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**UPDATE**

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**Stick with the Top Guns.** Our analysis of the areas of operation (print markets), print players' position with markets and advertising potential of markets validates the dominant position of top Hindi print players and widening gap over small competition. We highlight the key drivers of Indian print media over the next several years (1) rising prominence of regional print, (2) emergence of niche print, (3) diversification into new media platforms, (4) emerging advertising categories as well as (5) benign newsprint cycle and its impact.

#### Print Leadership Index validates dominant position of top Hindi players

We create the Print Leadership Index (PLI) to better capture factors not well-represented by headline IRS readership numbers—(1) areas of operations relevant to advertisers, (2) print players' positions with an area of operation (market) and (3) advertising potential of the market. PLI provides two differentiated results—(1) validates the large (and widening) gap between top print players over smaller competition and (2) presents the level of consolidation in the segment, contrary to street and industry characterization.

#### Stick with the Top Guns as they continue to outperform smaller players

The top print players have significant lead over smaller competition as they are best-placed (1) to capture national advertisers with dominant position across markets, (2) derive operational benefits of shared quality content across news segments and (3) benefits from economies of scale in purchase of raw materials and low per-unit overhead costs. This translates into superior financial performance (growth, margins) and the gap is only widening as seen from the trends in the PLI.

#### Advertising revenues: Regional print, niche print, diversification and emerging advertisers

We highlight the key drivers of advertising revenues in Indian print media—(1) decline in dominance of English press and shift of advertising pie in favor of regional print as advertisers incrementally focus on mini-metros, (2) emergence of niche print as top print players look to increase readership and better serve existing markets, (3) top print players diversifying into new media to create strong bouquet of local media platforms and (4) emerging advertiser categories such as organized retail, entertainment and tourism.

#### Benign newsprint cycle and growth differential between India and the world

Newsprint prices have recovered from their lows in August 2009 but the current cycle seems benign with a wide supply-demand gap. The strong correlation between advertising revenues and growth in the Indian economy (robust recovery/growth) and long-term correlation between newsprint prices (intermediate commodity) and world economic growth (weak recovery) implies that EBITDA margins of India's leading print players can be maintained at 30%+ levels. The key risk is sharp increases in newsprint prices led by cost-push inflation.

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## KOTAK PRINT INDEX: STICK WITH THE TOP GUNS

Kotak's Print Leadership Index (PLI) validates the dominant position of top players (DBCL, JAGP) within the Hindi language print media segment. The PLI captures certain factors not completely represented by headline IRS readership numbers, notably (1) areas of operations relevant to advertisers, (2) players' positions within an area of operation (market) and (3) advertising potential of the market. The top players have a significant lead over smaller competition as they are best placed to (1) capture national advertisers with dominant positions across markets, (2) derive operational benefits of shared quality content in Business, Sports and International news segments and (3) benefit from economies of scale in purchase of raw materials and low per-unit overhead costs.

### Kotak Print Leadership Index validates consolidated print media

Exhibits 1-2 present the Print Leadership Index and IRS readership within the Hindi language print media segment; we note that DBCL's Index/readership includes its Gujarati daily, Divya Bhaskar. Our Print Leadership Index results are differentiated from those of headline IRS readership, notably (1) PLI highlights the large gap between the top print players and smaller players, visible in their financial performance and (2) showcases the extent of consolidation in print contrary to street and industry characterization. Further, we believe the investible segment within Hindi language print may be limited to the top six players (Navbharat Times is part of the larger print bouquet of Bennett & Coleman Limited). The key for players beyond the top two would be (1) to maintain their dominant position in the home market and (2) establish a strong position in new markets.

Exhibit 1: Print Leadership Index of top Hindi print players, calendar year-ends, 2005-09 (X)

	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009
<b>All-India</b>										
Dainik Bhaskar (DBCL)	34	34	34	34	34	34	34	34	36	36
Dainik Jagran (JAGP)	25	25	25	25	27	27	27	27	27	27
Hindustan (HTML)	X	X	X	X	X	X	X	X	X	X
Rajasthan Patrika	8	8	8	8	10	10	10	10	10	10
Amar Ujala	9	9	9	9	9	9	9	9	9	9
Punjab Kesari	13	13	13	13	11	11	9	9	9	9
Navbharat Times	5	5	5	5	5	5	5	5	5	5
Navabharat (CG)	2	2	2	2	2	2	2	2	2	2
Hari Bhoomi	2	2	2	2	2	2	2	2	2	2
Nai Dunia	2	2	2	2	2	2	2	2	2	2
Prabhat Khabar	1	1	1	1	1	1	1	1	1	1
Aaj Dainik	4	4	1	1	—	—	—	—	—	—
Navabharat (MP)	6	6	2	2	2	2	2	2	—	—

Source: Indian Readership Survey, Kotak Institutional Equities estimates

Exhibit 2: IRS readership of top Hindi print media players, calendar year-ends, 2005-09 (mn)

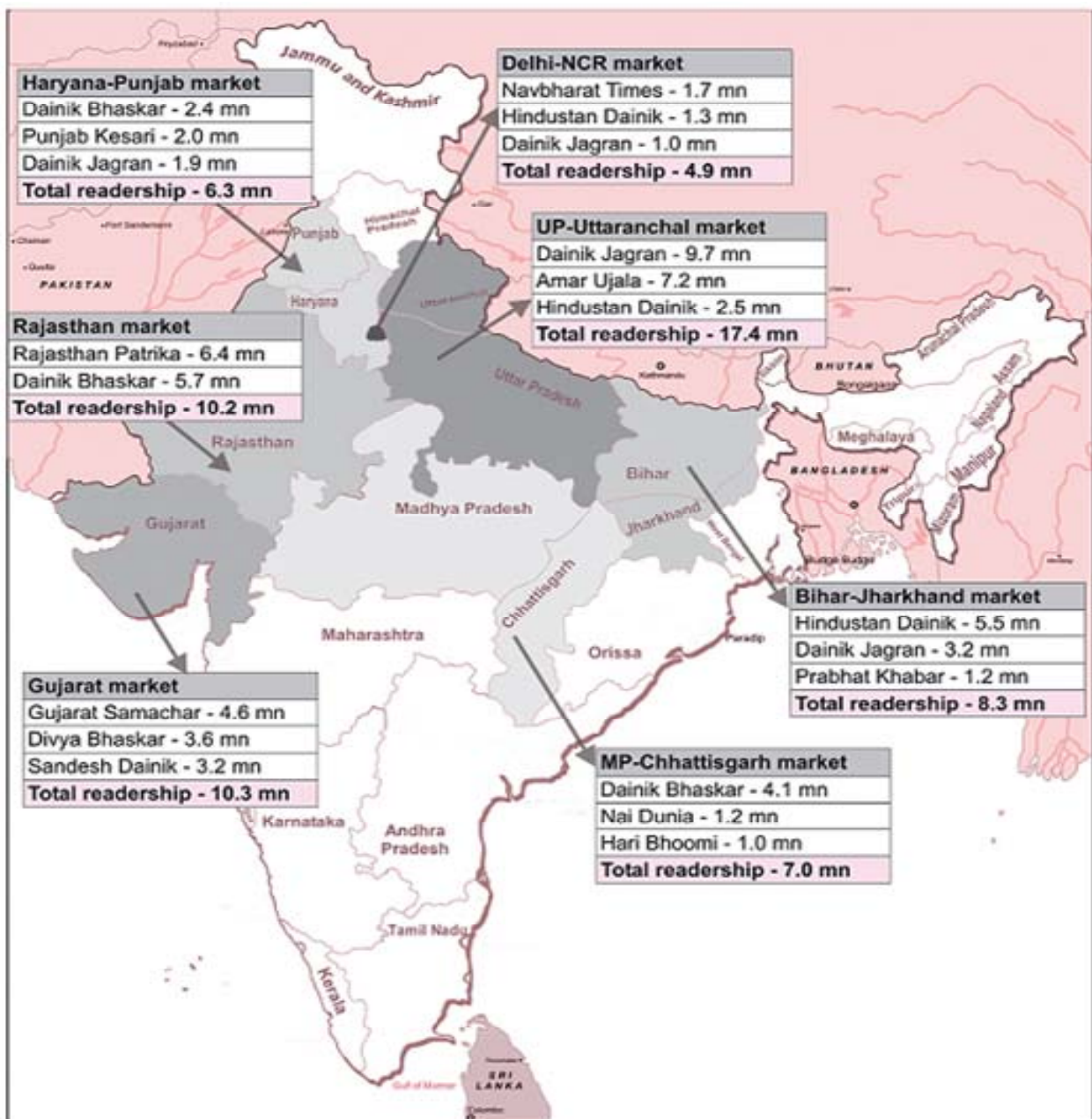
	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009
<b>All-India</b>										
Dainik Bhaskar (DBCL)	17.1	19.2	18.7	17.3	16.2	16.4	16.6	16.8	16.6	16.5
Dainik Jagran (JAGP)	17.5	19.2	19.1	18.2	17.1	16.5	16.4	16.3	16.1	16.1
Hindustan (HTML)	8.2	9.0	9.7	9.7	9.1	8.6	8.8	9.2	9.3	9.3
Amar Ujala	9.3	9.8	9.9	9.4	8.3	8.1	8.1	8.1	8.2	8.3
Rajasthan Patrika	6.0	6.1	6.3	6.7	6.9	7.4	7.3	6.7	6.7	6.5
Punjab Kesari	4.7	5.0	4.6	4.3	3.6	3.6	3.6	3.3	3.3	3.4
Navbharat Times	2.6	2.5	2.3	2.3	2.3	2.3	2.2	2.1	2.3	2.4
Navabharat (CG)	2.2	2.4	2.2	1.8	1.6	1.5	1.6	1.4	1.3	1.4
Prabhat Khabar	1.1	1.3	1.4	1.4	1.3	1.4	1.3	1.2	1.2	1.3
Hari Bhoomi	0.7	1.0	1.0	0.8	0.6	0.8	1.1	1.2	1.2	1.3
Nai Dunia	0.7	0.8	0.7	0.6	0.5	0.5	0.5	0.6	1.2	1.2
Aaj Dainik	2.6	2.6	2.2	2.0	1.7	1.6	1.5	1.3	1.1	1.1
Navabharat (MP)	1.8	1.7	1.5	1.3	1.0	0.7	0.6	0.5	0.5	0.5

