23 JAN 2013 / Quarterly Update

**BUY**

Target Price: Rs 267

# DB CORP LTD

**MEDIA**

## Ad revenue: Steady improvement likely

DB Corp (DBCL) recorded a revival in its ad revenue growth (up 11.5% YoY in Q3FY13 vs. 2% YoY growth in H1FY13) given higher consumer spend during the festive season. Management indicated a steady improvement in ad growth visibility driven by (a) gradual improvement in macro and (b) uptick in local and national ad revenue growth going forward.

We thus revise our target PE to 15x from 14x earlier. We roll forward our TP to FY15E and upgrade the stock to BUY with revised TP of Rs 267 (15x FY15E EPS of Rs 17.8) vs. Rs 210 earlier. Our TP implies 16% upside from CMP of Rs 230. The stock trades at PE of 15.3x FY14E EPS of Rs 15.0 and 13x FY15E EPS of Rs 17.8.

| | |
|---|---|
| CMP | : Rs 230 |
| Potential Upside | : 16% |
| Relative to Sector | : Neutral |

MARKET DATA

| | |
|---|---|
| No. of Shares | : 183mn |
| Free Float | : 18% |
| Market Cap | : Rs42bn |
| 52-week High / Low | : Rs245 / Rs181 |
| Avg. Daily vol. (6mth) | : 78,719 shares |
| Bloomberg Code | : DBCL IB Equity |
| Promoters Holding | : 82% |
| FII / DII | : 10% / 6% |
| BSE Code | : 533151 |
| NSE Code | : DBCORP |

**Key highlights:**

- **Ad revenue (78% of total revenue) grew 11.5% YoY** to 3.4 bn, which was driven by both volumes (up 6-7% YoY) and improvement in ad yields (up 4-5% YoY). Growth was driven by real estate, auto and lifestyle sectors, while BFSI and Education remained lackluster. **Circulation revenue increased 15.7% YoY to Rs 729 mn** primarily driven by an increase in cover price in few mature and emerging markets.
- **Radio revenue grew 21.5% YoY to Rs 191 mn** (up 16.7% YoY in H1FY13). Growth was primarily driven by improvement in yields, while the utilization rate remained stable.
- Revenue from emerging editions grew 32% YoY to Rs 497 mn, while matured editions revenue was up 9.4% YoY at Rs 3.7 bn (~1% YoY growth in H1FY13)
- **Losses from emerging editions declined to Rs 57 mn** (vs.Rs 98 mn in Q2FY13), which led to EBITDA margin of 27.2% (21.8% in Q2FY13) as against 25.7% in Q3FY12. Mature editions margin was 33.2% in Q3 vs. 33.7% in Q3FY12 (29.6% in Q2)

### FINANCIAL SUMMARY (Consolidated)

| Y/E March | FY12 | FY13E | FY14E | FY15E |
|---|---|---|---|---|
| **Sales (Rs mn)** | 14,514 | 15,813 | 17,960 | 20,413 |
| **PAT (Rs mn)** | 2,022 | 2,162 | 2,753 | 3,258 |
| **Con. EPS* (Rs.)** | - | 11.8 | 14.6 | 17.2 |
| **EPS (Rs.)** | 11.0 | 11.8 | 15.0 | 17.8 |
| **Change YOY (%)** | (23.4) | 6.9 | 27.3 | 18.4 |
| **P/E (x)** | 19.9 | 19.5 | 15.3 | 13.0 |
| **RoE (%)** | 23.0 | 22.0 | 24.6 | 24.8 |
| **RoCE (%)** | 24.5 | 24.6 | 28.3 | 29.4 |
| **EV/EBITDA (x)** | 11.8 | 11.2 | 9.0 | 7.4 |
| **DPS** | 5.0 | 5.0 | 5.0 | 5.0 |

