

Beneficiary of fast-growing regional print sector [EXTRACT]

■ Initiate coverage with a Buy rating and Rs310.00 price target

DB Corp (DB) is the largest print media company in India in terms of total readership share of all its newspapers. Its flagship newspaper, Dainik Bhaskar, is the second-most widely-read Hindi newspaper in India. We believe the company will benefit the most from India's rapidly-growing regional print sector. DB is well-diversified geographically with presence in 13 states; it also plans to enter the Bihar and Maharashtra markets.

■ We forecast a print ad revenue CAGR of 14.5% for the next four years

This should be led by: 1) rapidly-growing advertising spend in the tier 2 and 3 cities due to strong economic growth compared to the metros, which is narrowing the gap between Hindi and English print ad rates; 2) DB's strong leadership position in multiple states, which allows it to command premium ad rates over its Hindi print media peers; 3) a growing proportion of colour advertisements (from 64% of total ads in FY10 to 71% in H1 FY11); and 4) its expansion into new geographies.

■ Entry into Maharashtra likely to be positive in the medium term

In FY12, DB plans to launch a Marathi language newspaper in Maharashtra, a large regional print market with an estimated advertising revenue market size of around Rs7bn per annum. This should be positive for DB in the medium term given management's good track record with multiple new launches in the past.

■ Valuation: DB is our top pick in India's print media sector

We derive our price target based on FY13E EPS of Rs17.20 and 18.0x PE (in line with its historical trading average since its listing).

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	9,610	10,630	12,310	14,220	16,359
EBIT (UBS)	1,183	3,051	3,580	3,727	4,471
Net Income (UBS)	476	1,828	2,361	2,615	3,152
EPS (UBS, Rs)	2.82	10.61	13.01	14.27	17.20
Net DPS (UBS, Rs)	0.58	2.46	3.68	4.28	6.88

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	-	28.7	29.1	26.2	27.3
ROIC (EBIT) %	-	40.1	43.5	40.4	45.1
EV/EBITDA (core) x	-	13.9	11.6	10.7	8.8
PE (UBS) x	-	23.1	19.4	17.7	14.6
Net dividend yield %	-	1.0	1.5	1.7	2.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs252.00 on 05 Apr 2011 23:38 SGT

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India

Publishing

12-month rating **Buy**
Prior: *Not Rated*

12m price target **Rs310.00/US\$6.98**

Price **Rs252.00/US\$5.67**

RIC: DBCL.BO BBG: DBCL IB

6 April 2011

Trading data (local/US\$)

52-wk range	Rs290.15-225.75/US\$6.51-4.73
Market cap.	Rs45.7bn/US\$1.03bn
Shares o/s	182m (ORD)
Free float	14%
Avg. daily volume ('000)	12
Avg. daily value (m)	Rs2.8

Balance sheet data 03/11E

Shareholders' equity	Rs8.91bn
P/BV (UBS)	5.1x
Net Cash (debt)	(Rs0.16bn)

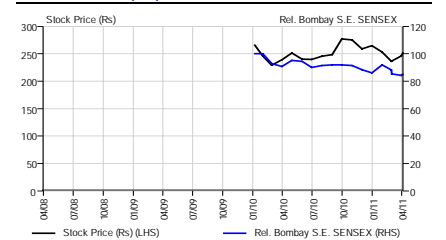
Forecast returns

Forecast price appreciation	+23.0%
Forecast dividend yield	1.9%
Forecast stock return	+24.9%
Market return assumption	13.1%
Forecast excess return	+11.8%

EPS (UBS, Rs)

	03/11E		03/10
	From	To	Actual
Q1	-	3.83	2.99
Q2	-	3.03	2.55
Q3	-	3.63	2.93
Q4E	-	2.51	2.13
03/11E	-	13.01	-
03/12E	-	14.27	-

Performance (Rs)


www.ubs.com/investmentresearch

This is an extract from our Indian Media Sector initiation of coverage report published on 06 April 2011. For more detail, please refer to the longer report.

Investment Thesis

DB Corp (DB) is the largest print media company in India in terms of total readership of its newspapers. Its flagship newspaper *Dainik Bhaskar* is the second most widely-read Hindi newspaper in India, with an average daily readership of 14.0m (Q410 IRS survey). We initiate coverage of DB with a Buy rating and a Rs310.00 price target (18x FY13E EPS). DB is our top pick in India's print media sector. We have a Buy rating on DB due to the following.

- **Geographically well diversified.** DB has significant readership share in multiple states, which reduces its dependence on any single state. DB is India's largest newspaper company in terms of readership in Madhya Pradesh, Chhattisgarh, Haryana, Punjab (Jalandhar, Amritsar and Ludhiana [JAL]), Chandigarh and Rajasthan (a few cities). It is also the leader in Gujarat in terms of circulation, according to the Audit Bureau of Circulation (ABC) January-June 2010 circulation data.
- **Strong ad revenue growth.** We forecast a 14.5% four-year CAGR (FY10-14) for DB's print advertising revenue due to its strong leading position, which enables it to command premium ad rates over its peers in some markets and allows it to raise advertising rates by 10-12% per annum. DB's proportion of colour advertisements has also increased from 64% of its total in FY10 to 71% in H1 FY11.
- **Management vision and strong execution track record.** We believe management has demonstrated strong execution skills during its launch of multiple new editions in new states as well as in a new language. DB has attained a leadership position in terms of circulation copies on the first day of its launch in cities such as Jaipur, Chandigarh, Haryana and Ahmedabad.
- **We believe DB's entry into Maharashtra is positive.** DB plans to launch a newspaper in the Marathi language in Maharashtra, which should be positive in the medium term. Maharashtra is a high-growth regional market, with an estimated print ad revenue market size of around Rs7bn per annum—the company expects it to grow more than 15% annually. DB is likely to launch in Aurangabad in August 2011.