Source: Indian Readership Survey, Kotak Institutional Equities

### Key markets: Advertisers' point of view

Exhibit 3 presents the key markets within the Hindi language print segment; we also include Gujarat given its relevance for DBCL. Typically, advertisers do not view the Hindi heartland belt as a single market given the significant disparity across population in terms of culture and purchasing power. We highlight the six large markets within the Hindi heartland belt—(1) Uttar Pradesh & Uttaranchal, (2) Bihar & Jharkhand, (3) Madhya Pradesh & Chhattisgarh, (4) Chandigarh, Punjab & Haryana, (5) Rajasthan and (6) Delhi & National Capital Region (NCR)—besides Gujarat for DBCL. Certain states (Chhattisgarh and Jharkhand were carved out of Madhya Pradesh and Bihar recently) share common socio-economic profiles and (2) others (Haryana/Punjab; Uttaranchal) are too small to be considered separately by advertisers. We focus our attention on national advertisers as they are the differentiators between large national and local print brands.

Exhibit 3: Key Hindi print markets with top print players and readership (mn)



Source: Indian Readership Survey, Kotak Institutional Equities

### Position in the market: Top guns for a reason

As is typical with the media industry, the top two media players in any niche/segment are able to capture a disproportionate share of the market. However, the skew in dominance of the top two players is greater in the print media segment versus other media platforms with the limited number of national advertisers (typically) not venturing beyond the top two print players in any market. As discussed previously, advertisers do not view the Hindi heartland belt as one market but a combination of six large markets. Accordingly, we have created a five-point scale to rate the position of the various print players across the six Hindi and Gujarati language markets, which we describe in brief.

#### Our print leadership ratings and what they mean

- ▶ **Five (5).** We accord a rating of Five (5) to the leading print player in any of the above-mentioned markets.
- ▶ **Three (3).** We accord a rating of Three (3) to the runner-up player in any of the above-mentioned markets.
- ▶ **One (1).** We accord a rating of One (1) to the other key (not fringe) players in any of the above-mentioned markets.
- ▶ **Six (6).** The dominance of a print media player/brand in any market is complete if it is able to create a significant gap over competition. We accord a rating of Six (6) to the leading print player in any of the above-mentioned markets if its readership gap is more than 100% versus competition. Exhibit 4 presents the position of DBCL in the Madhya Pradesh & Chhattisgarh markets as an example.

Exhibit 4: IRS readership in MP & Chhattisgarh market, calendar year-ends, 2005-09 (mn)

	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009
<b>Madhya Pradesh - Chhattisgarh</b>										
Dainik Bhaskar (DBCL)	4.9	5.2	5.2	4.8	4.2	4.4	4.2	4.2	4.1	4.1
Nai Dunia	0.7	0.8	0.7	0.6	0.5	0.5	0.5	0.6	1.2	1.2
Navabharat (MP)	1.8	1.7	1.5	1.3	1.0	0.7	0.6	0.5	0.5	0.5
<b>Rating scale</b>										
Dainik Bhaskar (DBCL)	6	6	6	6	6	6	6	6	6	6
Nai Dunia	1	1	1	1	1	1	1	1	1	1
Navabharat (MP)	3	3	1	1	1	1	1	1	—	—

Source: Indian Readership Survey, Kotak Institutional Equities

- ▶ **Four (4).** The dominance of a print media player/brand in any market is incomplete with a close runner-up player in the market. We accord a rating of Four (4) to the runner-up print player in any of the above-mentioned markets if its readership gap is less than 20% versus the leading player. Exhibit 5 presents the position of Punjab Kesari and JAGP in the Haryana & Punjab markets as an example.

Exhibit 5: IRS readership in Haryana & Punjab market, calendar year-ends, 2005-09 (mn)

	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009
<b>Haryana-Punjab</b>										
Dainik Bhaskar (DBCL)	2.2	2.3	2.2	2.1	1.8	1.9	2.1	2.3	2.4	2.4
Punjab Kesari	2.8	3.0	2.8	2.5	2.0	2.0	1.9	1.9	1.9	2.0
Dainik Jagran (JAGP)	2.1	2.5	2.3	2.2	2.1	2.0	1.9	1.9	1.8	1.9
<b>Rating scale</b>										
Dainik Bhaskar (DBCL)	3	3	3	3	4	4	4	4	5	5
Punjab Kesari	5	5	5	5	4	4	4	4	4	4
Dainik Jagran (JAGP)	3	3	3	3	4	4	4	4	4	4

Source: Indian Readership Survey, Kotak Institutional Equities

Exhibit 6 compares the readership and ratings scale of two mid-size newspapers, Aaj Dainik and Nai Dunia; the rating scale also helps counter the diffused readership with limited monetization potential of certain print players across multiple markets. The headline IRS readership of Aaj Dainik is equivalent to Nai Dunia. However, the readership of Aaj Dainik is diffused across Uttar Pradesh and Bihar whereas Nai Dunia may be the only real potential challenger to DBCL in the Madhya Pradesh market. Nai Dunia may potentially be of interest to advertisers as a supplementary print brand to DBCL but Aaj Dainik has virtually zero value for national advertisers given its weak positioning. The ratings scale helps differentiate an important potential competitor from a fringe player.

**Exhibit 6: Readership of Aaj Dainik and Nai Dunia in key markets, calendar year-ends, 2005-09 (mn)**

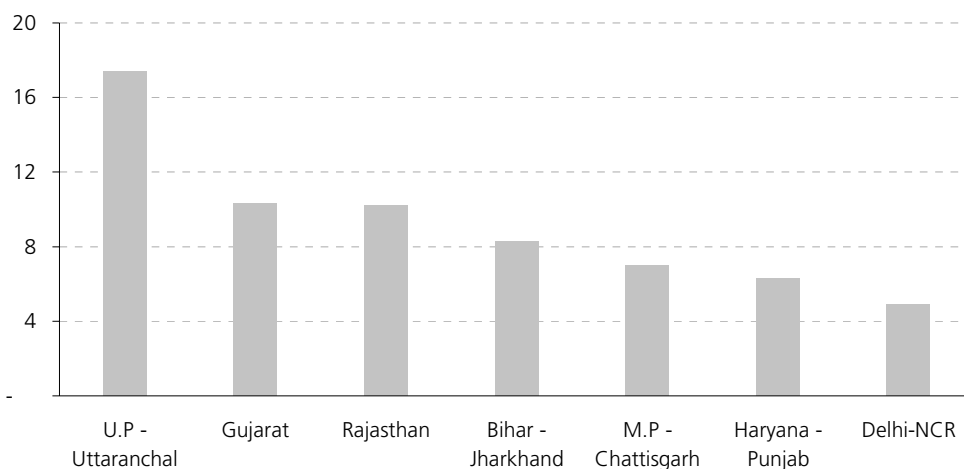
	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009
<b>Uttar Pradesh &amp; Uttaranchal</b>										
Dainik Jagran (JAGP)	11,772	12,403	11,944	11,400	10,549	9,966	9,669	9,748	9,684	9,660
Aaj Dainik	1,750	1,748	1,481	1,304	1,141	1,024	936	819	753	704
Aaj Dainik - PLI (X)	1	1	—	—	—	—	—	—	—	—
<b>Bihar &amp; Jharkhand</b>										
Hindustan (HTML)	5,453	5,919	6,489	6,433	5,974	5,633	5,548	5,780	5,589	5,527
Aaj Dainik	856	807	741	717	592	571	513	451	337	361
Aaj Dainik - PLI (X)	1	1	1	1	—	—	—	—	—	—
<b>Madhya Pradesh &amp; Chhattisgarh</b>										
Dainik Bhaskar (DBCL)	4,887	5,222	5,174	4,821	4,233	4,409	4,246	4,223	4,080	4,140
Nai Dunia	725	789	717	583	516	467	508	629	1,157	1,176
Nai Dunia - PLI (X)	1	1	1	1	1	1	1	1	1	1

Source: Indian Readership Survey, Kotak Institutional Equities estimates

### Advertising potential: Differs across markets

Exhibit 7 presents the headline IRS readership of the various Hindi heartland belt markets as well as the Gujarati market. Going by the headline IRS readership, it would be easy to characterize a market such as Chandigarh, Punjab & Haryana as small versus a significant readership market such as Bihar & Jharkhand. However, the former is a developed market (in the Indian context) with the high per-capita income of population versus the Bihar & Jharkhand market, which has low quality of readership (low purchasing power). Thus, the advertising potential of a market is dependant on (1) headline IRS readership/reach and (2) spending power of the population/readership.

