Media

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Hindi papers to outperform

DB Corp, Hindustan Media Ventures top picks

Sensex: 15,874
Nifty: 4,750

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Investment summary

We initiate coverage on the print sector with a positive outlook based on enough headroom for expansion into new cities, limited alternative to newspapers in tier-2/3 cities (58% of print ad volume), and a still distant threat from digital media. We favor Hindi/regional newspapers (DB Corp, Hindustan Media Ventures) over English ones (HT Media) as the ad-rate difference between both (English currently higher) is likely to narrow with rising income levels in Hindi/regional markets. English newspapers will be affected first by the rise of digital media — there is already higher media clutter for this audience. We initiate coverage with Buy ratings on HT Media (18% upside), DB Corp (22%), and Hindustan Media Ventures (42%).

Advertising growth to taper off over FY12 and FY13: We expect overall advertising growth to slow down to 11.5% in FY12 and 10% in FY13 from 15.6% in FY11 due to falling consumer demand and pressure to preserve margins. Print ad revenue growth is likely to be 9.1% in FY12 and 7.7% in FY13 — it is more volatile than for TV due to higher dependence on cyclical sectors such as auto, BFSI, real-estate, and retailers. We expect ad-spend in telecom, autos and social sectors to improve in 2012 led by (respectively) launch of broadband services, new vehicle models, and number of state elections.

Structural changes favour Hindi newspapers over English ones: Besides factors such as improving literacy and low cover prices, the government's focus on rural-centric social spending and increasing diversity in local economic activity from rising income levels and aspirations are likely to drive media consumption and ad-spend in tier-2/3 cities. This will favour Hindi/regional players. However, print media may face competition and cannibalization with the phase-3 radio rollout. Hindi papers enjoy better margins than English peers.

- **Buy DB Corp with target price of Rs250:** We initiate coverage on DB Corp with a Buy rating and target price of Rs250 (using 16x average FY13-14E EPS) based on stronger growth expectation in Hindi advertising, leadership position in key Hindi states and urban centers, and track record of successful entry into new markets.

- **Buy HT Media with target price of Rs145:** We initiate coverage on HT Media with a Buy rating and target price of Rs145 (12.5x average FY13-14E EPS) based on HT Mumbai and Mint becoming profitable by H1FY13, diversified presence across newspaper segments (Hindi, English, business), and foray into online media to hedge possible slowdown in some markets.

- **Buy Hindustan Media Ventures with target price of Rs180:** We initiate coverage on HMVL with a Buy rating and target price of Rs180 (13.5x average FY13-14E EPS) based on economic growth revival in its core Hindi markets, possible improvement in ad-yield in UP, and expenditure that is tapering off. Our target maintains a 15% discount to DB Corp to factors in a relatively smaller addressable market compared with other Hindi players and threat of increased competition from new entrants in its core markets.

Peer valuation

Company	CMP	Net sales		PAT		P/E (x)		RoE (%)		EV/EBITDA (x)		Target	
	(Rs)	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	Price (Rs)	Rating
DB Corp	205	14,687	16,644	2,185	2,581	17.2	14.6	34.7	39.6	10.1	8.9	250	BUY
HT Media	123	20,407	22,404	2,108	2,444	13.7	11.8	14.4	14.3	9.1	7.8	145	BUY
Hindustan Media	127	6,077	6,871	753	829	12.3	11.2	18.7	16.4	8.3	7.2	180	BUY

Source: Company data, BRICS Research

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Companies

Print advertising growth weakening

We expect overall advertising growth to slow down to 11.5% in FY12 and 10% in FY13 from 15.6% in FY11, due to falling consumer demand, rising input costs and interest rates. However, we expect a turnaround in telecom ad-spend with the launch of services by Reliance InfoTel by 2012. Auto ad-spend is likely to be higher with more model launches (75 in 2012 vs. 56 in 2011).

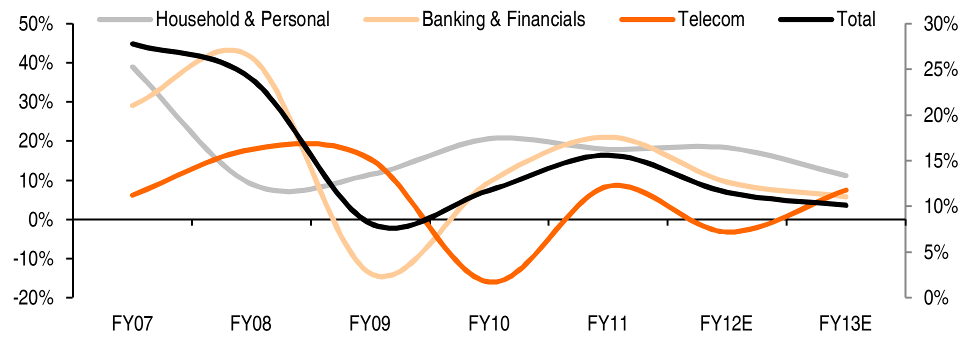
Advertisement growth in FY12-13 likely to taper

We estimate a growth of 11.5% in FY12 and 10% in FY13 in print ad-spend

Based on the advertising spending pattern of BSE 500 companies, we estimate a growth of 11.5% in FY12 and 10% in FY13 in ad-spend. We expect a decline in spending from the financial sector and from household and personal care. This is due to the weak capital market, input-cost-driven margin pressure, and inflation-led declining demand. However, the telecom sector will spend more with Reliance InfoTel expected to launch new services and also because of 3G promotions. With more model launches (75 vs. 65), the auto sector will also spend more in 2012.

