3	15.9			16.5	14.3	
SG&A expenses	399.1	436.0	383.9	458.2	466.4	16.8	1.8	1,309	1,022	28.1
as % of sales	11.5	13.7	10.9	12.9	11.8			11.9	10.8	
Other operating expenses	385.9	408.3	391.5	451.4	490.1	27.0	8.6	1,333	1,071	24.5
as % of sales	11.1	12.9	11.1	12.8	12.4			12.1	11.3	
Total Expenditure	2334	2378	2534	2768	2938	25.9	6.1	8239	6244	32.0
EBITDA	1148	796	1003	771	1017	(11.4)	31.9	2,792	3,235	(13.7)
Depreciation	110.2	111.4	117.1	123.7	134.4	22.0	8.6	375.3	321.3	16.8
EBIT	1037.8	684.6	886.4	647.6	883.0	(14.9)	36.3	2417	2914	(17.1)
Other Income	30.0	36.4	36.6	19.5	24.8	(17.5)	26.9	80.9	105.4	(23.2)
Interest	34.1	34.2	26.9	67.0	80.6	136.2	20.4	174.5	118.9	46.8
PBT	1033.7	686.8	896.1	600.2	827.2	(20.0)	37.8	2323.4	2900.4	(19.9)
Tax	381.6	235.5	284.4	197.4	271.4	(28.9)	37.4	753.2	891.2	(15.5)
PAT before MI	652.1	451.3	611.7	402.7	555.8	(14.8)	38.0	1570.2	2009.2	(21.8)
Minority interest	-7.3	1.4	0.7	0.2	2.6			3.5	-23.0	(115.1)
PAT	659.4	449.9	611.0	402.6	553.2	(16.1)	37.4	1566.8	2032.2	(22.9)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	33.0	25.1	28.4	21.8	25.7	(724)	393	25.3	34.1	(882)
EBIT	29.8	21.6	25.1	18.3	22.3	(748)	403	21.9	30.7	(883)
EBT	29.7	21.6	25.3	17.0	20.9	(877)	396	21.1	30.6	(954)
PAT	18.9	14.2	17.3	11.4	14.0	(495)	261	14.2	21.4	(724)
Effective Tax rate	36.9	34.3	31.7	32.9	32.8	(410)	(9)	32.4	30.7	169

Key financials

Particulars	Mature Editions		*Emerging Editions		Radio		DBCL Standalone	
	Q2FY12	Q3FY12	Q2FY12	Q3FY12	Q2FY12	Q3FY12	Q2FY12	Q3FY12
Total Revenue	3086	3381	302	376	127	157	3515	3914
EBIDTA	1002	1141	-194	-144	11	44	819	1041
EBIDTA %	32.5	33.7	-64.3	-38.3	9.0	28.0	23.3	26.6
EBIDTA after pre-opex	1002	1141	-231	-165	11.4	44	782	1019
EBIDTA %	32.5	33.7	-76.5	-43.9	9.0	28.0	22.2	26.0

*Emerging Editions losses also include loss of Rs. 12 million for the new printing centres /Editions, opened in the mature markets of Rajasthan, Gujarat, MP, Haryana and Punjab

Cut EPS estimates by 12.0%/12.4% for FY12E/13E

We have revised ad growth assumptions downwards to 12.9%/15.6% for FY12/13E. On the cost front we have re-aligned our currency (Rs/USD) assumptions from Rs47/USD to Rs49.5 for FY13E, leading to higher cost for imported newsprint cost. Increase in circulation and higher newsprint cost would keep raw material on the higher end. As management has indicated that it will be launching its 5th edition by April, 2012 in Maharashtra in Solapur which would keep the cost on the uptrend. Given, the pressure on the advertisement revenue and higher cost led by expansions, we revise our EPS estimate downwards for FY12E/13E by 12.0%/12.4% to Rs10.6/Rs13.8. At CMP of Rs184, the stock trades at 17.4x and 13.3x our estimated EPS for FY12E and FY13E, respectively.

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	14,876.0	14687.2	-1.3%	17,375.3	16700.7	-3.9%
EBIDTA	3,805.9	3536.8	-7.1%	4,808.5	4396.6	-8.6%
EBIDTA %	25.6	24.1	-150 bps	27.7	26.3	-135 bps
PAT	2203.3	1939.7	-12.0%	2890.3	2531.4	-12.4%
EPS	12.0	10.6	-12.0%	15.8	13.8	-12.4%