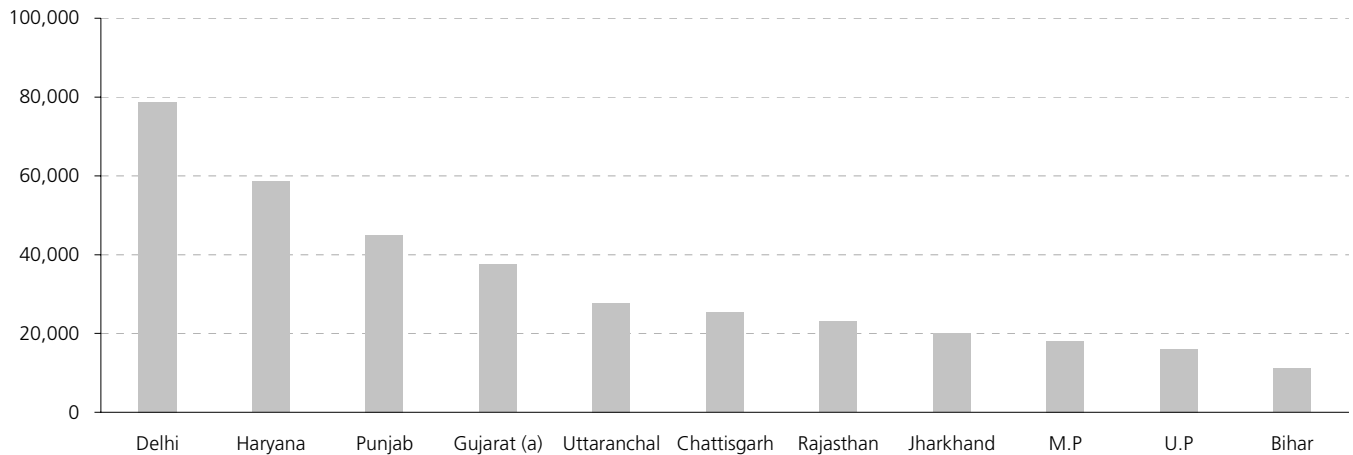
**Exhibit 7: IRS readership across various Hindi heartland states, calendar year-end, 2009 (mn)**



Source: IRS R2 2009 survey, Kotak Institutional Equities

Exhibit 8 presents the nominal per-capita GDP of the various Hindi heartland belt markets as well as the Gujarati market. Relatively smaller readership markets such as Delhi & NCR have high quality of readership in terms of their purchasing power and discretionary spending. The advertisers are consumer-discretionary industries (goods and services) aiming for a higher share of the consumer wallet; the larger the consumer wallet, the more attractive is the consumer for the advertiser. Additionally, we note that growth in nominal per-capita GDP (Bihar & Jharkhand being the high growth market) will also determine the future advertising potential of a market for an advertiser.

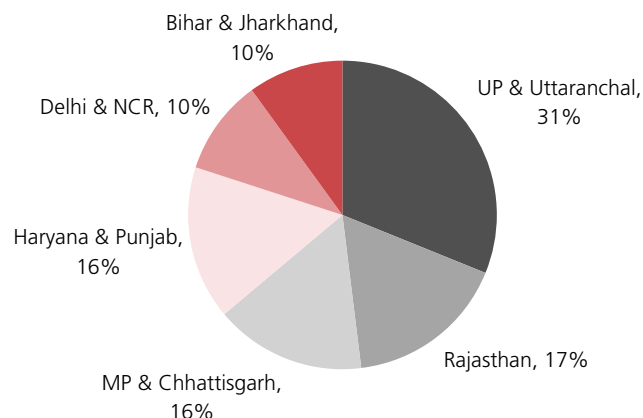
Exhibit 8: Nominal per-capita GDP across various Hindi heartland states, March fiscal year-end, 2008 (Rs)



Source: Reserve Bank of India, Kotak Institutional Equities

Exhibit 9 presents the share of various Hindi heartland markets in the overall Hindi print advertising pie. Expectedly, Uttar Pradesh & Uttaranchal is the largest print advertising market given its large size and reach followed by Rajasthan. The impact of higher nominal per-capita GDP of population (or purchasing power) is clearly visible with Delhi & NCR market share at par with Bihar & Jharkhand despite the latter having double the readership of the former. Additionally, we would highlight that the size of the Gujarat market (not part of the Hindi heartland belt) is equivalent to the Rajasthan market.

Exhibit 9: Share of various states in Hindi advertising market, calendar year-end, 2007 (%)



Source: GroupM 2008 India report, Kotak Institutional Equities



In addition to the position of a print player/brand in any market, the advertising potential (current and future) of the market is also an important determinant of the financial performance of the print player in the market. Accordingly, in addition to the individual player rating scale, we have created a three-point scale to factor in the advertising potential of the market, which we now describe in brief below.

#### Our advertising potential ratings and what they mean

- ▶ **Three (3).** We accord a potential of Three (3) to the Uttar Pradesh & Uttaranchal market given its dominant 30% share in the Hindi print advertising pie.
- ▶ **Two (2).** We accord a potential of Two (2) to the Rajasthan, Gujarat, Madhya Pradesh & Chhattisgarh as well as Chandigarh, Punjab & Haryana markets given their 15-18% share in the Hindi print advertising pie.
- ▶ **One (1).** We accord a potential of One (1) to the Bihar & Jharkhand and Delhi & NCR markets given their 10% share in the Hindi print advertising pie.

Exhibit 10 presents the Print Leadership Index (PLI) calculation for JAGP/Dainik Jagran (DJ). As discussed, it helps better capture (1) areas of operations relevant to advertisers, (2) print players' positions within an area of operation and (3) advertising potential of the market (area of operation) versus the headline IRS readership numbers. Exhibit 11 validates the dominant position of top players (DBCL, JAGP) with significantly superior financial performance. Our channel checks indicate that the financial performance (revenues, EBITDA) of relatively smaller players (Amar Ujala, Rajasthan Patrika, Punjab Kesari) is significantly below the top players (DBCL, JAGP) and largely in line with their PLI.

Exhibit 10: Print Leadership Index for JAGP/Dainik Jagran, calendar year-ends, 2005-09 (X)

	R1 2005	R2 2005	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009	Potential (b)
<b>Rating scale (a)</b>											
Uttar Pradesh & Uttaranchal	5	5	5	5	5	5	5	5	5	5	3
Haryana & Punjab	3	3	3	3	4	4	4	4	4	4	2
Bihar & Jharkhand	3	3	3	3	3	3	3	3	3	3	1
Delhi & NCR	1	1	1	1	1	1	1	1	1	1	1
<b>Print Leadership Index (a) X (b)</b>											
Uttar Pradesh & Uttaranchal	15	15	15	15	15	15	15	15	15	15	
Haryana & Punjab	6	6	6	6	8	8	8	8	8	8	
Bihar & Jharkhand	3	3	3	3	3	3	3	3	3	3	
Delhi & NCR	1	1	1	1	1	1	1	1	1	1	
<b>JAGP/DJ PLI (X)</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	

Source: Indian Readership Survey, Kotak Institutional Equities estimates

Exhibit 11: Financial and operational performance of top Hindi players, 9MFY10

	DBCL	JAGP	HTML (Hindi)
<b>Financial performance</b>			
Revenues (Rs bn)	8.0	7.1	3.2
EBITDA (Rs bn)	2.7	2.2	0.6
<b>Operating performance</b>			
Readership (mn)	16.5	16.1	9.3
PLI score (X)	36	27	X
<b>Ratios (X)</b>			
Revenue/reader	485	438	338
EBITDA/reader	162	136	64
<b>Revenue/PLI</b>	<b>222</b>	<b>261</b>	<b>X</b>
<b>EBITDA/PLI</b>	<b>74</b>	<b>81</b>	<b>X</b>

Source: Company data, Kotak Institutional Equities estimates



### Conclusion: Stick with the Top Guns

The Print Leadership Index (PLI) showcases the significant lead of the top print players (DBCL, JAGP) over relatively smaller competition. The leadership position translates into superior financial performance and the gap over smaller competition has widened over time as seen from the trend in their PLI (see Exhibit 1). The top players (DBCL, JAGP) have steadily increased their PLI score over time as some of the single-market local print players have been unable to compete with the might of the national players (for example, Punjab Kesari versus both DBCL and JAGP in the Haryana & Punjab market; see Exhibit 5). The large (and rising gap) between the top players and the relatively smaller players further highlights (1) the large skew in dominance of the top two media brands in the print segment and (2) showcases the level of consolidation in the segment contrary to street and industry characterization. We briefly discuss the advantages accruing to national and diversified print players versus smaller competition.

- ▶ **Best-placed to capture national advertisers/advertising.** For a print player/brand, a significant part of the advertising revenues (around 60%) generated by local advertisers that belong to real estate, education and retail categories. National, diversified players as well as local, dominant players are both able to target these SME advertisers through their local sales team. However, national advertising differentiates the top players since national advertisers that belong to the telecom, auto and durable advertising categories (see Exhibit 12) (1) typically generate large advertising volumes (though yields are lower) and (2) favor dominant players within and across markets to channel a significant share of their spends. Large, national players are able to offer bundled advertising space across editions/markets to national advertisers.