While the BFSI sector's spending will fall, telecom and auto will spend more

Exhibit 1: Ad spend trend

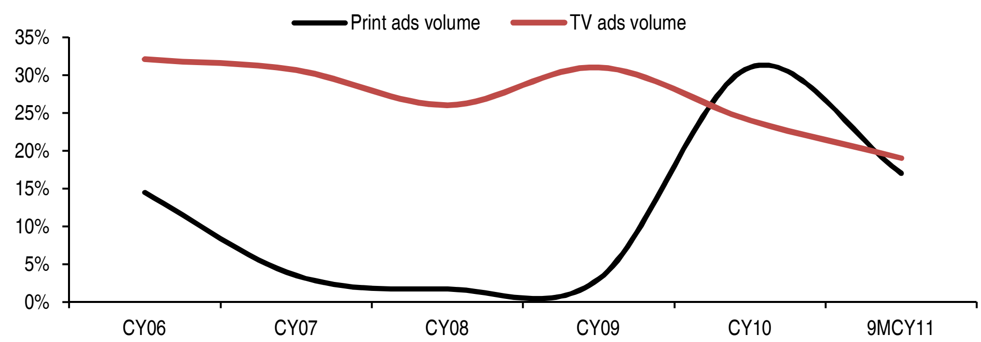


Source: Bloomberg, BRICS Research

Print ad volume growth more volatile compared to TV: Ad volume-growth data shows stability in TV ad volumes (narrow range of 25%-35% over 2006-10). However, print media has a wider range of volume growth (1%-35%, exhibit 2). Though the shares of top-3 and top-10 sectors for both the mediums are similar, the sector profile of advertisers on the two media is very different (exhibit 3).

Growth in print ads is more volatile because of more high-value discretionary spend in print vs. TV

Exhibit 2: Trend in volume growth of ads in TV and Print media



Source: TAM Adex

Print ads are more geared towards high-value discretionary spending due to higher dependence on banking and financial, auto, and services sectors (32% share together) compared with TV, which is more driven by consumer staples and discretionary.

Exhibit 3: Sectoral volume share in print ads v/s TV ads

Print media	CY08	CY09	CY10	9MCY11	TV media	9MCY11
Education	15%	15%	10%	10%	Food & beverages	14%
Services	12%	11%	12%	16%	Personal care	13%
Banking, Financials	10%	9%	11%	9%	Services	6%
Auto	7%	7%	7%	7%	Hair Care	5%
Retail	5%	5%	5%	5%	Personal accessories	5%
Durables	4%	4%	4%	5%	Telecom/Internet	4%
Top 3 share	**37%**	**35%**	**33%**	**35%**		**33%**
Top 10 share	**65%**	**62%**	**61%**	**64%**		**60%**

Source: TAM Adex

Top-10 print advertiser categories are largely stable: The social advertising category has become the second-largest volume contributor in the 9M2011 from the seventh largest in 2007. Major contributors in social ads are the tax department, the ministries of information and broadcasting, consumer affairs, health and family affairs, and various state governments. Other major categories such as retailers, real-estate, cars/jeeps, hospitals, jewelry, and corporate branding are largely stable in the top-10,

Exhibit 4: Top categories in advertising in print media

	CY09		CY10		9MCY11	
	Share (%)	Rank	Share (%)	Rank	Share (%)	Rank
Educational Institutions	11%	1	9%	1	10%	1
Social Advertising	9%	2	7%	2	8%	2
Independent Retailers	4%	3	4%	4	4%	5
Properties/real Estate	3%	5	4%	3	4%	3
Cars /Jeeps	4%	4	3%	5	4%	4
Corporate Brand Image	2%	7	3%	6	2%	7
Coaching/Competitive exams	2%	8	2%	10	2%	8
Events	2%	9	2%	8		
Hospital/Clinics	2%	6	2%	7	3%	6
Jewelry	2%	10	2%	9	2%	10
B2C Online shopping					2%	9
Top 10 share	**41%**		**38%**		**41%**	

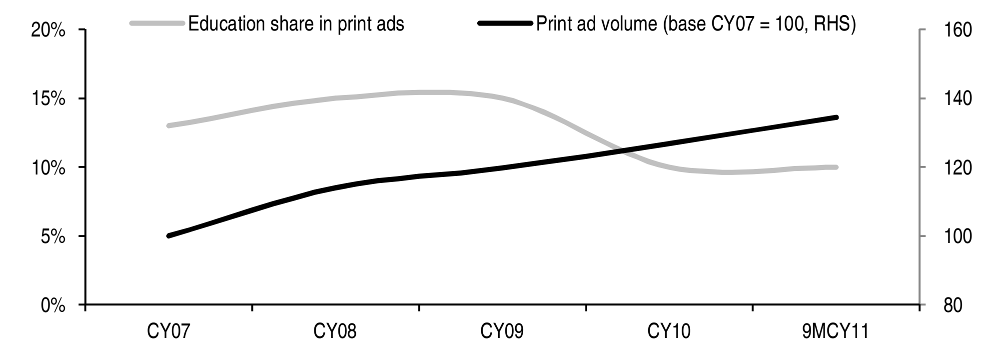
Source: TAM Adex

Telecom, auto ad-spend to grow, banking and real-estate may weaken

We expect strengthening of ad-spend in auto, telecom and media and movies sectors in FY13 while weakening in household & personal care, real-estate, consumer durables, BFSI, and retail segment.

