

## Near term margin headwinds, Retain ACCUMULATE

October 21, 2011

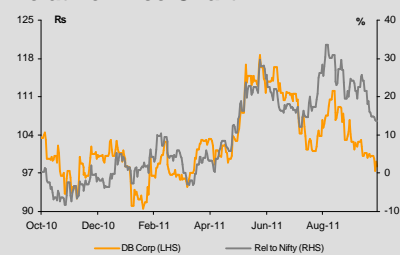
<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs230	Rs271
EPS change FY12E/13E (%)	-12.1 -8.9
Target Price change (%)	NA
Sensex	16,936
Nifty	5,092

### Price Performance

(%)	1M	3M	6M	12M
Absolute	5	0	(10)	(17)
Rel. to Nifty	6	10	5	(3)

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	307/186
Market Cap (Rs bn/USD mn)	42/847
Daily Avg Volume (No of sh)	179889
Daily Avg Turnover (US\$m)	0.8

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	86.5	86.1	86.3
FII/NRI	8.7	8.9	9.0
Institutions	3.5	3.2	3.1
Private Corp	0.4	0.9	0.6
Public	0.9	0.9	1.0

Source: Capitaline

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- **Robust ad revenue of Rs2.7bn, growing by 15.7% yoy (our estimate of 14.8%). Print ad revenues grew 15.2% yoy to Rs2.6bn, driven by strong growth in local ads (+20% yoy)**
- **EBITDA at Rs771mn declined 18.9% yoy. EBITDA margin declined 981bps to 21.8%, on account of high opex pertaining to continued new launches in Maharashtra**
- **Q2FY12 PAT at Rs402mn (our est. of Rs493mn), declined 37.1% yoy due to lower EBITDA and forex loss of Rs58.1mn.**
- **Cut our EBITDA est. by 8.7%/8.4% for FY12E/13E resulting in EPS downgrade of 12.1%/8.9% for FY12E/13E. Maintain ACCUMULATE with target price Rs271**

### Revenue growth intact, margins and profitability take a hit

DB Corp reported in line revenue growth but EBITDA and PAT missed the estimates, primarily due to high opex pertaining to new launches and forex loss of Rs58.1mn. Consolidated revenue was at Rs3539mn up 17.6% yoy, growth driven by strong ad revenue growth of 15.7% yoy to Rs2.7bn (Our est. 14.8% yoy growth). Print revenue grew by 15.2% yoy v/s. Radio revenue stood at Rs127mn growing 25.7% with EBITDA margin of 9% v/s 14% last quarter. On the back of new launches and increase in circulation in existing markets, circulation revenue grew 13.0% yoy to Rs608mn. Con. EBITDA declined by 18.9% yoy to Rs771mn and EBITDA margins declined by 981bps yoy to 21.8%. Margin decline was attributed to launches in Maharashtra and Jharkhand market. PAT for the quarter stood at Rs402mn down 37.1% yoy (our est. of Rs493mn).

### New editions to weigh on profitability during FY12E

During the quarter DB Corp launched it Nashik and Jalgaon editions. Company's EBITDA declined 18.9% yoy to Rs771mn primarily due to higher increase of 34.4% yoy in expenditure v/s revenue growth of 17.6% yoy. As the management is aggressive in expanding its footprint in Maharashtra, we believe the cost escalation would continue in coming quarters. Raw material and SG&A cost saw 38.1% and 36.1% yoy increase, respectively. EBITDA loss from the emerging market during the quarter stood at Rs194mn v/s Rs173mn in Q1FY12. The company now has increased its circulation to 45.5lacs copies/day from 36.3lacs in Q2FY11.

### Outlook

DB Corp has reported robust ad revenue growth, despite of tough economic conditions. Local ads registered growth of 20% while national ads remained in single digit growth during Q2FY12. As the management indicated that no new edition is expected to launch in H2FY12E (except Ahmednagar launched in Oct, 2011), we believe Q2FY12 would be the peak investment quarter for DB Corp in FY12E. Concern about expansion in newer markets seems to be overstated by street, looking at the DB Corp's successful past track record.

### Retain ACCUMULATE with target price of Rs271

Looking at the current cost escalations led by new launches, we have revised our EPS estimated downwards for FY12E/13E by 12.1%/8.9% resulting in EPS of Rs12.0/15.8 for FY12E/13E. The company has launched Ahmednagar edition in October, 2011 (4<sup>th</sup> edition in Maharashtra) which would put further pressure on margin in FY12E. At CMP of Rs230, the stock trades at 19.1x and 14.6x on our EPS for FY12E and FY13E, resp.