Exhibit 12: List of top advertisers on print in India, calendar year-ends, 2008

Advertiser	Category	Rank
Tata Motors	Automobiles	1
Maruti Suzuki	Automobiles	2
LG Electronics	Durables	3
Pantaloon Retail	Retail	4
State Bank of India	BFSI	5
BSNL Limited	Telecom	6
Planman Consulting	Education	7
Samsung Electronics	Durables	8
Nokia Corporation	Telecom	9
Reliance Communication	Telecom	10

Source: AdEx Media Research, Kotak Institutional Equities

- ▶ **Significantly superior quality of product/content.** The quality of local content is an important consideration for a local medium like print and a significant part of the content (around 60%) of a print brand is usually local news segments. However, as is the case with advertising, it is the quality of national content that is becoming increasingly important and the differentiator for a print player/brand. A national, diversified player can invest more in shared quality content across Business, Sports and International news. Additionally, large players also have bigger appetite for investment in print capacity (more number of pages, higher color capacity), which is becoming increasingly relevant not just to capture better quality of readers but also national advertisers. We note that color advertising is typically priced at a premium (effectively between 20% and 30%) to black-and-white; we expect a higher proportion of color advertising to result in higher yields for top print players. The trend towards more color advertising in regional markets is driven by the increasing comfort of advertisers with the quality of readership.

- ▶ **Economies of scale in purchasing/overheads.** A print brand requires significant effort in production and distribution and offers economies of scale to large players. The impact of economies of scale are clearly visible in the purchase of raw materials like newsprint and ink where large players are able to get better quality of raw material with volume discounts to prices paid by relatively small buyers. However, as discussed previously, large players are able to invest more in shared content and still keep the cost of content low as they are able to spread the higher investment over a large readership base. Combined with superior monetization ability, large print players are able to deliver EBITDA margins of around 30% versus 20-25% for smaller players.

We highlight that a Kotak Group Company is the transaction advisor to the IPO of HMVL (Hindustan Media Ventures Limited), a 99.3% subsidiary of HT Media that houses the Hindi business (Hindustan newspaper) of the company. Thus, we are unable to comment on Hindustan operations.

### Key drivers of print media in India

Further, we discuss the key drivers of print media in India in brief.

- ▶ **Regional print: What is national is really regional!** The dominance of English press over the print advertising pie despite its niche audience limited to the metro markets is weakening in favor of mass-oriented regional print (incl. Hindi). We expect Hindi (initially) and other regional (eventually) print to benefit from market share gains.
- ▶ **Niche print: Vertical integration and consolidation.** The scope for geographic expansion by existing large, national players seems limited given the existence of 2-3 strong players in each market. The top players are likely to diversify their portfolio adding niche properties to increase readership and better serve existing markets.
- ▶ **Diversified bouquet: Radio, outdoor and digital.** Print is a legacy, traditional media platform in India but radio, outdoor and digital are emerging mediums. A diversified bouquet of strong local media platforms will likely result in steady revenue growth as well as better traction with advertisers for top print players.
- ▶ **Advertisers: New categories are emerging.** Organized retail, entertainment and tourism are large advertising categories in print media in developed markets but are emerging categories in India. Additionally, categories like organized real estate, autos and BFSI are penetrating deeper into regional markets/mini-metros.
- ▶ **Newsprint cycle: Benign recovery so far.** Newsprint prices have started to rise again after bottoming out in August 2009 but the current cycle seems benign with supply-demand balance in favor of publishers; however, risk of cost-push inflation (rising prices of newsprint raw materials—fiber and energy) remains.
- ▶ **Growth differential: India versus the world.** Growth in advertising revenues is strongly correlated with the Indian economy while newsprint prices are linked to global economic growth; the growth differential between India and the world will likely result in continued robust 30% EBITDA margins for the top print players.

## PRINT DRIVER #1: REGIONAL PRINT HAS COME OF AGE

Hindi and other vernacular/regional language entertainment dominates the Indian broadcasting industry given the significant reach they deliver to an advertiser. It has taken over 10 years for the lessons of the importance of vernacular language news/entertainment from Indian broadcasting to percolate down to Indian print media. The dominance of English press over the print advertising pie despite its niche audience limited to the metro markets is weakening in favor of regional print (incl. Hindi) focused on Tier-II and III towns and cities. We expect Hindi (initially) and other regional (eventually) print to benefit with market share gains and reduction in large advertising rate gap versus English press; robust income growth and changing consumption patterns (more discretionary spending) will likely accelerate the trend.

### What is National is really Regional

Star India, the Indian arm of News Corporation, learnt a valuable lesson in the 1990s—‘*what is National in India is really Regional and one can at best target a niche audience with English channels in India*’; thereafter, it shifted track to focus almost entirely on Hindi language content (regional languages recently). It has taken over 10 years for this simple lesson to percolate down to Indian print media and advertisers; Exhibit 13 presents the still large gap between the advertising and readership share of vernacular print in India and compares it to the dominance of Hindi/regional entertainment in broadcasting. We expect the market share of Hindi/regional print media to grow to 35-40% of the advertising pie (from 25-30% currently) and English press to likely decline to around 25% (33%) with the reduction in the large gap advertising rate gap between them (see Exhibit 14). The advertising rate gap between English and Hindi print has reduced to 9X in 2008 from 12X in 2003 and likely to stabilize around 3-5X (given high-quality English readership).

Exhibit 13: Advertising share of print and broadcast segments, calendar year-end, 2009 (%)

Category	Print share (%)		Broadcast share (%)		
	Readership	Advertising	Category	Viewership	Advertising
<b>Hindi</b>	<b>34</b>	<b>30</b>	<b>Hindi GEC</b>	<b>25</b>	<b>25</b>
Tamil	8	9	<b>Hindi Cinema</b>	<b>12</b>	<b>5</b>
Marathi	11	7	Regional GECs	24	28
Malayalam	10	6	DD (incl. regional)	NA	7
Telugu	7	5	Sports	3	12
Gujarati	6	4	<b>News (incl. Hindi)</b>	<b>8</b>	<b>17</b>
Kannada	4	2	Kids	6	2
<b>English</b>	<b>10</b>	<b>33</b>	<b>Others (niche)</b>	<b>22</b>	<b>4</b>
Others	10	4			

Source: Pitch-Madison 2010 report, FICCI-KPMG 2010 report, Kotak Institutional Equities

Exhibit 14: Reader economics of print in India, calendar year-end, 2008

Language	Advertising	Circulation	Total
English (Rs/reader)	2,099	728	2,827
Hindi (Rs/reader)	233	208	441
Vernacular (Rs/reader)	157	203	360
<b>English/Hindi (X)</b>	<b>9.0</b>	<b>3.5</b>	<b>6.4</b>
<b>English/Vernacular (X)</b>	<b>13.4</b>	<b>3.6</b>	<b>7.9</b>

Source: FICCI-KPMG 2010 report, Kotak Institutional Equities

Exhibit 15 presents the readership of the top 20 print brands in India; only two of the top 20 brands belong to the English press. Hindi/regional print players have been unable to command advertising rates despite large reach due to (1) low quality of readership (low per-capita income and limited discretionary spending) as well as (2) low quality of product (limited color pages, poor quality of newsprint, weak editorial/content). (1) Rising literacy/education levels, (2) emergence of mini-metros with dominance of regional language readers and (3) rising prosperity in rural areas (higher MSPs of agricultural produce and NREGA employment scheme) have improved the quality of readership. The Hindi/regional print players have also significantly improved the quality of their newspapers.

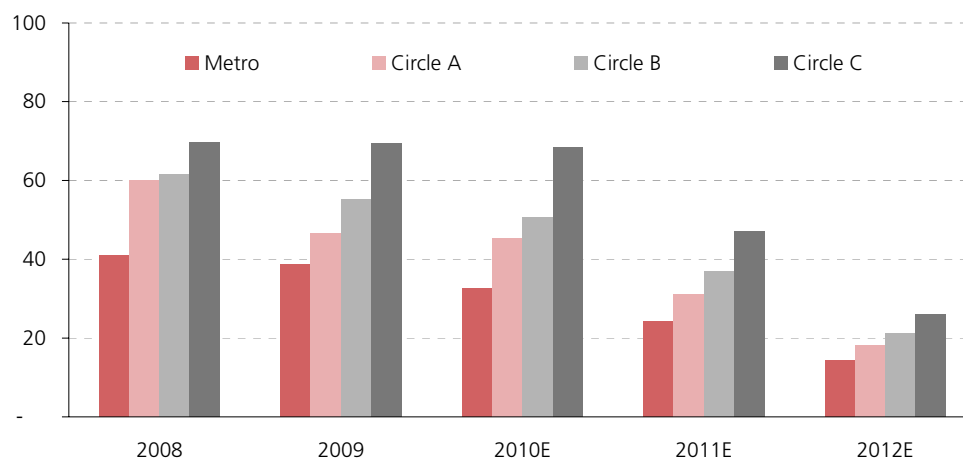
Exhibit 15: Readership of top print brands in India, calendar year-end, 2009 (mn)

Rank	Name of Daily	Readership (mn)	Rank	Name of Daily	Readership (mn)
1	Dainik Jagran	16.1	11	Ananda Bazar Patrika	6.5
2	Dainik Bhaskar	12.9	12	Eenadu	6.2
3	Hindustan	9.3	13	Dinakaran	5.3
4	Malayala Manorama	9.2	14	Gujarat Samachar	5.2
5	Amar Ujala	8.3	15	Sakshi	4.6
6	Daily Thanthi	7.5	16	Daily Sakal	3.9
7	The Times of India	7.1	17	Vijay Karnataka	3.4
8	Lokmat	7.1	18	Punjab Kesari	3.4
9	Mathrubhumi	6.7	19	Divya Bhaskar	3.4
10	Rajasthan Patrika	6.5	20	Hindustan Times	3.3

Source: Indian Readership Survey, Kotak Institutional Equities

Consumer industries are shifting incremental advertising spends towards semi-urban and rural markets, which can be most cost-effectively reached by regional/vernacular media platforms. The consumer market beyond the metros is still emerging and advertisers need to invest significantly in (1) developing the market as well as (2) establishing their brands. Exhibit 16 presents the historical and expected growth of telecom in metro as well as smaller markets in India; the market for large advertiser categories such as durables, consumer (FMCG), autos and telecom has become increasingly saturated in the metros and thus, these industries are looking at still under-penetrated semi-urban and rural markets with rising disposable incomes and rising discretionary spends for growth.