Source: *Consensus broker estimates, Company, AXIS Capital estimates

### SEGMENTAL REVENUE GROWTH TREND

| (Rsbn) | FY12 | | FY13 | | |
|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Ad Rev | 3.06 | 2.63 | 2.86 | 2.83 | 3.41 |
| %YoY growth | 8.6 | 5.7 | 1.0 | 2.8 | 11.5 |
| Circulation | 0.63 | 0.64 | 0.66 | 0.70 | 0.73 |
| % growth | 16.7 | 19.9 | 16.0 | 16.1 | 15.7 |

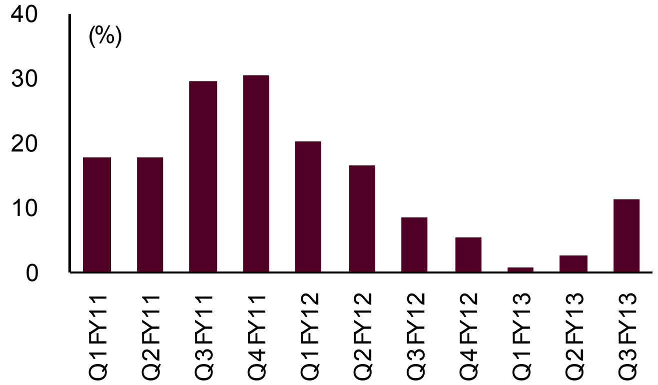
### PRICE PERFORMANCE

**Exhibit 1: Results update**

| | Quarter ended | | | | | 12 months ended | | |
|---|---|---|---|---|---|---|---|---|
| (Rsmn) | Dec-12 | Dec-11 | % Chg | Sep-12 | % Chg | Mar-13E | Mar-12 | % Chg |
| **Net Sales** | **4,389** | **3,955** | **11.0** | **3,784** | **16.0** | **15,813** | **14,514** | **9.0** |
| EBITDA | 1,192 | 1,016 | 17.3 | 825 | 44.5 | 3,682 | 3,363 | 9.5 |
| Other income | 38 | 25 | NA | 38 | 1.5 | 200 | 240 | NA |
| **PBIDT** | **1,230** | **1,041** | **18.1** | **862** | **42.6** | **3,882** | **3,603** | **7.8** |
| Depreciation | 151 | 134 | 12.4 | 143 | 5.4 | 545 | 506 | 7.9 |
| Interest | 19 | 81 | (76.9) | 19 | (1.7) | 110 | 92 | 19.1 |
| **PBT** | **1,060** | **826** | **28.3** | **700** | **51.5** | **3,227** | **3,005** | **7.4** |
| Tax | 352 | 271 | 29.9 | 251 | 40.7 | 1,065 | 983 | 8.3 |
| Minority Interest | 2 | 2 | (18.5) | 0 | 232.7 | - | (2) | - |
| **Adjusted PAT** | **706** | **553** | **27.8** | **449** | **57.3** | **2,162** | **2,023** | **6.9** |
| Extra ordinary income/ (exp.) | 0 | 0 | - | 36 | - | 0 | 0 | - |
| **Reported PAT** | **706** | **553** | **27.8** | **485** | **45.6** | **2,162** | **2,023** | **6.9** |
| **No. of shares (mn)** | **184** | **183** | **0.73** | **183** | **1** | 183 | 183 | **-** |
| EBITDA margin (%) | 27.2 | 25.7 | - | 21.8 | - | 23.3 | 23.2 | - |
| PBIDT margin (%) | 28.0 | 26.3 | - | 22.8 | - | 24.6 | 24.8 | - |
| **EPS - annualized (Rs.)** | **15.3** | **12.1** | **26.8** | **9.8** | **56.5** | **11.8** | **11.0** | **6.9** |