### Financial Snapshot

										Rs Mn	
Y/E -	Net	EBITDA	PAT	EPS	EPS	ROE		EV/			
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(%)	P/E	EBITDA	P/BV	
FY10	10630	3429	32.3	1828	10.0	283.8	28.2	19.9	12.6	6.6	
FY11	12652	4031	31.9	2585	14.1	41.4	31.2	16.3	10.8	5.2	
FY12E	14876	3806	25.6	2203	12.0	-14.8	22.9	19.1	11.2	4.4	
FY13E	17375	4808	27.7	2890	15.8	31.2	25.4	14.6	8.8	3.7	

## Quarterly financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Sales	<b>3,010</b>	<b>3,482</b>	<b>3,174</b>	<b>3,537</b>	<b>3,539</b>	<b>17.6</b>	<b>0.0</b>	<b>7,077</b>	<b>5,997</b>	<b>18.0</b>
Raw Material	901.2	1064.5	1041.6	1183.6	1244.8	38.1	5.2	2,428	1,733	40.1
as % of sales	29.9	30.6	32.8	33.5	35.2			34.3	28.9	
Employee Cost	458.7	484.5	492.0	575.0	613.4	33.7	6.7	1,188	869	36.7
as % of sales	15.2	13.9	15.5	16.3	17.3			16.8	14.5	
SG&A expenses	336.7	399.1	436.0	383.9	458.2	36.1	19.4	842	623	35.3
as % of sales	11.2	11.5	13.7	10.9	12.9			11.9	10.4	
Other operating expenses	362.2	385.9	408.3	391.5	451.4	24.6	15.3	843	685	23.1
as % of sales	12.0	11.1	12.9	11.1	12.8			11.9	11.4	
Total Expenditure	2058.7	2334	2378	2534	2768	34.4	9.2	5302	3910	35.6
<b>EBITDA</b>	<b>951.3</b>	<b>1148</b>	<b>796</b>	<b>1003</b>	<b>771</b>	<b>(18.9)</b>	<b>(23.1)</b>	<b>1,775</b>	<b>2,087</b>	<b>(15.0)</b>
Depreciation	107.0	110.2	111.4	117.1	123.7	15.7	5.7	240.9	211.1	14.1
<b>EBIT</b>	<b>844.3</b>	<b>1037.8</b>	<b>684.6</b>	<b>886.4</b>	<b>647.6</b>	<b>(23.3)</b>	<b>(26.9)</b>	<b>1534</b>	<b>1876</b>	<b>(18.2)</b>
Other Income	32.0	30.0	36.4	36.6	19.5	(38.9)	(46.6)	56.1	75.4	(25.5)
Interest	37.7	34.1	34.2	26.9	67.0	77.7	149.0	93.9	84.7	10.8
<b>PBT</b>	<b>838.6</b>	<b>1033.7</b>	<b>686.8</b>	<b>896.1</b>	<b>600.2</b>	<b>(28.4)</b>	<b>(33.0)</b>	<b>1496.3</b>	<b>1866.7</b>	<b>(19.8)</b>
Tax	198.8	381.6	235.5	284.4	197.4	(0.7)	(30.6)	481.8	509.7	(5.5)
<b>PAT before MI</b>	<b>639.8</b>	<b>652.1</b>	<b>451.3</b>	<b>611.7</b>	<b>402.7</b>	<b>(37.1)</b>	<b>(34.2)</b>	<b>1014.4</b>	<b>1357.1</b>	<b>(25.2)</b>
Minority interest	0.2	-7.3	1.4	0.7	0.2			0.8	-15.7	(105.4)
<b>PAT</b>	<b>639.6</b>	<b>659.4</b>	<b>449.9</b>	<b>611.0</b>	<b>402.6</b>	<b>(37.1)</b>	<b>(34.1)</b>	<b>1013.6</b>	<b>1372.7</b>	<b>(26.2)</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	31.6	33.0	25.1	28.4	21.8	(981)	(657)	25.1	34.8	(972)
EBIT	28.1	29.8	21.6	25.1	18.3	(975)	(676)	21.7	31.3	(961)
EBT	27.9	29.7	21.6	25.3	17.0	(1,090)	(837)	21.1	31.1	(999)
PAT	21.3	18.9	14.2	17.3	11.4	(988)	(590)	14.3	22.9	(857)
Effective Tax rate	23.7	36.9	34.3	31.7	32.9	919	116	32.2	27.3	490