Exhibit 16: Circle-wise mobile subscriber growth in India, March fiscal year-ends, 2008-12E (%)



Source: Telecom Regulatory Authority of India, Kotak Institutional Equities estimates

## PRINT DRIVER #2: NICHE PRINT TO TAP LATENT DEMAND

In the past, the top print players have expanded into new geographies for growth but given the existence of 2-3 strong players in most markets, the opportunity seems very limited. However, there is a large segment of population within the existing markets that does not read a newspaper; print has done well to capture the male adults in the family with the morning daily newspaper; however, women and youth are an untapped market. The top players are likely to diversify their offerings to include niche print properties (1) to better serve the existing market and (2) increase readership among women and youth. A rising number of supplements with flagship newspapers also points towards more targeted offerings.

### The latent demand in existing markets

Exhibit 17 presents the multiple offerings of Bennett and Coleman Limited (BCCL), the leading print player in India, targeted at different segments of the population; The Times of India is the flagship general news offering, Mirror is the light-read entertainment offering, The Economic Times is the business offering and Times of India Crest Edition is the editorial-led premium offering. These do not even include the multiple supplements (education, lifestyle etc.) of The Times of India and The Economic Times catering to specific demographic segments. The top print players in India are now looking beyond geographic expansion (limited opportunity anyways) and realizing the latent potential of mining the scale and scope of readership in existing markets (see Exhibit 18). Besides BCCL, the likes of HT Media (Mint business newspaper, new HT supplement Café) and even regional print players JAGP (I-Next youth compact, DJ National Edition) and DBCL (DB Star/Gold compact, Business Bhaskar) are expanding their bouquet of print properties.

Exhibit 17: Various print brands from the stable of the Bennett and Coleman group



Source: Company data, Kotak Institutional Equities

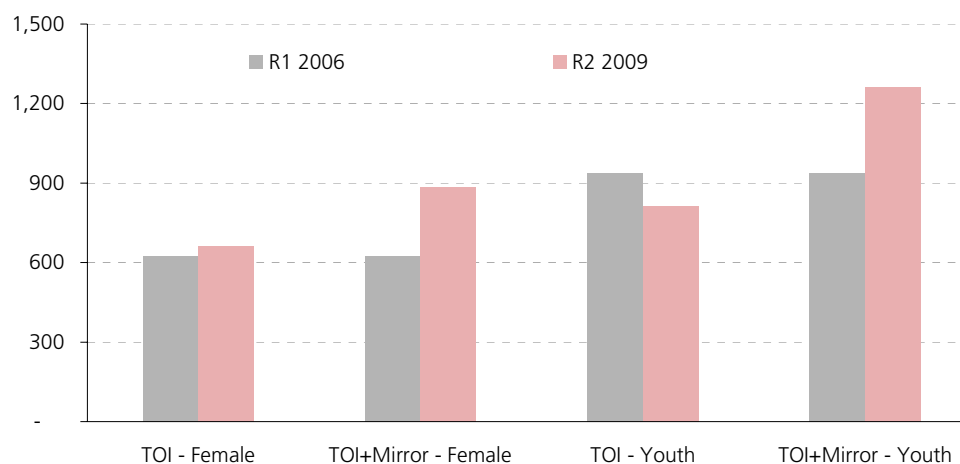
Exhibit 18: Readership across key metros and states in India, calendar year-ends, 2009 (%)

City/State	Mumbai	Delhi	M.P	Bihar	U.P	Rajasthan	W.B	Maharashtra	Gujarat	Karnataka	A.P	T.N	Kerala
Primary language	English	English	Hindi	Hindi	Hindi	Hindi	Bengali	Marathi	Gujarati	Kannada	Telugu	Tamil	Malayalam
Population (mn)	16.3	14.3	50.2	66.1	133.4	46.9	69.7	88.5	45.2	46.9	57.8	65.9	28.0
Literates (mn)	7.1	7.4	29.2	33.4	78.5	26.6	49.1	62.2	32.5	31.2	45.3	40.3	26.7
Readers (mn)	2.7	3.7	4.8	5.8	16.0	10.2	10.0	17.6	10.3	7.3	13.0	11.7	17.1
<b>Literacy (%)</b>	<b>43.5</b>	<b>51.7</b>	<b>58.2</b>	<b>50.5</b>	<b>58.9</b>	<b>56.8</b>	<b>70.5</b>	<b>70.3</b>	<b>71.7</b>	<b>66.4</b>	<b>78.5</b>	<b>61.2</b>	<b>95.1</b>
<b>Readership (%)</b>	<b>38.2</b>	<b>50.5</b>	<b>16.3</b>	<b>17.5</b>	<b>20.4</b>	<b>38.4</b>	<b>20.4</b>	<b>28.3</b>	<b>31.8</b>	<b>23.6</b>	<b>28.6</b>	<b>29.0</b>	<b>64.1</b>

Source: Indian Readership Survey, Kotak Institutional Equities

Exhibit 19 presents the trends in readership of TOI and its sister publication, Mirror, in the Mumbai market; TOI has successfully captured a larger share of women and youth audience with its supplements as well as the targeted Mirror offering over the past few years. We note that Mirror has also complemented TOI as a flanking product in a highly competitive market with the entry of HT and DNA in CY2005. The fragmentation of the market was inevitable with the entry of new players but BCCL has managed to expand its readership (with the help of Mirror) and hold on to its advertising revenues. The niche print properties such as Mirror and supplements offer better value to the advertiser as well given they deliver a targeted readership at relatively cost-effective rates.

**Exhibit 19: Trends in readership of TOI and Mirror in Mumbai, calendar years-ends, 2005-09 ('000)**



Source: Indian Readership Survey, Kotak Institutional Equities

A similar trend is visible in Hindi/regional markets as well with increasing maturity in the market for flagship Hindi dailies given the existence of 2-3 strong players but significant potential to expand readership with niche products targeted at specific audience. JAGP, the largest Hindi print player in India, has launched a light-read tabloid offering (I-Next) targeted at the youth. DBCL, the leading Hindi/regional print player in India, has launched a business newspaper in Hindi (Business Bhaskar). These niche print properties are at a nascent stage of their development though I-Next already contributes around 5% to JAGP's revenues. In regional markets, the supplements of flagship dailies are becoming increasingly important for advertisers and print players (see Exhibit 20).

**Exhibit 20: Key supplements to flagship Hindi print newspapers**

JAGP/DJ	Category	DBCL/DB	Category	HTML/HH	Category
Josh	Education	Madhurima	Women	Nai Dishayein	Education
Sangini	Women	Rasrang	Lifestyle	Remix - Angana	Women
Jhankar	Entertainment	Bal Bhaskar	Children	Remix - City	City events
Yatra	Tourism	Navrang	Entertainment	Remix - Bollywood	Entertainment
Junior Jagran	Children	Sabrang	Family	Remix - Ravivar	Family
I-Next	Tabloid	DB Star	Tabloid	Dhama Chaukdi	Children
				Remix - Lifestyle	Lifestyle

Source: Company data, Kotak Institutional Equities

### PRINT DRIVER #3: EMBRACING LOCAL NEW MEDIA PLATFORMS

India's print industry is a legacy, traditional media platform in India with a heritage dating back more than two centuries. Its legacy has given print media a dominant 50% share of the advertising revenue market even today after the entry of various new media platforms. We believe Indian print media is at a nascent stage of its development and it will be several years before we see saturation in the segment; nonetheless, top print players in India have been at the forefront of embracing emerging media platforms such as radio, outdoor (organized) and digital. A diversified bouquet of strong local media platforms will support steady revenue growth as well as provide better traction with advertisers for top print players in the likely scenario of new media taking market share away from print.

#### Diversified bouquet: Radio, Outdoor and Digital

Exhibit 21 presents the historical and expected growth in advertising revenues across various media platforms in India. Unlike in developed markets, we have long to go before we see saturation in the print segment. However, the top print players have been proactive in embracing the emerging media platforms (see Exhibit 22) taking their cues from the developed markets where the emergence of new media adversely impacted print. We note that even C&S broadcasting is a relatively young medium with a short history (less than 20 years) even as radio, outdoor (as an organized business) and digital are less than 10 years old in India. The shift has been particularly important for metro-oriented English press given (1) advertising revenue growth has tapered down to 5-7% as (2) competition from new media has initially impacted the metro markets.