Education sector – stable ad growth, but share in print declining: Education sector (institutes, coaching, vocational, and computer training) is one of the biggest contributor of print ads despite a fall in volume share to 10% in 9M2011 from 15% in 2009. We expect this sector's ad-spend growth to stay stable at 8% yoy over 2011-13 since it is generally a slowdown-proof business largely driven by hiring outlook.

Exhibit 5: Trend in education sector ads in print



Source: TAM Adex

Services ads growth in print volatile: Composition of 'Services' sector in print and television is somewhat different — print has a high dependence on real-estate (30% share vs. 14% for TV), which is facing headwinds like falling demand, rising input cost, and rising interest rates. Largest contributor for TV within 'Services' is DTH, which is growing led by digitisation drive and strong demand in smaller towns and rural areas.

Print has a high dependence on real estate while TV's biggest category in services is DTH

Exhibit 6: Category-wise advertising in print vs. TV

Print		TV	
Categories	share	Categories	Share
Properties/Real Estates	30%	DTH services	22%
Hospital/Clinics	20%	Properties/real-estate	14%
B2C & Online Shopping Portals	15%	Internet service	14%
Travel & Tourism	8%	Teleshopping	12%
Tele shopping	8%	Fast food outlets	8%
Professional services	4%	B2C & Online shopping	7%
Hotels	3%	Travel & Tourism	5%
General Internet services	2%	Hospital/Clinics	5%
Airlines	2%	Professional services	3%
Restaurants/Lodges	2%	Travel online portal	2%

Source: TAM Adex, BRICS Research

The different growth profile of categories within 'Services' for TV and Print reflects in changing volume share and growth rate variation (exhibit 6).

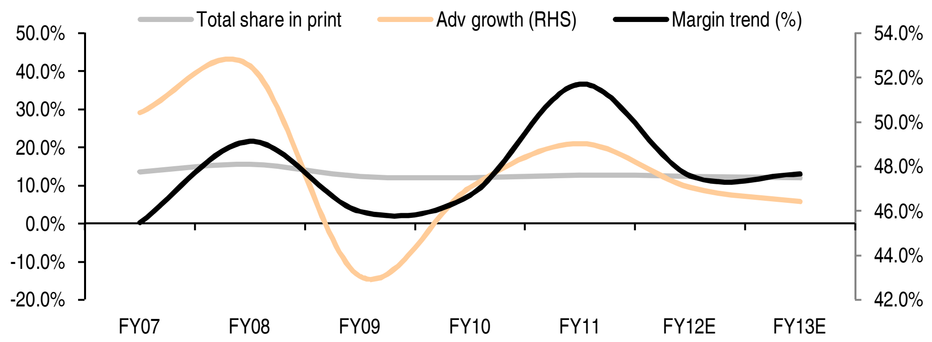
Exhibit 7: Ad volume growth in print and TV for services sector

	Print			TV		
Services	CY09	CY10	9MCY11	CY09	CY10	9MCY11
Ad volume growth (yoy)	-1%	43%	40%	20%	20%	27%
Volume share in total	11%	12%	16%	6%	6%	6%

Source: TAM Adex, BRICS Research

BFSI FY13 ad-spends likely to grow 5.7%: Ad-spend growth is likely to weaken further in FY13 with 6% yoy growth (after muted growth of 10% in FY12) due to margin pressure, depressed capital markets, and slowing credit growth.

Exhibit 8: Banking and financial services ad growth and margin trend



Source: Bloomberg, BRICS Research

FY13 ad-spend of autos likely to grow by 11%: As per existing plans, there could be 96 new model/variant launches in CY13 compared with 75 launches in 2012 and 56 in 2011. Higher the number of launches skewed towards the mid-segment, greater the growth in print ad-spending.

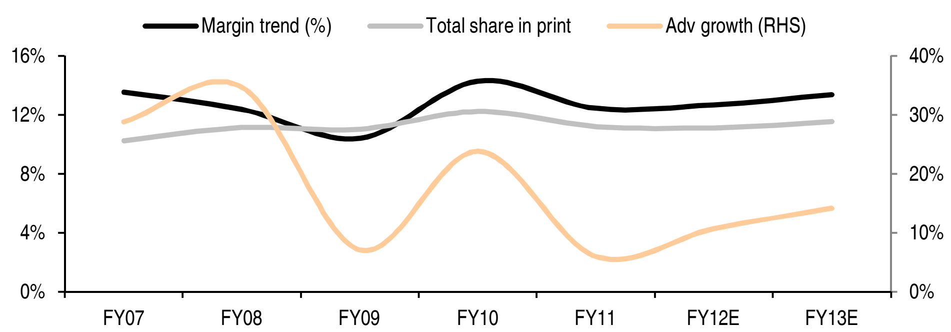
Exhibit 9: Vehicle model/variants launch

Segment	Launched in CY11	Launches in CY12	Launches in CY13
Micro	1	0	0
Mini	3	6	8
Compact	8	16	19
Super Compacts	4	6	8
Mid Size	5	2	4
Executives	5	10	14
Premium	3	3	4
Luxury	2	3	4
Coupe	2	1	2
Exotics	1	1	1
MPV	4	6	7
UV's	16	21	25
Total	**54**	**75**	**96**

Source: Industry, BRICS Research

Auto segment is the fourth largest contributor to print ad volumes — we estimate 15% yoy growth in ad-spend in FY13 (11% in FY12), led by 75 model launches in 2012.