We believe the key risks for DB are: 1) intense competition; 2) rising newsprint prices, which could impact profitability; 3) its heavy dependence on advertising revenue; and 4) losses in new launches, which could be higher than anticipated.

Key catalysts

- **IRS readership data.** IRS readership data is released quarterly. We believe IRS readership data that shows an increase in the readership of its key newspapers such as *Dainik Bhaskar* could act as a catalyst.
- **More clarity on Radio Phase 3 auctions.** DB operates 17 radio channels in North India, in places where the company also has print operations. The third phase of radio licensing is expected to be announced soon. We believe the profitability of DB's radio business could improve significantly after Phase 3 licensing as it might look to address some issues currently faced by radio companies. If the release of news content is allowed, this could act as a catalyst as DB can derive cost synergies by leveraging content generated for its newspapers on its radio platform.
- **Stable newsprint prices.** Newsprint prices constituted around 46% of DB's total operating expenses in FY10. Data points showing stability in newsprint prices is likely to act as a catalyst for all print media companies, including DB.
- **Increase in circulation for new launches.** A pick up in circulation copies for new launches such as in Jharkhand could act as a catalyst.
- **Increase in cover price.** DB's average realisation per circulated copy was Rs1.56 in FY10 (compared to Rs2.01 for peer Jagran Prakashan). Should DB raise its cover price by Rs0.5, this could increase its circulation revenue by Rs710m.

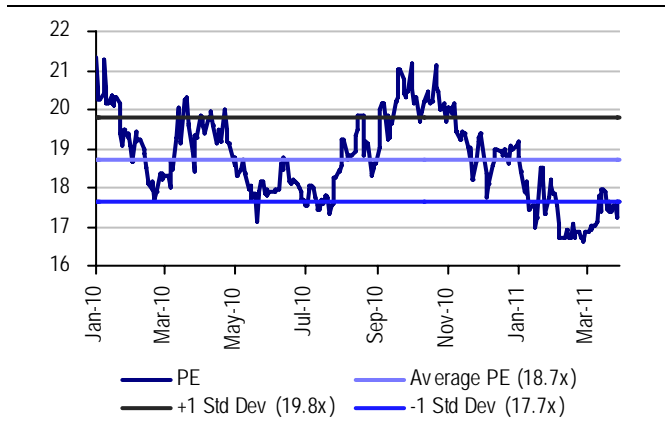
Risks

- **An increase in newsprint prices.** Newsprint constituted around 46% of DB's total costs in FY10. We believe a significant increase in newsprint prices could impact its EBITDA margins. We assume an 8% increase in newsprint prices in FY12-13.
- **Currency fluctuations.** As DB imports 20-30% of its total consumed newsprint, this exposes it to currency fluctuation risk, primarily through the US\$/Rs exchange rate.
- **Heavy dependence on ad revenue.** Advertising revenue constituted around 76% of DB's FY10 revenue. In a macroeconomic slowdown, this dependence could impact profitability as both advertising rates and volume would come under pressure.
- **Losses for its new launches could be higher than expected.** DB recently launched in Jharkhand, with plans to launch in Maharashtra and Bihar in FY12-13. The company initially guided for a total operating loss of Rs1.25bn and capex of Rs800m in three years for its Bihar and Jharkhand launches. There is a risk that its losses could be higher than estimated for the Bihar and Maharashtra launches.
- **Intense competition.** Competition could intensify in some of its markets.

Valuation and basis for our price target

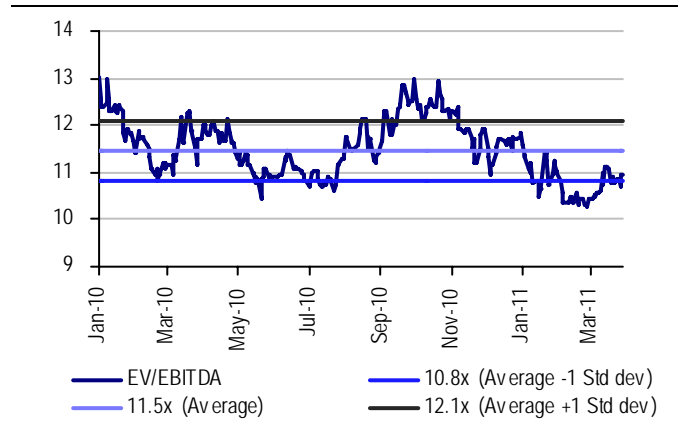
We have a Buy rating for DB and a Rs310.00 price target, 23% above its current share price. We value DB at 18.0x FY13E PE, in line with its average one-year forward PE since its listing in January 2010.

Chart 1: One-year forward PE



Source: Company data, Bloomberg, UBS estimates

Chart 2: One-year forward EV/EBITDA



Source: Company data, Bloomberg, UBS estimates

We believe DB deserves to trade at a premium to its peers given the company’s leadership position in multiple states, some of which are in a high-growth phase. DB management also has vision and strong execution skills, in our view.

UBS versus consensus

Table 1: DB—UBS versus consensus estimates

Rs m	UBS estimates			Consensus estimates			UBS vs. consensus		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Revenue	12,310	14,220	16,359	12,521	14,519	16,831	-1.7%	-2.1%	-2.8%
EBITDA	4,000	4,195	4,981	4,129	4,670	5,433	-3.1%	-10.2%	-8.3%
EBITDA margin	32.5%	29.5%	30.4%	33.0%	32.2%	32.3%			
Net profit	2,671	2,615	3,152	2,532	2,948	3,609	5.5%	-11.3%	-12.7%

Source: Bloomberg, UBS estimates

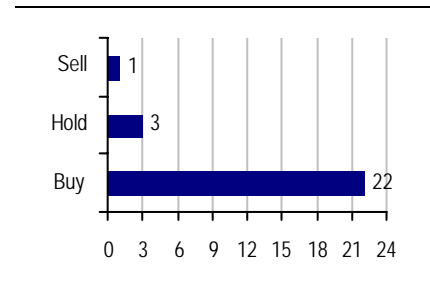
Our FY13 net profit estimate is 13% below Bloomberg consensus; we think consensus has not fully incorporated the impact of DB’s Maharashtra launch in FY12. Share price weakness from consensus earnings downgrades could present an attractive buying opportunity, in our view.