Exhibit 21: Estimates of advertising revenues across platforms, calendar year-ends, 2006-14E

	2006	2007	2008	2009	3-year CAGR	2010E	2011E	2012E	2013E	2014E	5-year CAGR
<b>Advertising revenues (Rs bn)</b>											
C&S TV	61	71	82	88	13	99	113	133	155	182	16
Print	85	100	108	103	7	114	127	141	158	176	11
Outdoor	12	14	16	14	5	15	17	19	21	24	11
Radio	6	7	8	8	10	9	10	12	14	16	15
Internet	2	4	6	8	59	10	14	20	26	32	32
<b>Total</b>	<b>166</b>	<b>196</b>	<b>220</b>	<b>221</b>	<b>10</b>	<b>247</b>	<b>281</b>	<b>325</b>	<b>374</b>	<b>430</b>	<b>14</b>
<b>Market share (%)</b>											
C&S TV	37	36	37	40		40	40	41	41	42	
Print	51	51	49	47		46	45	43	42	41	
Outdoor	7	7	7	6		6	6	6	6	6	
Radio	4	4	4	4		4	4	4	4	4	
Internet	1	2	3	4		4	5	6	7	7	

Source: FICCI-KPMG 2010 report, Kotak Institutional Equities

Exhibit 22: Diversification initiatives by top print players

Company	C&S broadcast	FM Radio	Outdoor	Digital
Bennett and Coleman	Times Now	Radio Mirchi	Times OOH	Indiatimes
HT Media	NA	Fever FM	NA	Firefly
Jagran Prakashan	NA	NA	Jagran Engage	J9 Solutions
DB Corp	NA	My FM	NA	IMCL
ABP Group	Star News	Friends FM	NA	NA
Malayalam Manorama	NA	Radio Mango	NA	NA

Source: Company data, Kotak Institutional Equities



Exhibit 23 presents the details of the key radio players in India along with their heritage; diversification into FM radio has helped the top print media players develop another strong local media platform to complement their print presence. The top print players have been able to better monetize their radio operations given better understanding of local advertisers (ENIL is EBITDA positive as it is a legacy Phase-I license holder, FEVER and MYFM are EBITDA breakeven despite only 3-4 years of operation under Phase-II) versus others (REDFM/SFM and BIGFM are EBITDA negative). The FM radio industry in India is tightly regulated and certain regulatory hurdles (news not allowed, limited-period license etc.) have prevented it from achieving its true potential in India but we remain hopeful that Phase-III licensing will likely present a clear path for the development of FM radio in India.

**Exhibit 23: Details of top radio players and their legacy in India**

Radio	Group	Legacy	Stations	Area of operation
Big FM	R-ADAG	Film media	45	All-India
Red FM/SFM	Sun TV	C&S broadcast	45	All-India
Radio Mirchi	BCCL	Print media	32	All-India
Radio City	MBPL	C&S broadcast	20	All-India
My FM	DBCL	Print media	17	North India
Dhamaal FM	BAG Media	C&S broadcast	10	North India
Radio Mantra	JAGP (promoters)	Print media	8	North India
Hello FM	Thanthi Group	Print media	7	South India
Radio One	Mid-Day	Print media	7	Metros
Meow FM	India Today	Print media	7	Metros
Fever FM	HTML	Print media	4	Metros
Radio Mango	Manorama	Print media	4	South India
Club FM	Mathrubumi	Print media	4	South India

Source: Company data, Kotak Institutional Equities

### Digital—threat or opportunity

Exhibit 24 presents the list of top 20 websites in India along with their heritage; even as we welcome the growth of digital media in India, we can't help but notice the limited success of traditional, local media brands. A significant share of the digital advertising revenue pie in India is captured by global brands such as Google, Yahoo, MySpace and FaceBook. The traditional Indian media industry finds itself in a Catch-22 situation with (1) limited choice but to embrace digital media as consumers do, (2) lack of clear monetization models so far (at least any that match their current scale) and (3) limited success with investments made so far (12 of the top 20 websites in India are global, four out of the remaining eight local websites are likely unprofitable). A viable digital strategy will be critical for the growth and sustainability of existing print players over the long run.

**Exhibit 24: Top-20 digital brands in India, calendar year-end, 2009**

Rank	Website	Legacy	Rank	Website	Legacy
1	Google	Global	11	Linkedin	Global
2	Yahoo	Global	12	Wordpress	Global
3	Facebook	Global	13	Microsoft	Global
4	Youtube	Global	14	IN.com	Local/Broadcast
5	Blogger	Global	15	Cricinfo	Local/Broadcast
6	Orkut	Global	16	Naukri	Local/Independent
7	Rediff	Local/Independent	17	Way2SMS	Local/Independent
8	Wikipedia	Global	18	Rapidshare	Global
9	Twitter	Global	19	IRCTC	Local/Independent
10	Indiatimes	Local/Print	20	Ibibo	Local/Independent

Source: Alexa Research, Kotak Institutional Equities

## PRINT DRIVER #4: EMERGING ADVERTISER CATEGORIES

An analysis of developed print markets reveals that organized retail, travel and leisure as well as media and entertainment are large advertisers in print but these are emerging categories in India. Thus, there is ample scope for growth in print advertising revenues on account of strong growth and increased market share of organized businesses in these industries. Additionally, well-established print advertising categories in the metro markets such as telecom, autos, durables, BFSI and real estate are under-penetrated in mini-metros and advertisers are shifting incremental spends towards these markets. Finally, Indian print media will likely benefit from its dependence on cyclical sectors, which are likely to outperform (higher advertising spends) given the upturn in the economic cycle in India.

### Retail, tourism and media new advertisers

Exhibit 25 presents the list of top-10 print advertising categories in the mature print markets of USA and Japan and compares the same with India; industries such as organized retail, travel and leisure as well as media and entertainment are large advertisers in print globally but with limited contribution to print advertising in India currently given the nascent stage of their development in India. Exhibit 26 presents the trends in share of organized retail in India across various consumer categories; unorganized, small-shop retailers dominate the Indian retail landscape with organized, large-format retailers emerging in recent times. However, organized retail has witnessed strong growth in India along with the development of retail real estate such as malls and shopping centers.

Exhibit 25: Top print advertising categories across USA, Japan and India

Rank	USA (2006)	Japan (2006)	India (2009)
1	Wireless Telecom	Travel/Leisure	Education
2	Autos	Publications	Services
3	Domestic auto dealers	Retailing	BFSI
4	Films	Classifieds	Auto
5	Overseas auto dealers	BFSI	Durables
6	BFSI	Communications	Retail
7	Property	Real Estate	Personal Accessories
8	Furniture	Education	Healthcare
9	Coupons	Foodstuffs	Corporate/Brand
10	Consumer Electronics	Autos	Textiles and clothing

Source: World Association of Newspapers, Kotak Institutional Equities

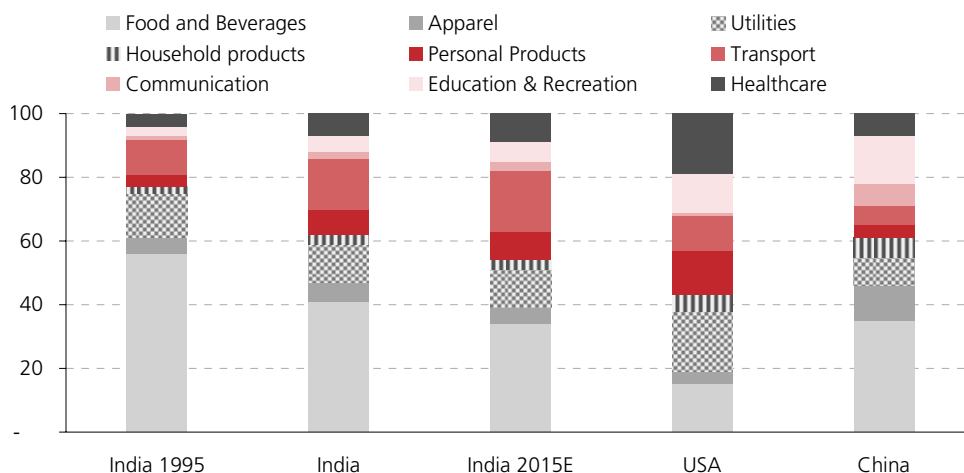
Exhibit 26: Trends in share of organized retail in India, calendar year-ends, 2006-07

Category	Indian retail (Rs bn)			Organized retail (Rs bn)			
	2006	2007	Growth (%)	2006	2007	Growth (%)	Share (%)
Food and Grocery	7,439	7,920	6.5	58	90	55.2	1.1
Textiles and clothing	1,135	1,313	15.7	214	298	39.3	22.7
Consumer durables	698	847	21.3	50	71	42.0	8.4
Jewellery	602	694	15.3	17	23	35.3	3.3
Pharmaceuticals	422	488	15.6	11	15	36.4	3.1
Entertainment	380	456	20.0	16	24	50.0	5.3
Furnishings	407	455	11.8	37	50	35.1	11.0

Source: IMAGES Retail 2008 report, Kotak Institutional Equities

We highlight that the Indian film industry is the largest in the world in volume terms with over 3 bn tickets sold annually. However, the Indian film industry has not achieved its true potential given its hitherto unorganized state. The rapid spread of multiplexes and digital (in single-screens) in India have significantly enhanced the distribution/monetization potential of films; thus, the need for higher advertising and marketing spends (20-25% of rising production budget versus 10-15% previously) to support a wider distribution footprint. Similarly, strong growth in the Indian economy has translated into higher disposable income in the hands of consumers and shift in consumption patterns towards recreational activities such as travel and leisure (see Exhibit 27).