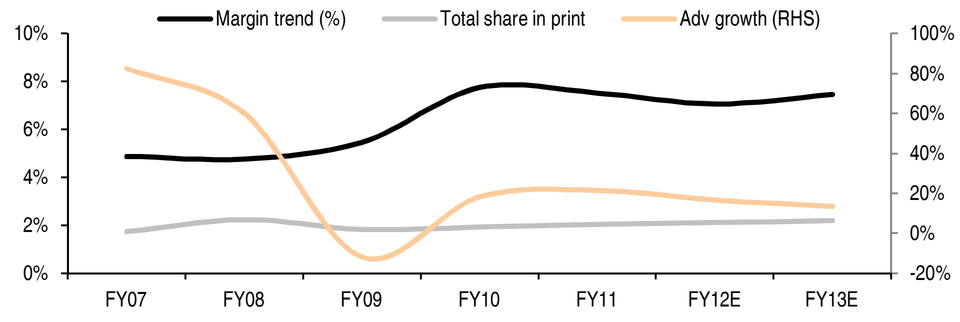
Exhibit 10: Auto sector ad growth and margin trend



Source: Bloomberg, BRICS Research

Retailing FY13 ad-spend likely to grow 13.5%: Retailers are the fifth-largest contributers to print and we estimate 13.5% yoy growth in their ad-spend in FY13 (vs. 17% in FY12) as new store opening slows and consumer spending in major cities dips.

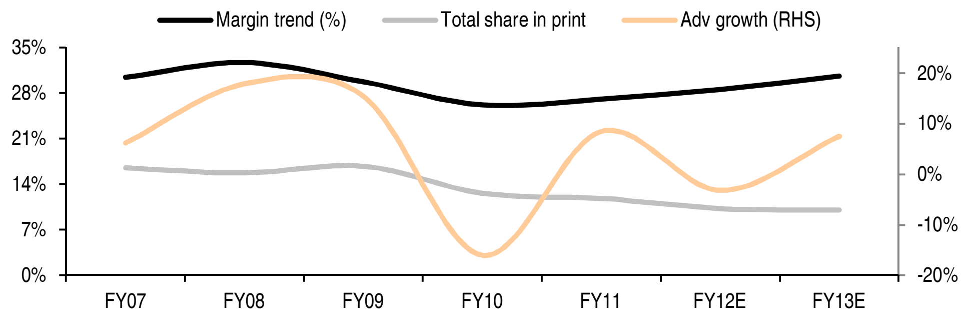
Exhibit 11: Retailing services ad growth and margin trend



Source: Bloomberg, BRICS Research

Telecom sector FY13 ad-spend likely to grow 6.5%: We believe that launch of Reliance InfoTel's broadband wireless/4G services by mid-2012 would drive ad-spending and may also put pressure on other 3G service providers to up their promotions effort. We estimate a growth of 6.5% in FY13 after 3.2% decline in FY12.

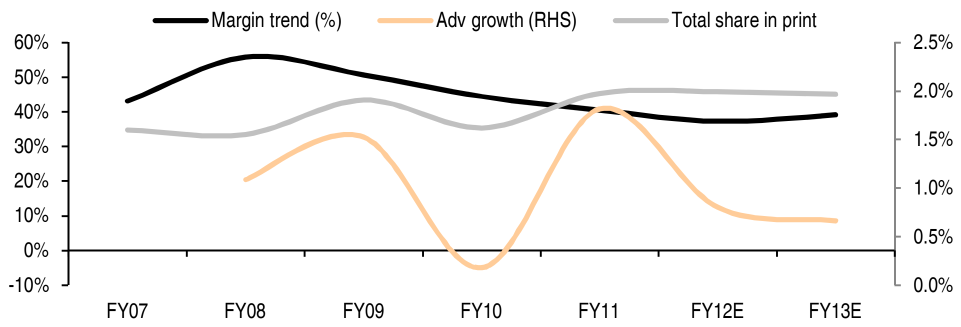
Exhibit 12: Telecom sector ad growth and margin trend



Source: Bloomberg, BRICS Research

Real-estate ad-spends likely to grow 8.6% in FY13: Real-estate/properties is the largest sector (30% share) in the 'Services' segment for print ads with full-page colour display ads to classified listings. We estimate this sector's spend to rise 8.6% in FY13 (12.5% in FY12) — there will be a sharp drop in growth due to slowdown in new project launches and falling offtake in existing projects because of high prices, rising interest rate, and uncertain economic outlook.