Sensitivity analysis

We conduct a sensitivity analysis of our EPS estimates using the following parameters.

- **Advertising revenue growth.** A 1% increase in our advertising revenue growth base assumption for FY13 would lead to a 1.5% increase in FY13E EPS.
- **EBITDA margin.** A 1% increase in our FY13 EBITDA margin base assumption would lead to a 3.8% decrease in our valuation.
- **Newsprint prices.** A 1% increase in our FY13 newsprint base assumption would lead to a 1.1% decrease in our valuation.

Chart 3: DB—consensus ratings



Source: Bloomberg

Competitive advantage

Figure 1: DB—SWOT analysis

STRENGTHS 1. Strong brand presence with leadership positions in most established markets 2. Wide geographical reach 3. Strong management execution skills 4. Local content	OPPORTUNITIES 1. Growth in ad spend led by strong GDP growth 2. Increasing print media penetration in tier 2 and 3 cities 3. Improving literacy levels
WEAKNESSES 1. Heavy reliance on advertising revenue 2. Losses for its new launches, such as in Maharashtra, could be higher than expected	THREATS 1. Competition from other newspapers and media platforms 2. Newsprint prices could increase 3. Increasing penetration of digital media could affect newspaper readership

Source: UBS

- **Strong brand presence and leadership position in most markets.** DB has a strong brand presence and is the leader in most markets it operates in (SEC-A and SEC-B). Its flagship newspaper *Dainik Bhaskar* is the second-most widely-read Hindi newspaper in India, with an average daily readership of 14.0m.
- **Wide geographical reach.** DB has presence in 13 states in North, Central and West India. The company plans to further expand its geographical reach and launch a Marathi language newspaper in the state of Maharashtra. It also plans to launch a Hindi newspaper in Bihar after the Maharashtra launch.
- **Management vision and strong execution skills.** DB's Chairman has around 50 years of experience in the print media industry. We believe management demonstrated strong execution skills during its launch of multiple new editions. DB has attained a leadership position in terms of circulation copies on its first day of launching in cities such as Jaipur, Bikaner, Haryana, Chandigarh, Jalandhar and Amritsar. It also launched a Gujarati newspaper, *Divya Bhaskar*, which attained a leadership position in terms of circulation copies on the first day of its launch in Ahmedabad.

Management strategy

- **Geographic and brand expansion.** DB currently has presence in 13 states and publishes newspapers in Hindi, Gujarati and English. Management has plans to expand geographically into states such as Maharashtra (likely in 2011) and Bihar (likely at end-FY12). It recently launched in the Jharkhand market and is likely to launch in Dhanbad in April 2011. The company will also look to add more editions of *Dainik Bhaskar* in its existing markets if it thinks there is advertising revenue potential.

On February 2011, DB announced plans to launch a Marathi language newspaper in Maharashtra (cities excluding Mumbai and Pune). Management believes Maharashtra is a high-growth regional market although it is a non-Hindi one. Given its success in Gujarat with the launch of Gujarati newspaper *Divya Bhaskar*, management appears to be fairly confident of launching a non-Hindi newspaper. Maharashtra's print ad revenue market size is estimated at around Rs7bn—the company expects this to grow more than 15% per annum. DB has appointed Kumar Ketkar as Chief Editor of *Dainik Divya Marathi*. Kumar Ketkar has around 40 years of experience in journalism.

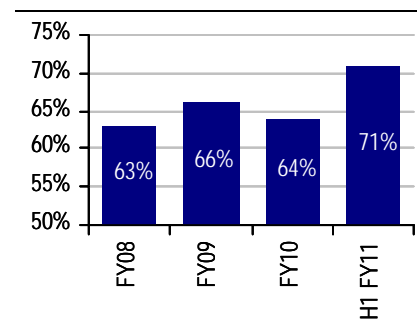
Table 2: Key statistics for Maharashtra

Population (m)	106.9
Literacy	77.0%
Can read Marathi (m)	63.5
Read any Marathi daily (m)	18.4
Penetration gap	71.0%

Source: Company data

- **Focus on growing ad revenue by improving ad yields.** In FY10, a large proportion of DB's revenue growth came from volume growth. Going forward, the company aims to grow its ad revenue in existing markets by raising ad rates. DB is planning for card rate increases of 10-12% per annum, going forward. It is also likely to increase the proportion of colour advertisements as this helps improve advertising yields.
- **Expand circulation in cities.** DB is targeting the SEC-A and SEC-B population in cities as they are the key target audience for most advertisers. DB does not have a rural focus. The company also aims to expand circulation and is unlikely to raise its cover prices in the near term.
- **Bid for radio licences in Phase III auctions.** DB plans to bid for radio licences in areas where it already has print operations.

Chart 4: DB—colour advertisements (% of total advertising)



Source: Company data

Financials

Profit and loss

Table 3: DB—consolidated income statement

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Revenues	6,754	8,627	9,610	10,630	12,310	14,220	16,359	18,593
Cost of goods sold	(4,222)	(4,571)	(5,531)	(4,594)	(5,080)	(6,173)	(7,015)	(7,868)
Gross profit	2,532	4,056	4,079	6,036	7,230	8,047	9,344	10,725
SGA	(1,706)	(2,447)	(2,895)	(2,985)	(3,651)	(4,319)	(4,873)	(5,414)
EBIT	827	1,609	1,183	3,051	3,580	3,727	4,471	5,310
Interest	(206)	(281)	(402)	(245)	(42)	8	33	64
Profit before taxes	621	1,328	782	2,806	3,537	3,736	4,504	5,374
Taxes	(80)	(630)	(423)	(1,057)	(1,220)	(1,121)	(1,351)	(1,612)
Profit after tax	541	698	358	1,749	2,317	2,615	3,152	3,762
Minorities	5	61	118	79	44	-	-	-
Abnormal items (post-tax)	(4)	(8)	2	-	310	-	-	-
Net income	542	751	478	1,828	2,671	2,615	3,152	3,762
Revenue growth	26.7%	27.7%	11.4%	10.6%	15.8%	15.5%	15.0%	13.7%
EBIT margin	12.2%	18.6%	12.3%	28.7%	29.1%	26.2%	27.3%	28.6%
EBIT growth	16.3%	94.6%	-26.4%	157.8%	17.3%	4.1%	19.9%	18.8%
Net profit growth	46.4%	38.6%	-36.3%	282.6%	46.1%	-2.1%	20.5%	19.3%