Exhibit 27: Consumption pattern across key markets, calendar year-ends, 1995-2015E (%)



Source: BW Marketing Whitebook 2008, Kotak Institutional Equities

### Telecom, autos and durables in regional print

Telecom, 4-W autos and durables are large, well-established advertising categories in the metro print media; however, the metros markets have increasingly become saturated with high penetration rates of these goods and services among consumers/households. We believe these categories will continue to advertise heavily in metro markets as the emergence of the replacement cycle will witness consumers shifting to premium goods and services in these categories but volume growth is shifting to under-penetrated rural markets. Rural markets remain the primary drivers of 2-W autos and the share of Tier-II and III cities (beyond the top 40 cities) has increased by 5-10% for Maruti and Hyundai (leaders in compact 4-W autos) in the recent times. Exhibit 28 presents the potential and rising importance of rural markets for consumer durables over the next several years.

Exhibit 28: Estimation of CTV market, March fiscal year ends, 2009-14E (mn)

Category	Color TV		
	2009	2014E	Growth (%)
<b>Urban market</b>			
Addressed households	40	57	42.5
Addressable households	8	5	(37.5)
Unaddressable households	18	14	(22.2)
<b>Rural market</b>			
Addressed households	24	38	58.3
Addressable households	11	8	(27.3)
Unaddressable households	123	128	4.1

Source: CRISIL Research estimates, Kotak Institutional Equities

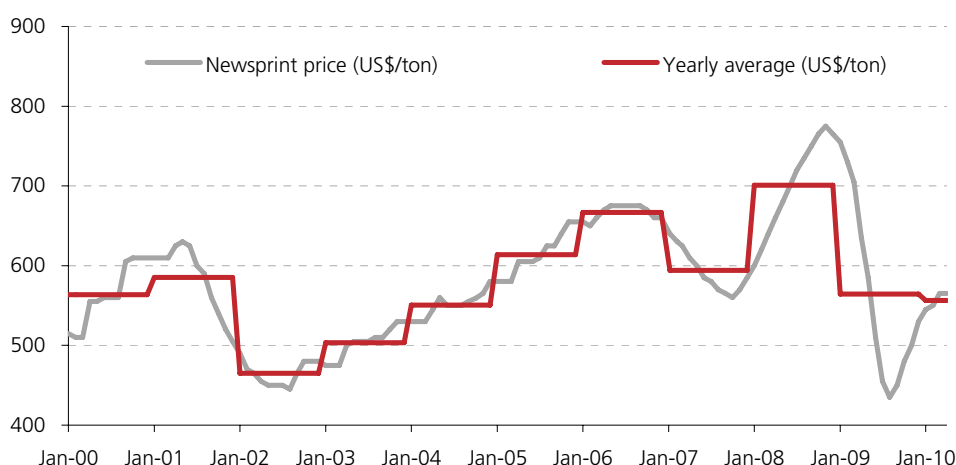
## PRINT DRIVER #5: BENIGN NEWSPRINT CYCLE SO FAR

Raw material (largely newsprint) costs are the largest cost item for a print player and constitute 30-40% of a print brand's revenues. The street is concerned about the return of FY2009 when rising newsprint prices (peak of US\$775/ton in December 2008) hit the profitability of print players; newsprint prices thereafter crashed (US\$435/ton in August 2009) and along with cost rationalization steps initiated in 2HFY09 resulted in strong operating leverage for print players in FY2010 even in a weak advertising revenue environment. The current upturn in the newsprint cycle seems orderly as (1) supply-demand balance remains in favor of publishers though (2) cost-push inflation risk remains.

### Supply-demand balance in favor of publishers

Exhibit 29 presents the trend in newsprint prices over the past few years. We note that the sharp increase in newsprint prices in FY2009 was the result of a confluence of negative factors—(1) cost-push inflation as prices of key newsprint raw materials (fiber and energy) increased rapidly, (2) supply constraints as some of the largest global newsprint producers cut capacity but most important, (3) rising demand on account of one-off factors (China Olympics, US Presidential Elections) as well as print expansion in emerging markets. Newsprint prices subsequently declined with (1) supply coming on-stream in China and (2) demand decline as unsustainable expansions were shelved with downturn in the global economy. The demand-supply balance remains in favor of publishers as demand continues to decline in developed markets with high inventory levels (see Exhibit 30).

Exhibit 29: Historical newsprint price, US East Coast, calendar year-ends, 2000-10 (US\$/ton)



Source: Pulp and Paper Weekly, Kotak Institutional Equities

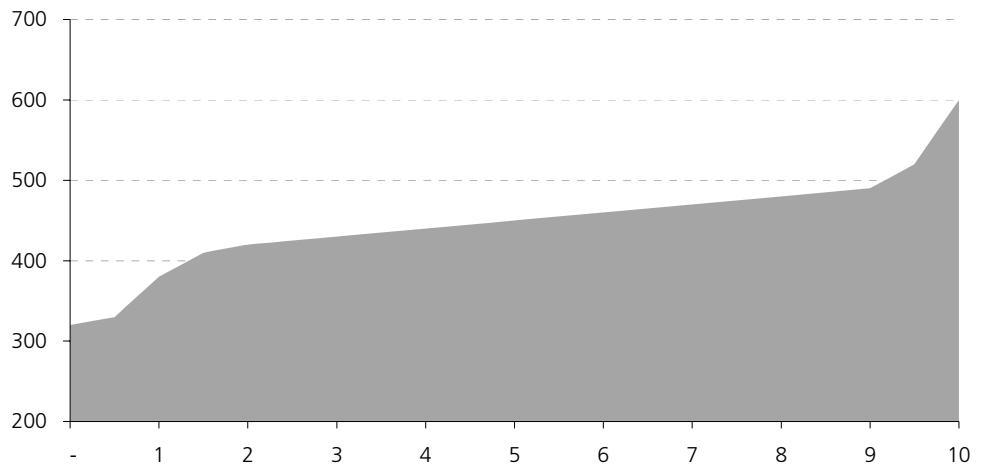
Exhibit 30: Key North American newsprint market statistics ('000 tons)

North America newsprint	Jan-Dec 2009	Change (%)		
		2009/08	December-09	
Shipments to North America	5,712	(25.8)	512	(16.2)
Shipments to US	4,893	(27.5)	440	(18.2)
Shipments to Canada	819	(14.1)	73	(1.5)
Total exports	1,695	(33.5)	193	(11.0)
<b>Total newsprint demand</b>	<b>5,798</b>	<b>(25.3)</b>	<b>518</b>	<b>(15.5)</b>
<b>US dailies consumption</b>	<b>3,996</b>	<b>(23.8)</b>	<b>326</b>	<b>(15.6)</b>
<b>US publisher inventory</b>	<b>NA</b>	<b>NA</b>	<b>508</b>	<b>(21.7)</b>
<b>US dailies days of supply (#)</b>	<b>NA</b>	<b>NA</b>	<b>47</b>	<b>(6.0)</b>

Source: Pulp and Paper Weekly, Kotak Institutional Equities

Newsprint prices bottomed out at US\$435/ton in August 2009 and have seen a rising trend since; the renewed upturn in the newsprint cycle has been an area of concern for the street but we highlight that price below US\$550/ton were unsustainable. Exhibit 31 presents the cash cost of production of newsprint across North American producers; it was impossible for even efficient producers to break even with newsprint prices below US\$550/ton given the cash cost of production of US\$450-475/ton (at around 6-7 mn tons total demand) and overheads (around US\$75-100/ton). We model newsprint prices around US\$625-650/ton for FY2011E and beyond with the turnaround in the economy. Newsprint prices are around US\$565/ton currently with calibrated US\$5-15/ton monthly increases.

Exhibit 31: North American newsprint mill cash cost curve, 2008 (US\$/ton, mn tons)

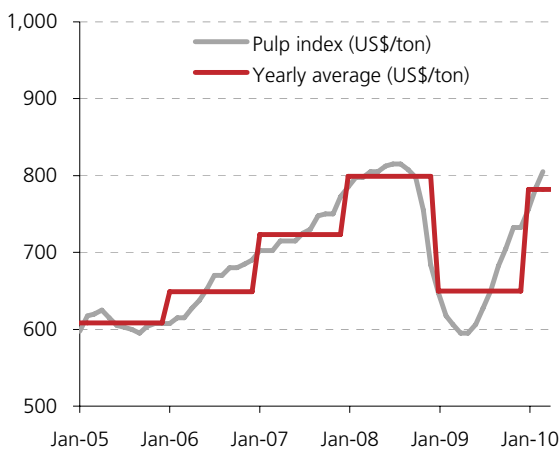


Source: RISI Cost Benchmarking study, Kotak Institutional Equities

**Cost-push inflation only joker in the pack**

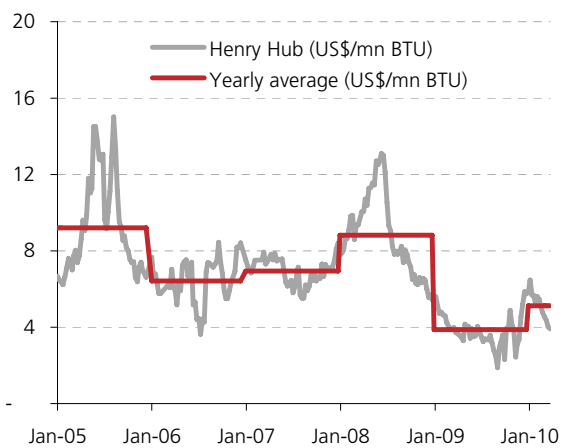
The prices of key newsprint raw materials such as pulp (see Exhibit 32) and recovered paper (fiber) and coal (energy) have been rising in recent months; however, the situation has been a mixed bag for producers as natural gas prices have remained largely steady (see Exhibit 33). Nonetheless, rising fiber and energy prices are an area of concern and may result in further cost-push inflation in newsprint prices going forward. However, we also highlight that rising fiber prices in recent months have been a result of certain one-off factors (earthquake in Latin America resulting in supply disruption) and prices will likely stabilize going ahead though we continue to monitor the situation closely.