Exhibit 13: Real-estate sector ad growth and margin trend



Source: Bloomberg, BRICS Research

Political events likely to help continue growth in social ads: 2012 will see high-profile elections in Uttar Pradesh in the early part of the year and in Gujarat in the later part of the year. We believe these two major state elections, coupled with the government's propensity to spend on "anniversaries" of former prime ministers will aid growth of social ads in 2012.

- The government issued 393 ads — 190 pages over 12 newspapers — to mark "anniversaries" of three former prime ministers. Hindustan Times received the third-largest share at 57 pages.
- DB Corp is likely to benefit from Gujarat elections — its *Divya Bhaskar* newspaper is the second-most-read daily in Gujarat with 3.5mn readers (~25% of total Dainik Bhaskar readership).

Phase-three radio expansion may impact print advertising

Content flexibility (including news) and growing FM radio coverage may eat into print's advertising share. After phase-three expansion in radio, there will be a very high overlap between radio and newspaper coverage, which will provide a cheaper alternate to local advertisers (radio rates are generally 8-10% of print rates, on cost per thousand basis).

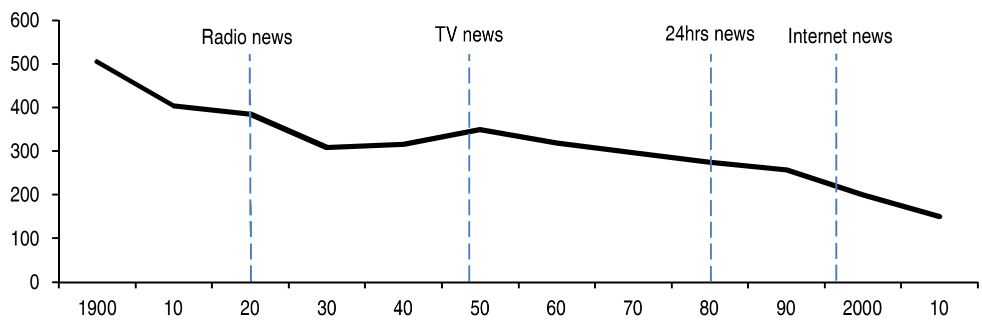
Exhibit 14: Spread of radio channels – existing and proposed

Category	Existing Channels		New channels in Phase III		Total proposed Channels	
	Towns	Channels	Towns	Channels	Towns	Channels
A+	4	32	3	4	4	36
A	9	39	9	19	9	58
B	17	51	14	29	20	80
C	47	105	61	175	70	280
D	9	19	196	579	199	598
Border	-	-	11	33	11	33
Total	**86**	**246**	**294**	**839**	**313**	**1,085**

Source: TRAI

In the US, after radio channels started expanding, there was a fall in paid-for newspaper circulation.

Exhibit 15: Print circulation trend in US with the advent other media



Source: The Economist

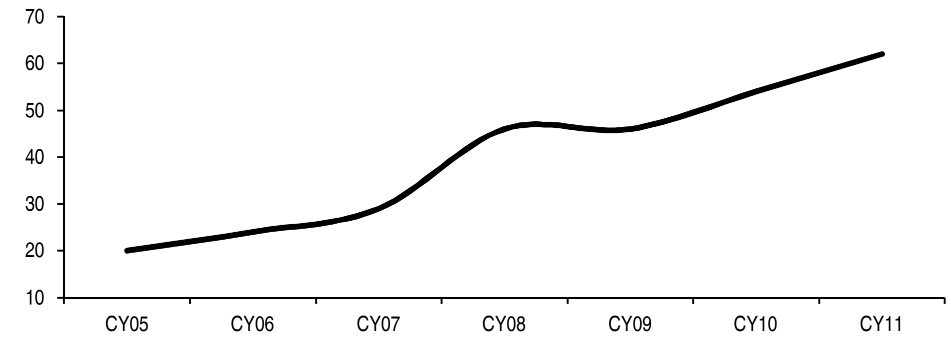
Circulation growth drivers intact

Print consumption will continue to rise with more purchasing power in tier-two-and-three cities, low cover prices, and market segmentation through localized editions and supplements. However, stickiness of low cover price due to intense competition is likely to limit circulation revenue growth

Content localisation and expansion

Newspapers are expanding into newer cities and towns using city editions and supplements. To differentiate from other media segments and maintain a lead over television, the focus is on content localisation. In India, over 2005-10, the number of paid-for daily newspapers increased by 44% to 2,700 (WAN data). Most of these were launches of new editions by existing newspaper into new cities and towns to minutely segment the target audience and offer flexible packages to the advertisers. For example, DB Corp increased its number of editions to 62 in 2011 from 20 in 2005 to expand its reach across major Hindi and regional market.