**Cut EPS estimates by 12.1%/8.9% for FY12E/13E**

We have revised our EPS estimated downwards for FY12E/13E by 12.1%/8.9% to Rs12.0/Rs15.8, primarily due to high opex for Maharashtra launch. The company has launched Ahmednagar edition in October, 2011 (4<sup>th</sup> edition in Maharashtra) which would put further pressure on margin in FY12E. The management has earlier stated that it would be launching 4 editions in Maharashtra in FY12E and we believe it has already done it, as its not expected launch any other edition in FY12E, we could margin stabilization in H2FY12E. At CMP of Rs230, the stock trades at 19.1x and 14.6x our estimated EPS for FY12E and FY13E, respectively.

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	14,701.3	14876.0	1.2%	17,013.5	17375.3	2.1%
EBIDTA	4,166.4	3805.9	-8.7%	5,249.6	4808.5	-8.4%
EBIDTA %	28.3	25.6	-276 bps	30.9	27.7	-318 bps
PAT	2505.6	2203.3	-12.1%	3171.1	2890.3	-8.9%
EPS	13.7	12.0	-12.1%	17.3	15.8	-8.9%

**Key financials data****Q2FY12 (Rs mn)**

Particulars	Mature Editions	Emerging Editions	Radio	DBCL Standalone
Total Revenue	3086	302	127	3515
EBIDTA	1002	-194	11	819
EBIDTA %	32.5	-64.3	9.0	23.3
EBIDTA after pre-opex	1002	231	11.4	782
EBIDTA %	32.5	-76.7	9	22.2

**Q1FY12 (Rs mn)**

Particulars	Emerging Editions	Mature Editions	1QFY11	(%) chg
Revenues	219	3,307	2,977	11
EBITDA	-173	1,198	1,145	5
Margin (%)	-79	36	38	-2

## Financials

## Income statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>10,630</b>	<b>12,652</b>	<b>14,876</b>	<b>17,375</b>
<i>Growth (%)</i>	25.0	48.7	74.9	104.3
Raw material		3,839	4,983	5,503
Employee cost	1,318	1,846	2,471	2,751
SG&A expenses	1,170	1,458	1,805	2,178
Other operating expenses	1,433	1,479	1,812	2,135
<b>Total operating expenditure</b>	<b>7,200</b>	<b>8,621</b>	<b>11,070</b>	<b>12,567</b>
<b>EBITDA</b>	<b>3,429</b>	<b>4,031</b>	<b>3,806</b>	<b>4,808</b>
<i>Growth (%)</i>	-97.0	-96.5	-96.7	-95.8
Depreciation	378	433	496	552
<b>EBIT</b>	<b>3,051</b>	<b>3,598</b>	<b>3,310</b>	<b>4,257</b>
<b>EBIT margin (%)</b>	<b>28.7</b>	<b>28.4</b>	<b>22.3</b>	<b>24.5</b>
Other Income	112	142	112	207
Interest expenses	357	153	136	152
<b>PBT</b>	<b>2,806</b>	<b>3,587</b>	<b>3,286</b>	<b>4,312</b>
Tax	1,057	1,000	1,081	1,419
<i>Effective tax rate (%)</i>	37.7	27.9	32.9	32.9
<b>PAT before MI</b>	<b>1,748</b>	<b>2,587</b>	<b>2,205</b>	<b>2,893</b>
Minority interest	-79	3	1	3
<b>Adjusted PAT after MI</b>	<b>1,828</b>	<b>2,585</b>	<b>2,203</b>	<b>2,890</b>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT</b>	2,694	3,445	3,174	4,105
Depreciation	378	433	496	552
Interest	357	153	136	152
Other Non-Cash items	2,582	119	0	-300
Chg in working cap	-244	-406	-621	-304
Tax paid	-1,057	-1,000	-1,081	-1,419
<b>Operating Cashflow</b>	<b>4,710</b>	<b>2,744</b>	<b>2,104</b>	<b>2,785</b>
Capital expenditure	-382	-1,317	-1,092	-810
<b>Free Cash Flow</b>	<b>4,328</b>	<b>1,427</b>	<b>1,012</b>	<b>1,975</b>
Other income	112	142	112	207
Investments	33	42	0	0
<b>Investing Cashflow</b>	<b>-238</b>	<b>-1,133</b>	<b>-980</b>	<b>-603</b>
Equity Capital Raised	231	6	-9	4
Loans Taken / (Repaid)	-2,424	-835	-100	-100
Interest Paid	-357	-153	-136	-152
Dividend paid (incl tax)	-424	-849	-849	-849
<b>Financing Cashflow</b>	<b>-2,973</b>	<b>-1,831</b>	<b>-1,095</b>	<b>-1,097</b>
<b>Net chg in cash</b>	<b>1,498</b>	<b>-220</b>	<b>29</b>	<b>1,085</b>
Opening cash position	452	1,950	1,730	1,759
Closing cash position	1,950	1,730	1,759	2,844