Exhibit 32: Historical pulp price index, US East Coast



Source: Pulp and Paper Weekly, Kotak Institutional Equities

Exhibit 33: Historical natural gas prices, US



Source: Bloomberg data, Kotak Institutional Equities

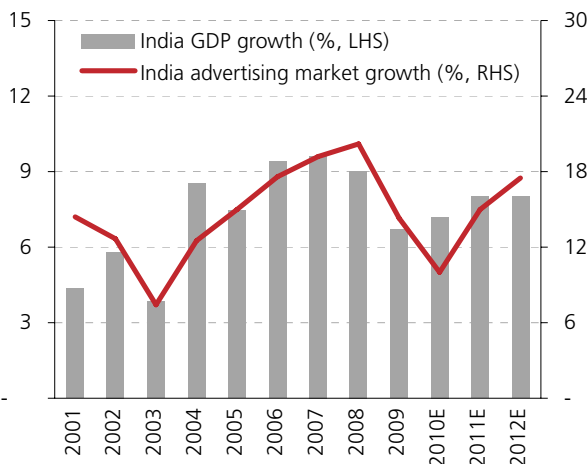
## PRINT DRIVER #6: POSITIVE OPERATING LEVERAGE

We highlight the strong correlation between growth in Indian advertising market and India's GDP growth; newsprint prices exhibit strong correlation with world economic growth in line with other commodities (demand growth in line with global economic trends). A large growth differential exists between the Indian and the world economy with strong GDP growth expected in India but relatively weak recovery in global economy led by the developed world (North America and Europe). Strong growth in the Indian advertising market coupled with relatively subdued newsprint prices will likely result in positive operating leverage; we believe 30% EBITDA margins of top print players are likely sustainable.

### Growth differential: India versus the world

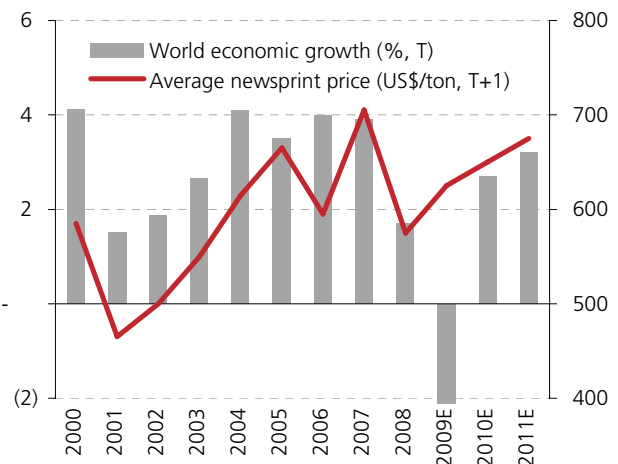
Exhibit 34 presents the strong correlation between growth in Indian advertising market and India's GDP growth. Thus, media spends are likely to witness robust growth going forward in line with the Indian economy. Indian print media will likely benefit given its dependence on cyclical sectors; durables (including autos) have seen strong growth in recent months with real estate and BFSI showing incremental signs of recovery. On the other hand, newsprint prices have a strong correlation with world GDP growth (see Exhibit 35). As per the World Bank, the global economy is expected to recover with 2.7% growth in CY2010E and this will likely result in modest recovery in newsprint prices. However, newsprint prices will be capped by stagnant demand in developed markets, the dominant consumers of newsprint, even as emerging markets (India and China) pick up some of the slack.

Exhibit 34: Trends in India's GDP and ad revenue growth, March fiscal year-ends, 2001-12E (%)



Source: Carat Media, GroupM 2009 India Report, Kotak Institutional Equities estimates

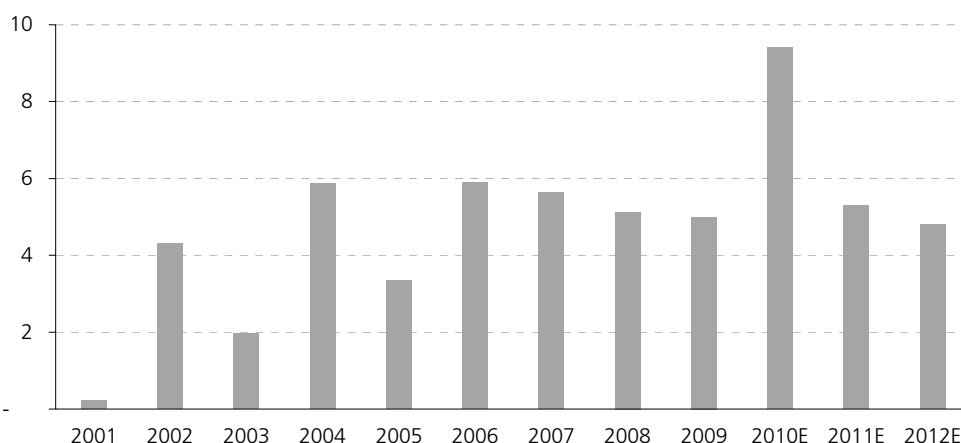
Exhibit 35: Trends in World GDP growth and newsprint prices, calendar year-ends, 2000-11E



Source: World Bank, Pulp and Paper Weekly, Kotak Institutional Equities estimates

Exhibit 36 presents the large growth differential between the Indian and the world economy in the medium term; strong growth in Indian advertising market (including print) will likely continue to outpace the modest growth in newsprint prices in the medium term given the strong correlation between media spends and domestic economic growth on one hand and newsprint prices and global economic growth on the other. FY2010 is an interesting case study in this regard; print players witnessed strong positive operating leverage in FY2010E as the domestic economy was supported by large fiscal and monetary stimulus resulting in robust advertising market but more important, weak global economy (-2.2% growth in CY2009 as per World Bank) resulted in declining newsprint prices. We highlight that the growth differential was at its peak in FY2010.

**Exhibit 36: Differential between India and World's GDP growth, March fiscal year-ends, 2000-12E (%)**



Source: World Bank, Reserve Bank of India, Kotak Institutional Equities estimates

Exhibit 37 presents an analysis of the likely positive operating leverage for a hypothetical print player as well as our expected trends in cost line items in the medium term; we note that the analysis is only valid for the core operations of a top print player and excludes any significant expansion plan as the same would likely result in operating losses in the initial years. We believe the 30%+ EBITDA margins achieved by the top print players in FY2010E are likely sustainable as the robust recovery in advertising markets (notably for regional print; English press will likely follow) will likely negate modest cost inflation in raw material (newsprint) and other line items. The likely positive (or stable) operating leverage will continue to benefit print players for the next few years.

**Exhibit 37: Trends in financials of hypothetical print player, March fiscal year-ends, 2010E-12E**

	Actuals (X)			Growth (%)		Trends	
	2010E	2011E	2012E	2011E	2012E	Value	Volume
<b>Total revenues</b>	<b>100.0</b>	<b>112.0</b>	<b>128.8</b>	<b>12</b>	<b>15</b>	<b>8-12%</b>	<b>5-7%</b>
Raw material cost	32.5	37.4	41.9	15	12	5-10%	5-7%
Other direct cost	12.5	14.0	16.1	12	15	5-10%	5-7%
Employee expenses	12.5	14.0	16.1	12	15	8-12%	3-5%
Overhead expenses	10.0	11.5	13.6	15	18	10-15%	5-7%
<b>EBITDA</b>	<b>32.5</b>	<b>35.1</b>	<b>41.2</b>				
<b>Margin (%)</b>	<b>32.5</b>	<b>31.4</b>	<b>32.0</b>				

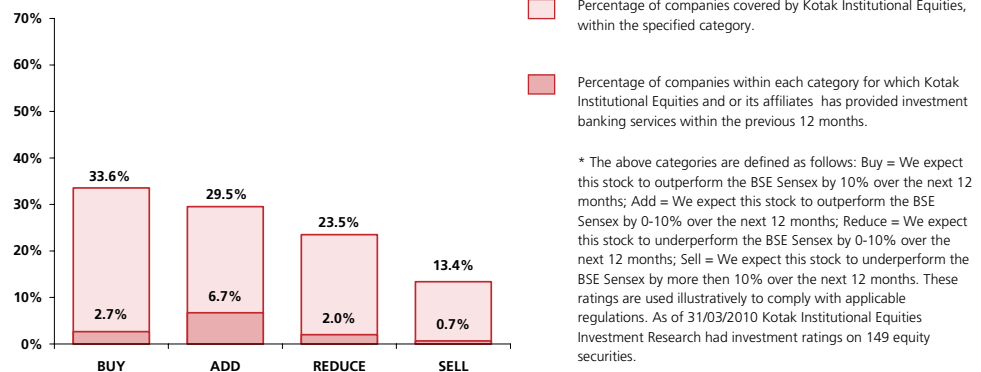
Source: Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

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Source: Kotak Institutional Equities research

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