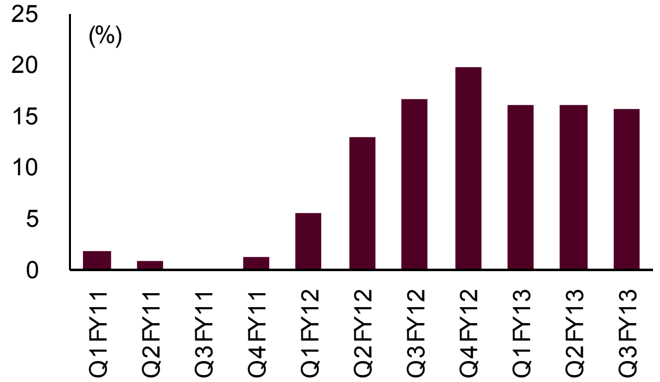
Source: Company, Axis Capital

**Exhibit 2: Ad revenue growth improving**



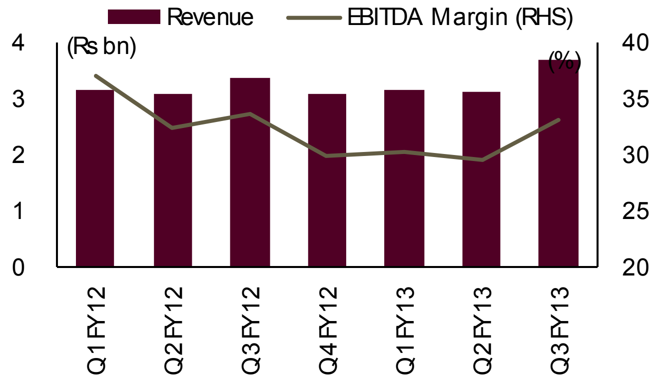

Source: Company, Axis Capital

**Exhibit 3: Circulation revenue remains steady QoQ**



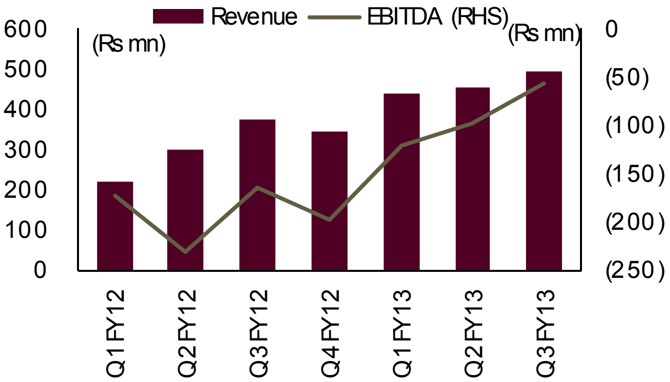

Source: Company, Axis Capital

**Exhibit 4: Matured markets performance steady**



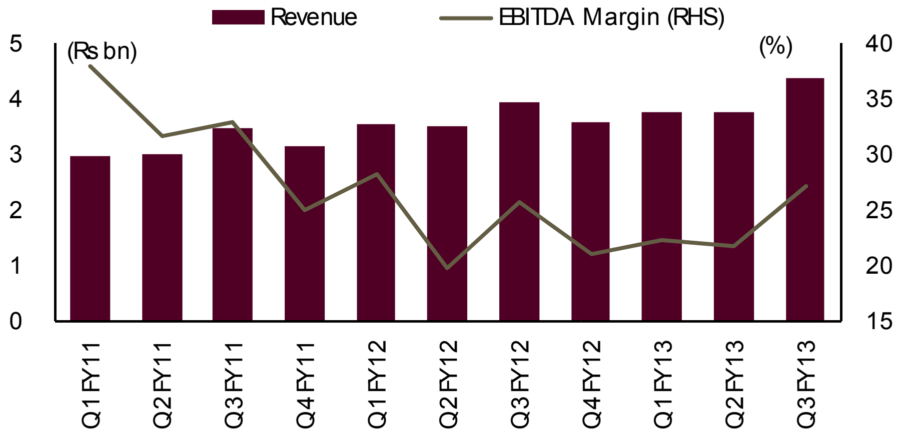

Source: Company, Axis Capital

**Exhibit 5: Emerging market edition losses declining**




Source: Company, Axis Capital

**Exhibit 6:** **Revenue and EBITDA margin performance**




Source: Company, Axis Capital

## FINANCIAL SUMMARY (Consolidated)

### Profit & Loss (Rsmn)

| Y/E March | FY12 | FY13E | FY14E | FY15E |
|---|---|---|---|---|
| **Net sales** | 14,514 | 15,813 | 17,960 | 20,413 |
| Other operating income | - | - | - | - |
| **Total operating income** | **14,514** | **15,813** | **17,960** | **20,413** |
| Cost of goods sold | (6,846) | (7,447) | (8,129) | (9,139) |
| Gross profit | 7,668 | 8,366 | 9,832 | 11,274 |
| *Gross margin (%)* | *52.8* | *52.9* | *54.7* | *55.2* |
| Total operating expenses | (4,305) | (4,684) | (5,234) | (5,872) |
| **EBITDA** | **3,363** | **3,682** | **4,597** | **5,402** |
| *EBITDA margin (%)* | *23.2* | *23.3* | *25.6* | *26.5* |
| Depreciation | (506) | (545) | (605) | (682) |
| **EBIT** | **2,857** | **3,137** | **3,993** | **4,720** |
| **Net interest** | (92) | (110) | (100) | (90) |
| Other income | 240 | 200 | 216 | 233 |
| **Profit before tax** | **3,005** | **3,227** | **4,109** | **4,863** |
| Total taxation | (983) | (1,065) | (1,356) | (1,605) |