Source: Company data, UBS estimates

Table 4: DB—consolidated revenue breakdown

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Print	6,514	8,213	8,989	9,894	11,847	13,597	15,564	17,640
- Advertising	4,866	6,389	6,979	7,776	9,723	11,550	13,601	15,755
- Circulation	1,648	1,824	2,009	2,118	2,151	2,182	2,223	2,256
Radio	20	152	271	350	454	614	785	942
Event management	39	56	105	148	178	217	252	286
Others	183	259	273	278	301	316	330	345
Total revenue	6,756	8,680	9,638	10,670	12,352	14,264	16,406	18,642
Eliminations	(2)	(53)	(28)	(40)	-42	-44	-47	-49
Reported revenue	6,754	8,627	9,610	10,630	12,310	14,220	16,359	18,593

Source: Company data, UBS estimates

DB had a four-year consolidated revenue CAGR of 18.8% in FY06-10, led by growth in print media and the emergence of new revenue streams such as radio and event management. The company started its radio and event management businesses in FY07—they made up around 5% of its FY10 revenue. We forecast revenue will expand at a four-year CAGR (FY10-14) of 15.0% to Rs18.6bn by FY14. Over the next four years, we estimate print segment revenue CAGR at 14.5%, and radio ad revenue CAGR at 25.7%.

Table 5: DB—consolidated operating costs breakdown

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Raw materials consumed (newsprint)	(3,271)	(3,365)	(4,074)	(3,279)	(3,774)	(4,554)	(5,164)	(5,772)
% to sales	48.4%	39.0%	42.4%	30.8%	30.7%	32.0%	31.6%	31.0%
- Quantity consumed (tonnes)	114,692	130,678	137,255	130,271	142,803	159,546	167,524	173,387
- Quantity consumed per copy (kg)	98	100	100	99	100	103	103	103
- Price per kg (Rs per tonne)	28,523	25,753	29,685	25,168	26,427	28,541	30,824	33,290
% growth	6.8%	-9.7%	15.3%	-15.2%	5.0%	8.0%	8.0%	8.0%
Printing magazines purchased (print)	(18)	(0)	-	-	-	-	-	-
Decrease in stock of finished goods (print)	-	1	(1)	0	-	-	-	-
Event expenses	(31)	(42)	(70)	(118)	(140)	(171)	(198)	(223)
Operating expenses	(933)	(1,206)	(1,456)	(1,315)	(1,306)	(1,619)	(1,852)	(2,096)
Personnel expenses	(539)	(936)	(1,331)	(1,318)	(1,717)	(1,906)	(2,175)	(2,453)
Administration, selling & other expenses	(1,016)	(1,249)	(1,205)	(1,170)	(1,373)	(1,775)	(1,990)	(2,188)
Total operating expenses	(5,808)	(6,798)	(8,137)	(7,200)	(8,310)	(10,025)	(11,378)	(12,733)
EBITDA	946	1,829	1,473	3,429	4,000	4,195	4,981	5,860
EBITDA margin	14.0%	21.2%	15.3%	32.3%	32.5%	29.5%	30.4%	31.5%

Source: Company data, UBS estimates

DB recorded a total operating expense CAGR of 12.3% for FY06-10. We forecast an operating cost CAGR of 15.3% for FY10-14. Raw material costs (newsprint) constitute a significant portion of its total operating costs (46% of total costs in FY10). We estimate newsprint prices will increase at an average of 8% every year over FY12-13. We forecast its EBITDA margin will decline to 29.5% in FY12 due to losses from new launches such as in Maharashtra, and the full impact of Jharkhand.

DB announced a merger of its radio subsidiary into itself as it is likely to derive revenue and cost synergies from the move. The company is likely to get a one-time tax benefit of around Rs310m with this merger of its radio business subsidiary. The tax benefit is likely to come in Q4 FY11.

Balance sheet

Table 6: DB—consolidated balance sheet

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Net tangible fixed assets	2,764	3,623	6,471	6,475	6,904	7,287	7,476	7,627
Net intangible fixed assets	-	-	-	-	416	416	416	416
Net working capital	2,759	1,690	1,347	1,591	2,021	2,373	2,812	3,270
Other long term liabilities	(277)	(346)	(393)	(609)	(609)	(609)	(609)	(609)
Total invested capital	5,246	4,967	7,425	7,457	8,732	9,466	10,095	10,704
Investments/other assets	11	101	454	331	331	831	1,331	1,831
Total capital employed	5,257	5,068	7,880	7,788	9,063	10,297	11,425	12,534
Net (cash)/debt	3,578	2,628	5,179	1,257	157	(440)	(1,203)	(1,975)
Minority interest	2	242	124	44	0	0	0	0
Shareholders' funds	1,676	2,198	2,577	6,487	8,906	10,736	12,628	14,509
Total capital employed	5,257	5,068	7,880	7,788	9,063	10,297	11,425	12,534
Fixed asset growth	35.4%	31.1%	78.6%	0.1%	6.6%	5.5%	2.6%	2.0%
Working capital growth	-0.7%	-38.8%	-20.3%	18.1%	27.0%	17.4%	18.5%	16.3%
Capital employed growth	14.4%	-3.6%	55.5%	-1.2%	16.4%	13.6%	11.0%	9.7%

Source: Company data, UBS estimates

In January 2010, DB raised Rs3.85bn from an initial public offering of 18.175m shares at a price of Rs212.00 per share. This has been partly used to repay loans worth Rs1.1bn, with the remainder to be used for setting up new publishing units and upgrading its existing plants and machinery. The following table shows the utilisation of its IPO proceeds.