Exhibit 16: DB Corp newspaper editions trend

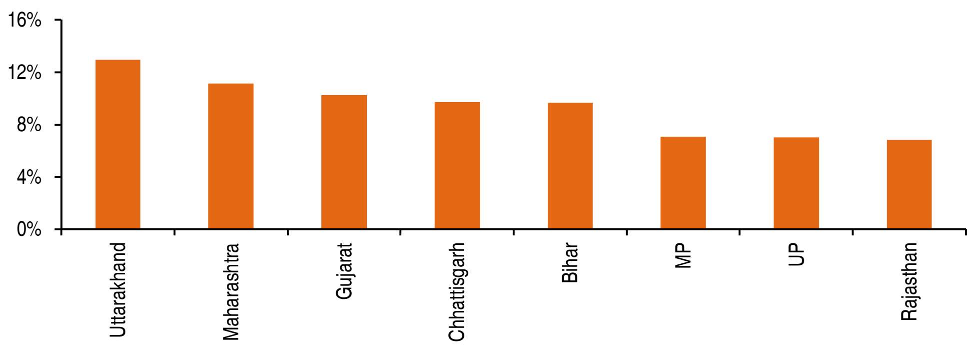


Source: Company, BRICS Research

Growing economy — rising disposable incomes, rising social spend

With improving per-capita income and newspaper prices remaining flat, more people are willing to purchase newspapers. However, we expect circulation revenue to be muted because competition largely nullifies the positives of higher literacy and disposable incomes.

Exhibit 17: State GDP growth over FY05-10



Source: KPMG FICCI Frames 2011, CMIE, BRICS Research

Headroom in newspaper reach and literacy

There has been a marked improvement in literacy rates in India in the last couple of decades, resulting in a substantially higher addressable market for newspapers. However, despite having the second-largest circulation of dailies, the Indian market is still under-penetrated if we compare the readership to total population (exhibit 18).

Exhibit 18: Newspaper circulation trend

	Population (mn)	Daily newspaper circulation (mn)	Literacy rate	Circulation as % of population
USA	310	44.8	100%	14.4%
UK	62	14.3	100%	23.1%
China	1,341	134.2	94%	10.0%
India	1,225	91.0	74%	7.4%

Source: BRICS Research

Low cover prices

The cover prices of newspapers in India are substantially lower than neighboring countries, because of intense completion. Low cover prices lowers the reader's motivation to move to alternative news media and leads to a propensity to buy multiple newspapers.

Exhibit 19: Cover price snapshot

Title	Pages	Cover Price (Rs)
Times of India +	40	5.0
Economic Times or	24	
Mumbai Mirror	52	
Mumbai Mirror	52	2.5
Economic Times	24	2.5
The Hindu	42	3.0
DNA	26	2.5
Hindustan Times	32	2.5
Dainik Jagran (Lucknow edition)	20	4.0
Dainik Bhaskar (Jaipur edition)	20	2.0
Hindustan Times (Patna edition)	20	3.5

Source: BRICS Research

Limited alternative to print in the Hindi heartland (less TV, no radio)

Outside of major cities, avenues of accessing news are limited as uncertain power supply limits TV viewership. There is also a lack of local news on national or state level channels and radio is mostly controlled by government-owned agencies. Regional papers give advertisers access to the local population and hence advertisers can better optimise their resources.

Revenue model: it's all about advertising

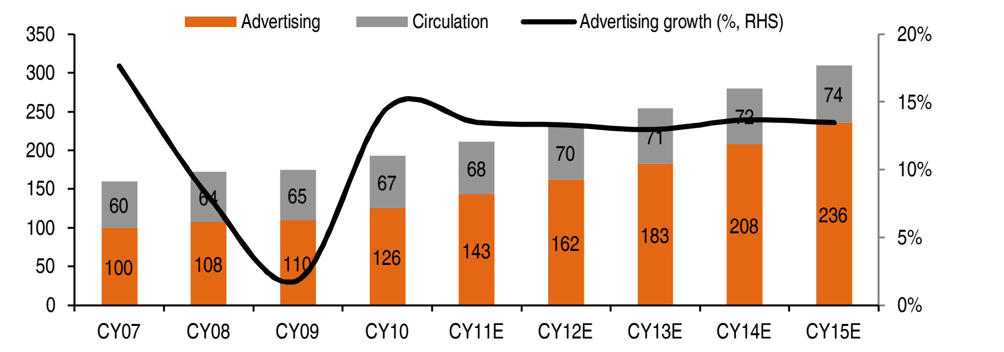
Indian print sector is highly dependent on advertising revenues (contributing 75-80% of total revenues) leading to intense competition to gain and maintain readership, even at the cost of cover prices. This means that not more than 2-3 publishers can sustain in the long-term in any print market

The print media industry derives its revenues from advertisement and subscription or circulation of newspapers and magazines. The market is skewed in favor of newspapers which account for 94% of the total print revenues in 2010.

Too much dependence on advertising

Print media is highly dependent on advertisement — for regional newspapers, the contribution is 75-85%. Newspapers are not able to increase cover charges because of rising competition from expansion into new cities and fear of reader defection — thus the high dependency on ad revenues. Advertising revenue CAGR is estimated to be 13% over 2011-15.