Financials

Income statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	10,630	12,652	14,687	16,701
<i>Growth (%)</i>	<i>12.0</i>	<i>19.0</i>	<i>16.1</i>	<i>13.7</i>
Raw material	3,279	3,839	5,118	5,490
Employee cost	1,318	1,846	2,459	2,666
SG&A expenses	1,170	1,458	1,765	2,095
Other operating expenses	1,433	1,479	1,808	2,053
Total operating expenditure	7,200	8,621	11,150	12,304
EBITDA	3,429	4,031	3,537	4,397
<i>Growth (%)</i>	<i>153.4</i>	<i>17.5</i>	<i>-12.3</i>	<i>24.3</i>
Depreciation		433	511	602
<i>EBIT</i>	<i>3,051</i>	<i>3,598</i>	<i>3,026</i>	<i>3,795</i>
EBIT margin (%)	28.7	28.4	20.6	22.7
Other Income	112	142	112	188
Interest expenses	357	153	254	206
PBT	2,806	3,587	2,884	3,776
Tax	1,057	1,000	941	1,242
<i>Effective tax rate (%)</i>	<i>37.7</i>	<i>27.9</i>	<i>32.6</i>	<i>32.9</i>
PAT before MI	1,748	2,587	1,943	2,534
Minority interest	-79	3	4	3
Adjusted PAT after MI	1,828	2,585	1,940	2,531

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	2,694	3,445	2,772	3,589
Depreciation	378	433	511	602
Interest	357	153	254	206
Other Non-Cash items	2,582	119	0	-300
Chg in working cap	-244	-406	-585	-222
Tax paid	-1,057	-1,000	-941	-1,242
Operating Cashflow	4,710	2,744	2,011	2,632
Capital expenditure	-382	-1,317	-1,092	-810
Free Cash Flow	4,328	1,427	919	1,822
Other income	112	142	112	188
Investments	33	42	0	0
Investing Cashflow	-238	-1,133	-980	-622
Equity Capital Raised	231	6	-9	5
Loans Taken / (Repaid)	-2,424	-835	300	-100
Interest Paid	-357	-153	-254	-206
Dividend paid (incl tax)	-424	-849	-849	-849
Financing Cashflow	-2,973	-1,831	-813	-1,150
Net chg in cash	1,498	-220	218	859
Opening cash position	452	1,950	1,730	1,948
Closing cash position	1,950	1,730	1,948	2,808

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	1,815	1,833	1,833	1,833
Reserves & surplus	4,672	6,456	7,530	8,913
Net worth	6,487	8,289	9,363	10,745
Secured Loans	2,966	2,082	2,382	2,282
Unsecured Loans	241	290	290	290
Loan Funds	3,207	2,372	2,672	2,572
Net deferred tax liability	609	695	695	695
Minority Interest	44	4	7	8
Total Liabilities	10,347	11,359	12,737	14,020
Gross Block	7,165	8,408	9,499	10,299
Less: Depreciation	1,305	1,729	2,240	2,842
Net block	5,861	6,678	7,259	7,457
Capital work in progress	614	681	681	691
Investment	205	163	163	163
Current Assets	5,614	5,917	7,153	8,461
Inventories	722	728	772	794
Sundry debtors	1,934	2,401	2,911	3,129
Cash & bank balance	1,950	1,730	1,948	2,808
Loans & advances	1,008	1,058	1,522	1,730
Current lia & Prov	2,073	2,189	2,621	2,849
Current liabilities	1,706	1,648	1,973	2,145
Provisions	367	541	648	704
Net current assets	3,542	3,728	4,531	5,613
Misc. exp & Def. Assets	126	110	103	97
Total Assets	10,347	11,359	12,737	14,020

Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	32.3	31.9	24.1	26.3
Net Margin	17.9	20.5	13.9	15.2
ROCE	31.5	33.8	25.1	28.5
ROE	28.2	31.2	20.7	23.6
RoIC	50.4	46.1	33.7	38.9
Per Share Data (Rs)				
EPS (adjusted)	10.0	14.1	10.6	13.8
CEPS	12.0	16.5	13.4	17.1
BVPS	34.9	44.6	50.6	58.1
DPS	2.0	4.0	4.0	4.0
Valuations (x)				
PER	16.0	13.0	17.4	13.3
P/CEPS	15.3	11.2	13.8	10.8
P/BV	5.3	4.1	3.6	3.2
EV / Sales	3.3	2.8	2.4	2.1
EV / EBITDA	10.2	8.7	9.8	7.8
Dividend Yield (%)	1.1	2.2	2.2	2.2
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.0	0.0	0.0
Net Debt/EBIDTA	0.3	0.1	0.2	-0.1

Recommendation History: D B Corp – DBCL IN

Date	Reports	Reco	CMP	Target
21/10/2011	DB Corp Q2FY12 Result Update	Accumulate	230	271
22/07/2011	DB Corp Q1FY12 Result Update	Accumulate	238	271
19/05/2011	DB Corp Q4FY11 Result Update	Hold	240	271
03/02/2011	DB Corp Event Update	Hold	253	284

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/01/2012	Dish TV Q3FY12 Result Update	Accumulate	61	73
15/11/2011	Dish TV Event Update	Accumulate	68	96
14/11/2011	Reliance Communication Q2FY12 Result Update	Hold	82	82
08/11/2011	Tulip Telecom Q2FY12 Result Update	Buy	150	218

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