Table 7: Utilisation of IPO proceeds

Rs m	Amount to be utilised as per prospectus	Actual utilisation March 2010	Actual utilisation June 2010	Actual utilisation September 2010	Actual utilisation December 2010	Balance remaining
Setting up publishing units	600	26	81	209	291	309
Upgrading existing plant and machinery	305	12	44	173	323	(18)
Sales and marketing	501	-	4	4	4	497
Reducing working capital loans	41	41	41	41	41	-
Prepayment of existing term loans	1,100	1,100	1,100	1,100	1,100	-
Issue expenses	143	97	101	103	112	31
Total	2,690	1,276	1,371	1,631	1,871	819

Source: Company data

Going forward, we believe the company is likely to fund its expansion through internal accruals given it generates sufficient operating cash flow.

For DB's merger of its radio business subsidiary with itself, it has announced a share swap ratio of 10:1. DB has issued 1.732m shares for this.

Table 8: DB—consolidated net working capital

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Accounts receivable	1,468	1,755	1,774	1,934	2,293	2,649	3,048	3,464
Inventory	634	671	711	722	835	1,015	1,153	1,293
Other current assets	1,749	978	1,052	1,008	1,180	1,364	1,569	1,783
Accounts payable	(957)	(1,144)	(1,292)	(1,238)	(1,392)	(1,691)	(1,922)	(2,156)
Other short term liabilities	(136)	(570)	(897)	(835)	(897)	(963)	(1,036)	(1,115)
Net working capital	2,759	1,690	1,347	1,591	2,021	2,373	2,812	3,270
Days of receivables	79	74	67	66	68	68	68	68
Days of inventory	55	54	47	57	60	60	60	60
Days of payables	83	91	85	98	100	100	100	100
Days of NWC	149	72	51	55	60	61	63	64

Source: Company data, UBS estimates

Cash flow statement

Table 9: DB—consolidated cash flow statement

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
EBIT	827	1,609	1,183	3,051	3,580	3,727	4,471	5,310
Depreciation	120	220	290	378	421	468	511	549
Change in working cap	19	1,069	343	(244)	(429)	(352)	(439)	(458)
Other operating	227	245	158	501	-	-	-	-
Operating cash flow	1,192	3,143	1,974	3,686	3,571	3,843	4,542	5,401
Interest	(206)	(281)	(402)	(245)	(42)	8	33	64
Taxes paid	(80)	(630)	(423)	(1,057)	(1,220)	(1,121)	(1,351)	(1,612)
Capex	(840)	(1,079)	(2,954)	(596)	(850)	(850)	(700)	(700)
Free cash flow	66	1,153	(1,805)	1,787	1,458	1,881	2,524	3,153
Dividends (common)	(2)	(2)	(99)	(258)	(668)	(785)	(1,261)	(1,881)
Share issues/buybacks	0	-	-	2,535	-	-	-	-
Other	(184)	(200)	(647)	(142)	310	(500)	(500)	(500)
Cash flow (increase)/decrease in net debt	(121)	950	(2,551)	3,922	1,100	596	763	772
Free cash flow yield	n/a	n/a	n/a	4.0%	3.1%	4.1%	5.4%	6.8%
Dividend yield	n/a	n/a	n/a	1.0%	1.4%	1.7%	2.7%	4.0%
Capex/sales	12.4%	12.5%	30.7%	5.6%	6.9%	6.0%	4.3%	3.8%
Net debt to equity	213.5%	119.6%	201.0%	19.4%	1.8%	-4.1%	-9.5%	-13.6%

Source: Company data, UBS estimates

DB raised Rs3.85bn in January 2010, primarily to fund its expansion plans and partly to repay debt. The company generates sufficient operating cash flow for its expansion needs. We estimate total FY12 capex at Rs850m. Management has guided for capex related to the launch of its Marathi language newspaper in Maharashtra at Rs600-700m (likely to be incurred over the next 18 months), which will be funded through internal accruals.

Return on capital

Table 10: DB—ROE/ROCE decomposition

Rs m	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Asset turnover	128.7%	168.9%	155.1%	142.8%	152.1%	156.3%	167.3%	178.8%
EBIT margin	12.2%	18.6%	12.3%	28.7%	29.1%	26.2%	27.3%	28.6%
EBIT ROIC	15.8%	31.5%	19.1%	41.0%	44.2%	41.0%	45.7%	51.1%
Taxes	87.1%	52.5%	45.8%	62.3%	65.5%	70.0%	70.0%	70.0%
Returns on invested capital	13.7%	16.6%	8.8%	25.6%	29.0%	28.7%	32.0%	35.7%
IC as % of capital employed	99.8%	98.9%	95.7%	95.0%	96.1%	94.0%	90.0%	86.8%
Returns on other invested capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other assets/CE	0.2%	1.1%	4.3%	5.0%	3.9%	6.0%	10.0%	13.2%
Returns on capital employed	13.7%	16.4%	8.4%	24.3%	27.8%	27.0%	28.8%	31.0%
Leverage	235.7%	222.6%	221.9%	163.2%	124.3%	98.8%	93.7%	89.3%
Minorities	100.1%	106.3%	107.7%	101.9%	100.3%	100.0%	100.0%	100.0%
Exceptional	99.3%	98.9%	100.3%	100.0%	113.1%	100.0%	100.0%	100.0%
ROE	32.1%	38.3%	20.1%	40.3%	39.3%	26.6%	27.0%	27.7%