## 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	7,794	9,535
<b>Net worth</b>	<b>6,487</b>	<b>8,289</b>	<b>9,627</b>	<b>11,368</b>
Secured Loans	2,966	2,082	1,982	1,882
Unsecured Loans	241	290	290	290
<b>Loan Funds</b>	<b>3,207</b>	<b>2,372</b>	<b>2,272</b>	<b>2,172</b>
Net deferred tax liability	609	695	695	695
Minority Interest	44	4	5	6
<b>Total Liabilities</b>	<b>10,347</b>	<b>11,359</b>	<b>12,599</b>	<b>14,240</b>
Gross Block	7,165	8,408	9,499	10,299
Less: Depreciation	1,305	1,729	2,225	2,777
<b>Net block</b>	<b>5,861</b>	<b>6,678</b>	<b>7,274</b>	<b>7,522</b>
Capital work in progress	614	681	681	691
<b>Investment</b>	<b>205</b>	<b>163</b>	<b>163</b>	<b>163</b>
<b>Current Assets</b>	<b>5,614</b>	<b>5,917</b>	<b>7,061</b>	<b>8,775</b>
Inventories	722	728	782	826
Sundry debtors	1,934	2,401	2,979	3,305
Cash & bank balance	1,950	1,730	1,759	2,844
Loans & advances	1,008	1,058	1,541	1,800
<b>Current lia &amp; Prov</b>	<b>2,073</b>	<b>2,189</b>	<b>2,683</b>	<b>3,008</b>
Current liabilities	1,706	1,648	2,020	2,264
Provisions	367	541	663	743
<b>Net current assets</b>	<b>3,542</b>	<b>3,728</b>	<b>4,378</b>	<b>5,767</b>
Misc. exp & Def. Assets	126	110	103	97
<b>Total Assets</b>	<b>10,347</b>	<b>11,359</b>	<b>12,599</b>	<b>14,240</b>

## Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
Core EBITDA Margin	32.3	31.9	25.6	27.7
Net Margin	17.9	20.5	14.9	16.4
ROCE	31.5	33.8	27.8	31.4
ROE	28.2	31.2	22.9	25.4
RoIC	50.4	46.1	36.8	43.1
<b>Per Share Data (Rs)</b>				
EPS (adjusted)	10.0	14.1	12.0	15.8
CEPS	12.0	16.5	14.7	18.8
BVPS	34.9	44.6	52.0	61.5
DPS	2.0	4.0	4.0	4.0
<b>Valuations (x)</b>				
PER	19.9	16.3	19.1	14.6
P/CEPS	19.1	14.0	15.6	12.2
P/BV	6.6	5.2	4.4	3.7
EV / Sales	4.1	3.4	2.9	2.4
EV / EBITDA	12.6	10.8	11.2	8.8
Dividend Yield (%)	0.9	1.7	1.7	1.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.2	0.0	0.0	-0.1
Net Debt/EBIDTA	0.3	0.1	0.1	-0.2

**Recommendation History: D B Corp – DBCL IN**

Date	Reports	Reco	CMP	Target
22/07/2011	<a href="#">DB Corp Q1FY12 Result Update</a>	Accumulate	238	271
19/05/2011	<a href="#">DB Corp Q4FY11 Result Update</a>	Hold	240	271
03/02/2011	<a href="#">DB Corp Event Update</a>	Hold	253	284
25/01/2011	<a href="#">DB Corp Q3FY11 Result Update</a>	Hold	260	284

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
19/10/2011	<a href="#">Dish TV Q2FY12 Result Update</a>	Accumulate	77	96
11/10/2011	<a href="#">Telecom Sector Update</a>			
29/09/2011	<a href="#">Analogue cable distribution Sector Update</a>			
17/08/2011	<a href="#">Reliance Communication Q1FY12 Result Update</a>	Hold	77	82

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