| *Tax rate (%)* | *32.7* | *33.0* | *33.0* | *33.0* |
| Profit after tax | 2,022 | 2,162 | 2,753 | 3,258 |
| Minorities | 2 | - | - | - |
| Profit/ Loss associate co(s) | - | - | - | - |
| **Adjusted net profit** | 2,023 | 2,162 | 2,753 | 3,258 |
| *Adj. PAT margin (%)* | *13.9* | *13.7* | *15.3* | *16.0* |
| **Net non-recurring items** | - | - | - | - |
| **Reported net profit** | 2,023 | 2,162 | 2,753 | 3,258 |

### Balance Sheet (Rsmn)

| Y/E March | FY12 | FY13E | FY14E | FY15E |
|---|---|---|---|---|
| Paid-up capital | 1,833 | 1,833 | 1,833 | 1,833 |
| Reserves & surplus | 7,438 | 8,527 | 10,208 | 12,394 |
| Net worth | 9,286 | 10,376 | 12,056 | 14,242 |
| Borrowing | 1,325 | 1,325 | 1,325 | 1,325 |
| Other non-current liabilities | 1,586 | 1,580 | 1,580 | 1,580 |
| **Total liabilities** | **15,452** | **16,618** | **17,953** | **20,078** |
| Gross fixed assets | 9,701 | 10,501 | 11,901 | 12,901 |
| Less: Depreciation | (2,218) | (2,764) | (3,369) | (4,051) |
| Net fixed assets | 7,483 | 7,738 | 8,533 | 8,851 |
| Add: Capital WIP | 450 | 450 | 450 | 450 |
| Total fixed assets | 7,933 | 8,187 | 8,982 | 9,300 |
| Other Investment | - | - | - | - |
| Inventory | 1,186 | 1,148 | 1,198 | 1,298 |
| Debtors | 2,484 | 2,767 | 3,233 | 3,674 |
| Cash & bank | 1,884 | 2,405 | 2,312 | 3,496 |
| Loans & advances | 527 | 522 | 539 | 572 |
| Current liabilities | 3,254 | 3,337 | 2,991 | 2,931 |
| Net current assets | 2,843 | 3,522 | 4,307 | 6,125 |
| Other non-current assets | 962 | 1,112 | 1,212 | 1,262 |
| **Total assets** | **15,452** | **16,618** | **17,953** | **20,078** |