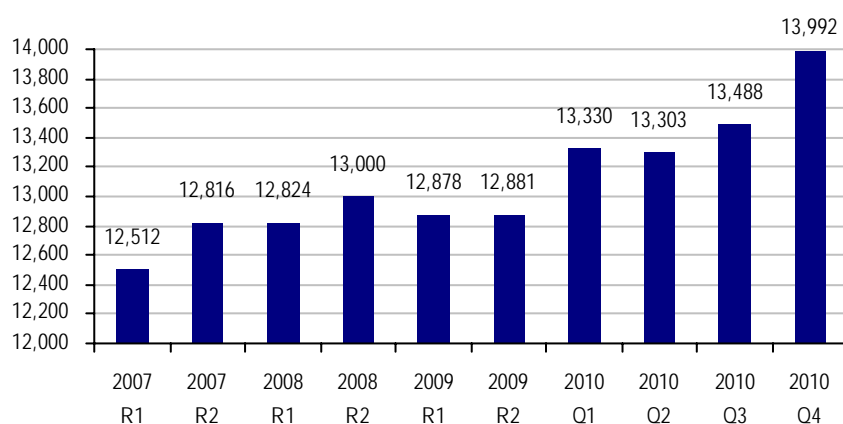
Source: Company data, UBS estimates

We expect DB's return on capital employed (ROCE) and ROE to decline in FY12 as the company is likely to invest in its Maharashtra and Bihar launches—which are likely to generate operating losses during the first few quarters. We expect both ROCE and ROE to start picking up from FY13 onwards.

Company background

DB started operations in 1958, with the launch of its first Hindi newspaper in Bhopal, Madhya Pradesh. It was listed on the Bombay Stock Exchange (BSE) in January 2010. The company publishes seven newspapers, 52 editions and 135 sub-editions in Hindi, Gujarati and English across 13 states in India. DB is the largest print media company in India in terms of total readership of its newspapers. The company's flagship brand *Dainik Bhaskar* is the second-most widely-read Hindi newspaper in India with a daily average issue readership of 14.0m (Q410 IRS). DB's newspapers—*Dainik Bhaskar*, *Divya Bhaskar*, *Saurashtra Samachar*, *Business Bhaskar* and *DB Star*—combined have the highest readership in India of around 17.75m (Q410 IRS).

Chart 5: *Dainik Bhaskar* average issue readership (in '000s)



Source: IRS survey

DB also has radio licences for 17 stations in North India ('My fm') through its subsidiary Synergy Media Entertainment (SMEL). DB has merged its radio business with itself in FY11 in a 10:1 share swap (one share in DB for every 10 shares held in SMEL for all minority SMEL shareholders).

DB also operates Internet portals that provide online editions of *Dainik Bhaskar* (Hindi) and *Divya Bhaskar* (Gujarati). The company operates the following Internet and SMS portals: www.indiainfo.com, www.bhaskarnet.com, and www.divyabhaskar.co.in.

Table 11: Key management personnel

Name	Designation	Experience
Ramesh Chandra Agarwal	Chairman	Has a post graduate degree in Political Science, with around 42 years of experience in the publishing business.
Sudhir Agarwal	Managing Director	Has a Science degree with over 21 years of experience in the publishing business.
Girish Agarwal	Non Executive Director	Has a Commerce degree with over 17 years of experience in the publishing business; heads DB's marketing operations.
Pawan Agarwal	Non Executive Director	Has a Bachelor's degree in Industrial Engineering. Has over 11 years of experience in publishing; heads production and IT in DB.
Niten Malhan	Non Executive Director	Has a Computer Science degree from IIT Delhi and has an MBA from Ahmedabad, he is managing director of Warburg Pincus India.

Source: Company data

Figure 2: DB Corp's presence



Source: Company data, UBS

Table 12: Shareholding trend

%	March 2010	June 2010	Sept 2010	Dec 2010
Promoter	86.34	86.34	86.34	86.34
Public	13.64	13.66	13.66	13.66
- Mutual funds/Unit Trust of India (UTI)	2.54	2.74	3.09	3.07
- Foreign institutional investors (FII)	5.00	4.76	5.12	5.38
- Corporate bodies	0.60	0.71	0.63	0.60
- Individuals	1.81	1.78	1.14	0.97
- Others	3.69	3.67	3.68	3.65