Exhibit 20: Trend in advertising revenues

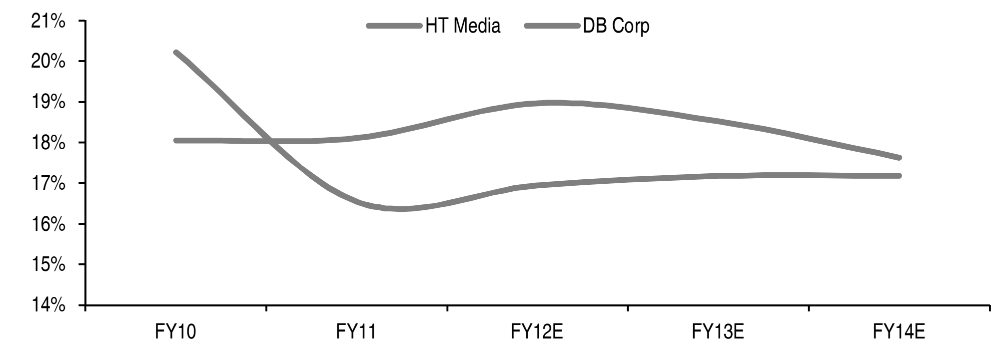


Source: KPMG FICCI Frames 2011

Circulation revenues – no pricing power

Circulation revenue CAGR over 2011-15 is expected to be only 2%. Cover prices of newspapers in India are substantially lower than the neighboring countries signifying higher competition. Since any print market cannot sustain more than 2-3 publishers, everyone tries to gain readership by cutting cover prices.

Exhibit 21: Circulation revenues



Source: BRICS Research

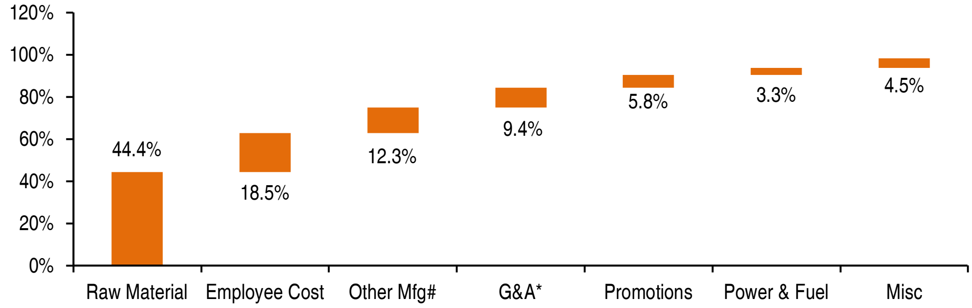
Print sector: Cost structure

At 40-45% of operating cost, newsprint is the biggest expense for newspapers and since 20-50% of it is imported, it also adds a currency risk. EBITDA margins of Hindi papers are better than English papers due to lower use of imparted newsprint and lesser number of pages per copy.

Cost structure – more than 40% spent on newsprint

Out of print companies' total expenditure, a significant chunk (at almost 45%) is raw materials. Employees, too, constitute a large 19%, while manufacturing expenses, including power and fuel costs make up for 12-15%.

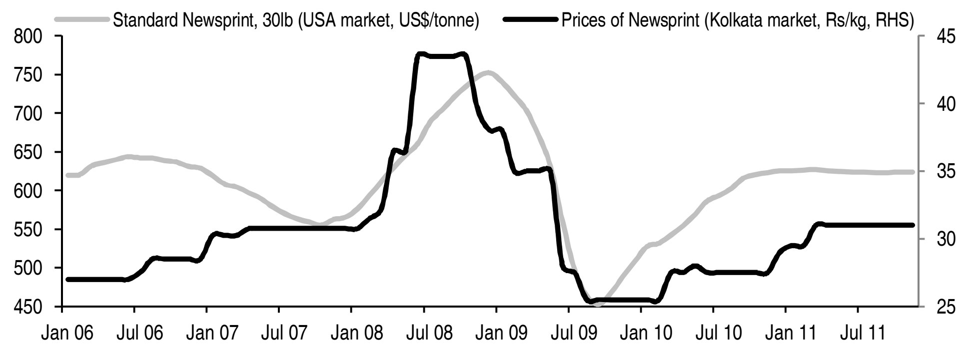
Exhibit 22: Components of total expenditure (excluding tax and interest)



Source: BRICS Research #other manufacturing costs * General & administrative expenses

Newsprint prices are a major cost variable: Newsprint is a made out of pulp and wastepaper and there is very high volatility in its prices (exhibit 23). To manage volatility, newspapers usually use a mix of imported and domestic newsprint (40-50% imported portion for English papers, 20-25% for Hindi). The recent sharp rupee depreciation has adversely impacted newsprint prices.

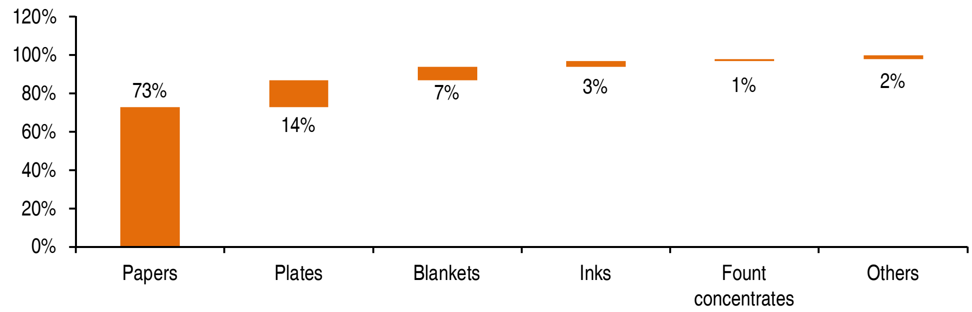
Exhibit 23: Newsprint price movement



Source: Bloomberg

Other consumables are around 25% of raw material cost: Besides newsprint, newspapers use other materials such as inks, plates, blankets, and concentrates. Wastage of raw materials depends on the type of production run (there are mainly two types of print runs in production — long run - over several hundred thousand copies at a stretch, and short run - several small editions of thousands of copies in a total print run of several hundred thousands. Few hundreds of copies are wasted in the few seconds it takes to achieve acceptable quality when the production run is restarted after cleaning the blankets or changing the plates.