### Cash flow (Rsmn)

| Y/E March | FY12 | FY13E | FY14E | FY15E |
|---|---|---|---|---|
| Profit before tax | 3,005 | 3,227 | 4,109 | 4,863 |
| Depreciation & Amortisation | (506) | (545) | (605) | (682) |
| *Chg in working capital* | *506* | *(158)* | *(878)* | *(634)* |
| **Cash flow from operations** | **3,034** | **2,550** | **2,541** | **3,306** |
| *Capital expenditure* | *(1,331)* | *(800)* | *(1,400)* | *(1,000)* |
| **Cash flow from investing** | **(1,629)** | **(800)** | **(1,400)** | **(1,000)** |
| *Equity raised/ (repaid)* | - | - | - | - |
| *Debt raised/ (repaid)* | *(321)* | *(250)* | *(256)* | *(146)* |
| *Dividend paid* | *(12)* | *(62)* | *(61)* | *(60)* |
| **Cash flow from financing** | **(1,249)** | **(1,229)** | **(1,233)** | **(1,122)** |
| Net chg in cash | 157 | 521 | (93) | 1,184 |

### Key ratios

| Y/E March | FY12 | FY13E | FY14E | FY15E |
|---|---|---|---|---|
| **OPERATIONAL** | | | | |
| FDEPS (Rs) | 11.0 | 11.8 | 15.0 | 17.8 |
| CEPS (Rs) | 8.3 | 8.8 | 11.7 | 14.1 |
| DPS (Rs) | 5.0 | 5.0 | 5.0 | 5.0 |
| Dividend payout ratio (%) | 45.3 | 42.4 | 33.3 | 28.1 |
| **GROWTH** | | | | |
| Net sales (%) | 15.2 | 9.0 | 13.6 | 13.7 |
| EBITDA (%) | (16.6) | 9.5 | 24.8 | 17.5 |
| Adj net profit (%) | (23.4) | 6.9 | 27.3 | 18.4 |
| FDEPS (%) | (23.4) | 6.9 | 27.3 | 18.4 |
| **PERFORMANCE** | | | | |
| RoE (%) | 23.0 | 22.0 | 24.6 | 24.8 |
| RoCE (%) | 24.5 | 24.6 | 28.3 | 29.4 |
| **EFFICIENCY** | | | | |
| Asset turnover (x) | 1.7 | 1.8 | 1.8 | 1.8 |
| Sales/ total assets (x) | 1.0 | 1.0 | 1.0 | 1.1 |
| Working capital/ sales (x) | 0.1 | 0.1 | 0.1 | 0.1 |
| Receivable days | 62.5 | 63.9 | 65.7 | 65.7 |
| Inventory days | 38.8 | 34.6 | 32.7 | 31.6 |
| Payable days | 35.3 | 32.9 | 31.1 | 31.6 |
| **FINANCIAL STABILITY** | | | | |
| Total debt/ equity (x) | 0.2 | 0.1 | 0.1 | 0.1 |
| Net debt/ equity (x) | (0.1) | (0.1) | (0.1) | (0.2) |
| Current ratio (x) | 1.9 | 2.1 | 2.4 | 3.1 |
| Interest cover (x) | 30.9 | 28.5 | 39.9 | 52.4 |
| **VALUATION** | | | | |
| PE (x) | 19.9 | 19.5 | 15.3 | 13.0 |
| EV/ EBITDA (x) | 11.8 | 11.2 | 9.0 | 7.4 |
| EV/ Net sales (x) | 2.7 | 2.6 | 2.3 | 2.0 |
| PB (x) | 4.3 | 4.1 | 3.5 | 3.0 |
| Dividend yield (%) | 2.3 | 2.2 | 2.2 | 2.2 |
| Free cash flow yield (%) | 4.2 | 4.1 | 2.7 | 5.5 |

## Axis Securities Limited *

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| | |
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** The name of the company has changed to Axis Securities Limited in the records of Registrar of Companies, Mumbai. Awaiting approval for change of name from Exchanges and SEBI.*

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**Main/Dealing office**:
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