Source: BSE

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	5,330	6,754	8,627	9,610	10,630	12,310	15.8	14,220	15.5	16,359	15.0
Operating expenses (ex deprn)	(4,535)	(5,808)	(6,798)	(8,137)	(7,200)	(8,310)	15.4	(10,025)	20.6	(11,378)	13.5
EBITDA (UBS)	795	946	1,829	1,473	3,429	4,000	16.6	4,195	4.9	4,981	18.7
Depreciation	(85)	(120)	(220)	(290)	(378)	(421)	11.1	(468)	11.2	(511)	9.2
Operating income (EBIT, UBS)	711	827	1,609	1,183	3,051	3,580	17.3	3,727	4.1	4,471	19.9
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(201)	(206)	(281)	(402)	(245)	(42)	-82.7	8	-	33	286.8
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	510	621	1,328	782	2,806	3,537	26.1	3,736	5.6	4,504	20.5
Tax	(140)	(80)	(630)	(423)	(1,057)	(1,220)	15.4	(1,121)	-8.2	(1,351)	20.5
Profit after tax	370	541	698	358	1,749	2,317	32.5	2,615	12.9	3,152	20.5
Abnormal items (post-tax)	0	(4)	(8)	2	0	310	-	0	-	0	-
Minorities / pref dividends	0	5	61	118	79	44	-44.7	0	-	0	-
Net income (local GAAP)	370	542	751	478	1,828	2,671	46.1	2,615	-2.1	3,152	20.5
Net Income (UBS)	370	545	759	476	1,828	2,361	29.1	2,615	10.8	3,152	20.5
Tax rate (%)	27	13	47	54	38	35	-8.4	30	-13.0	30	0.0
Pre-abnormal tax rate (%)	27	13	47	54	38	35	-8.4	30	-13.0	30	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	2.19	3.21	4.45	2.83	10.61	14.71	38.7	14.27	-3.0	17.20	20.5
EPS (UBS)	2.19	3.23	4.50	2.82	10.61	13.01	22.6	14.27	9.7	17.20	20.5
Net DPS	0.01	0.01	0.58	0.58	2.46	3.68	49.6	4.28	16.4	6.88	60.7
Cash EPS	2.69	3.94	5.80	4.54	12.80	15.32	19.7	16.82	9.8	19.99	18.8
BVPS	6.27	9.24	12.11	14.20	35.74	49.06	37.3	58.59	19.4	68.91	17.6
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	2,042	2,764	3,623	6,471	6,475	6,904	6.6	7,287	5.5	7,476	2.6
Net intangible fixed assets	0	0	0	0	0	416	-	416	0.0	416	0.0
Net working capital (incl. other assets)	2,800	2,770	1,723	1,564	1,717	2,146	25.0	2,498	16.4	2,937	17.6
Other liabilities	(247)	(277)	(346)	(393)	(609)	(609)	0.0	(609)	0.0	(609)	0.0
Operating invested capital	4,595	5,257	5,000	7,642	7,583	8,858	16.8	9,592	8.3	10,220	6.6
Investments	1	0	68	238	205	205	0.0	705	243.9	1,205	70.9
Total capital employed	4,596	5,257	5,068	7,880	7,788	9,063	16.4	10,297	13.6	11,425	11.0
Shareholders' equity	1,137	1,676	2,198	2,577	6,487	8,906	37.3	10,736	20.6	12,628	17.6
Minority interests	1	2	242	124	44	0	-99.1	0	0.0	0	0.0
Total equity	1,138	1,678	2,440	2,701	6,531	8,906	36.4	10,737	20.6	12,628	17.6
Net debt / (cash)	3,458	3,578	2,628	5,179	1,257	157	-87.5	(440)	-	(1,203)	173.6
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	4,596	5,257	5,068	7,880	7,788	9,063	16.4	10,297	13.6	11,425	11.0
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	711	827	1,609	1,183	3,051	3,580	17.3	3,727	4.1	4,471	19.9
Depreciation	85	120	220	290	378	421	11.1	468	11.2	511	9.2
Net change in working capital	-	19	1,069	343	(244)	(429)	75.7	(352)	-18.0	(439)	24.7
Other (operating)	-	227	245	158	501	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	-	1,192	3,143	1,974	3,686	3,571	-3.1	3,843	7.6	4,542	18.2
Net interest received / (paid)	-	(206)	(281)	(402)	(245)	(42)	-82.7	8	-	33	286.8
Dividends paid	-	(2)	(2)	(99)	(258)	(668)	158.8	(785)	17.5	(1,261)	60.7
Tax paid	-	(80)	(630)	(423)	(1,057)	(1,220)	15.4	(1,121)	-8.2	(1,351)	20.5
Capital expenditure	-	(840)	(1,079)	(2,954)	(596)	(850)	42.5	(850)	0.0	(700)	-17.6
Net (acquisitions) / disposals	-	0	0	0	0	0	-	0	-	0	-
Other	-	(184)	(200)	(647)	(298)	0	-	(500)	-	(500)	0.0
Share issues	-	0	0	0	2,535	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	-	(121)	950	(2,551)	3,767	790	-79.0	596	-24.6	763	28.0
FX / non cash items	-	0	0	0	156	310	99.2	0	-	0	-
Balance sheet (inc)/dec in net debt	-	(121)	950	(2,551)	3,922	1,100	-71.9	596	-45.8	763	28.0
Core EBITDA	795	946	1,829	1,473	3,429	4,000	16.6	4,195	4.9	4,981	18.7
Maintenance capital expenditure	-	-	-	-	(243)	(428)	76.0	(351)	-18.0	(438)	24.7
Maintenance net working capital	-	-	-	-	(595)	(849)	42.6	(849)	0.0	(699)	-17.7
Operating free cash flow, pre-tax	-	-	-	-	2,591	2,723	5.1	2,995	10.0	3,844	28.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

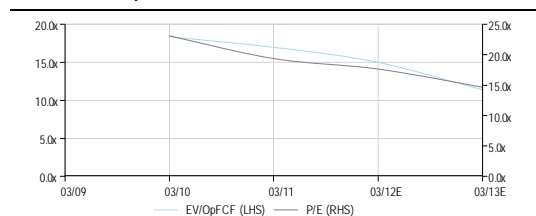
12m price target

Rs310.00

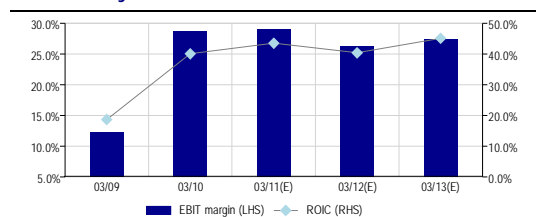
Company profile

DB Corp started operations in 1958, with the launch of its first Hindi newspaper in Bhopal, Madhya Pradesh. The company was listed on the Bombay Stock Exchange in January 2010. It publishes seven newspapers, 52 editions and 135 sub-editions in Hindi, Gujarati and English across 13 states in India. DB Corp is the largest print media company in India in terms of cumulative readership of its newspapers. The company's flagship brand 'Dainik Bhaskar' is the second most widely-read Hindi newspaper in India with a daily average issue readership of 14m (Q410 IRS).

Value (EV/OpFCF & P/E)



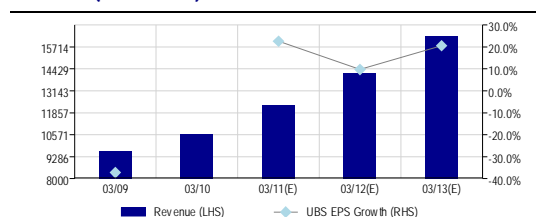
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	23.1	17.1	17.7	14.6
P/E (UBS)	-	-	23.1	19.4	17.7	14.6
P/CEPS	-	-	19.2	16.4	15.0	12.6
Net dividend yield (%)	-	-	1.0	1.5	1.7	2.7
P/BV	-	-	6.9	5.1	4.3	3.7
EV/revenue (core)	-	-	4.5	3.8	3.2	2.7
EV/EBITDA (core)	-	-	13.9	11.6	10.7	8.8
EV/EBIT (core)	-	-	15.6	12.9	12.0	9.8
EV/OpFCF (core)	-	-	18.4	17.0	15.0	11.4
EV/op. invested capital	-	-	6.2	5.6	4.9	4.4

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E	
Average market cap	-	44,504	45,746	45,746	45,746	
+ minority interests	-	124	44	0	0	0
+ average net debt (cash)	-	3,903	3,218	707	(142)	(821)
+ pension obligations and other	-	0	0	0	0	0
- non-core asset value	-	(238)	(205)	(205)	(705)	(1,205)
Core enterprise value	-	47,562	46,248	44,900	43,720	

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	-	11.4	10.6	15.8	15.5	15.0
EBITDA (UBS)	-	-19.5	132.8	16.6	4.9	18.7
EBIT (UBS)	-	-26.4	157.8	17.3	4.1	19.9
EPS (UBS)	-	-37.3	NM	22.6	9.7	20.5
Cash EPS	-	-21.8	182.1	19.7	9.8	18.8
Net DPS	-	0.0	NM	49.6	16.4	60.7
BVPS	-	17.2	151.8	37.3	19.4	17.6

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	-	15.3	32.3	32.5	29.5	30.4
EBIT / revenue	-	12.3	28.7	29.1	26.2	27.3
Net profit (UBS) / revenue	-	5.0	17.2	19.2	18.4	19.3

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	18.7	40.1	43.5	40.4	45.1
ROIC post tax	-	8.6	25.0	28.5	28.3	31.6
Net ROE	-	19.9	40.3	30.7	26.6	27.0

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	2.9	12.4	NM	-	-
Dividend cover (UBS EPS)	-	4.8	4.3	3.5	3.3	2.5
Div. payout ratio (% , UBS EPS)	-	20.7	23.2	28.3	30.0	40.0
Net debt / EBITDA	-	3.5	0.4	0.0	NM	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	1.5	1.4	1.5	1.5	1.7
Revenue / fixed assets	-	1.9	1.6	1.8	1.9	2.1
Revenue / net working capital	-	6.3	7.2	6.8	6.5	6.3

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	-	-	0.8	0.8	0.8	0.9
Capex / revenue (%)	-	NM	5.6	6.9	6.0	4.3
Capex / depreciation	-	NM	1.6	2.0	1.8	1.4

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	-	NM	19.4	1.8	(4.1)	(9.5)
Net debt / (net debt + equity)	-	66.8	16.2	1.7	(4.3)	(10.5)
Net debt (core) / EV	-	-	6.8	1.5	(0.3)	(1.9)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs252.00 on 05 Apr 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

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■ DB Corp

DB Corp started operations in 1958, with the launch of its first Hindi newspaper in Bhopal, Madhya Pradesh. The company was listed on the Bombay Stock Exchange in January 2010. It publishes seven newspapers, 52 editions and 135 sub-editions in Hindi, Gujarati and English across 13 states in India. DB Corp is the largest print media company in India in terms of cumulative readership of its newspapers. The company's flagship brand 'Dainik Bhaskar' is the second most widely-read Hindi newspaper in India with a daily average issue readership of 14m (Q410 IRS).

■ Statement of Risk

We believe the key risks for DB Corp are: 1) intense competition; 2) an increase in newsprint prices and currency fluctuations, which could impact profitability; 3) a heavy dependence on advertising revenue; and 4) losses for the new launches, which could be higher than anticipated.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	52%	41%
Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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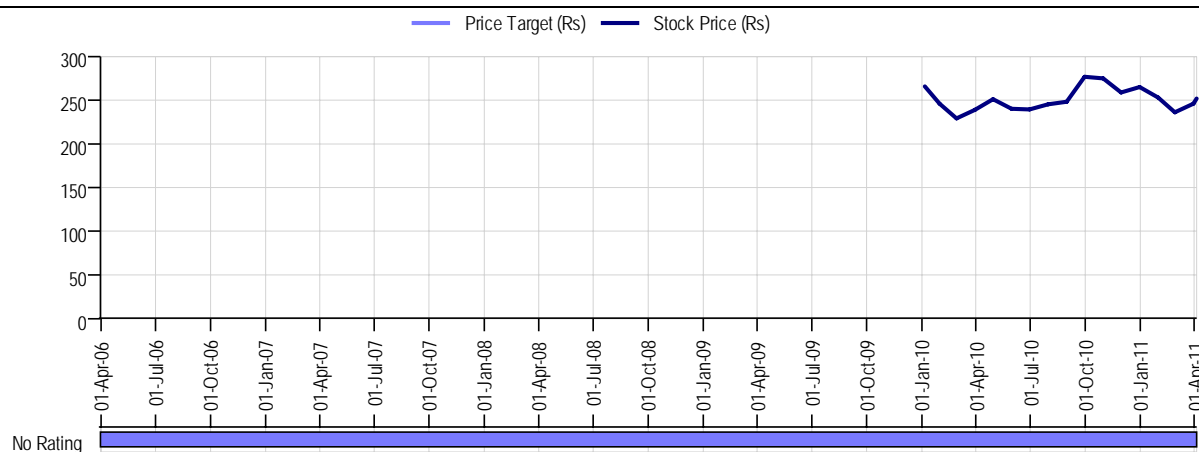
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
DB Corp	DBCL.BO	Not Rated	N/A	Rs252.00	05 Apr 2011

Source: UBS. All prices as of local market close.

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DB Corp (Rs)



Source: UBS; as of 05 Apr 2011

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