Exhibit 24: Cost distribution across raw material consumables

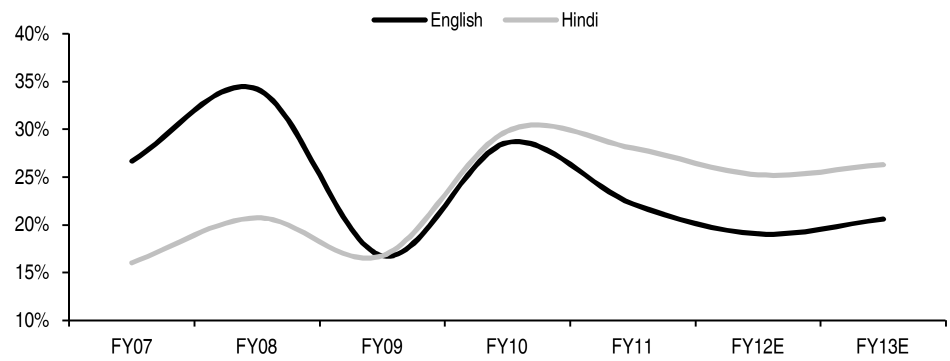


Source: Industry, BRICS Research

Hindi papers enjoy better margins than English

Hindi papers on an average generally enjoy better profitability margins than English papers mainly due to lower raw material cost, lower sales and promotion effort, and marginally lower employee cost. Hindi papers are able to better manage raw material cost due to lower use of imported newsprint and lesser number of pages per copy.

Exhibit 25: EBITDA margin profile of Hindi papers better than English



Source: BRICS Research

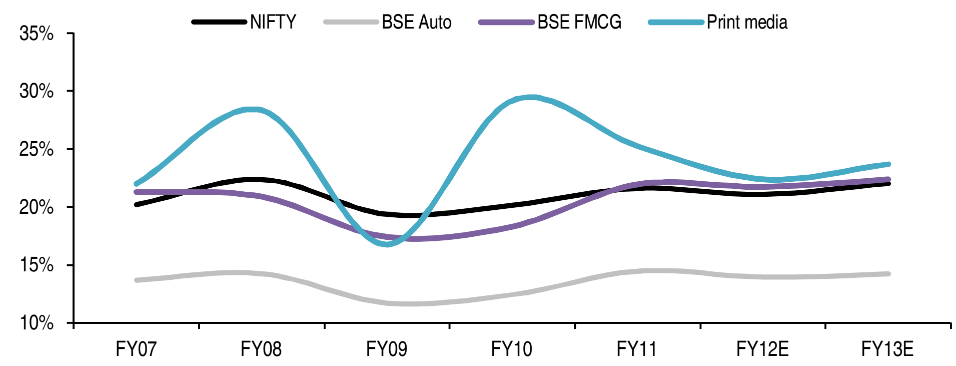
Print sector margins: Cross segment comparison

Margin profiles of Indian print companies are better than Nifty companies and comparable domestic consumption-driven sectors. However, TV and distribution companies' margins are improving faster than print companies'.

Print margins better than broader index and comparable sectors

Except in FY09, the print segment has delivered better EBITDA margins than NIFTY companies and comparable consumption-driven industries such as Auto and FMCG. However, its margin lead with these companies is likely to narrow over the next financial year due to weakening ad-spend growth.

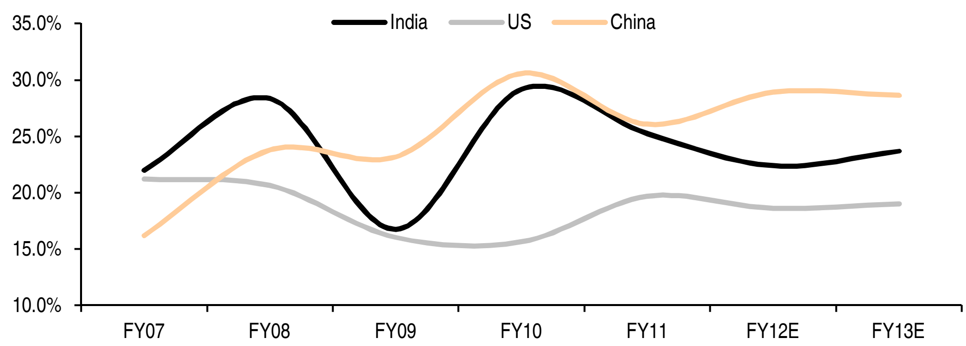
Exhibit 26: EBITDA margin trend of print media vs. broader market



Source: Bloomberg, BRICS Research

Indian print media margins broadly in line with global peers: Indian print media margins are better than US-based peers but lagging its peers in a comparable country like China. Margin gap between Indian and Chinese newspaper publishers is likely to expand to 5% by FY13 from the of 0.8% in FY11. Compared to Chinese publishers, US publishers suffer from advertiser's migration to digital media while Indian publishers suffer from problem of low cover prices to fend-off competition and retain readers.

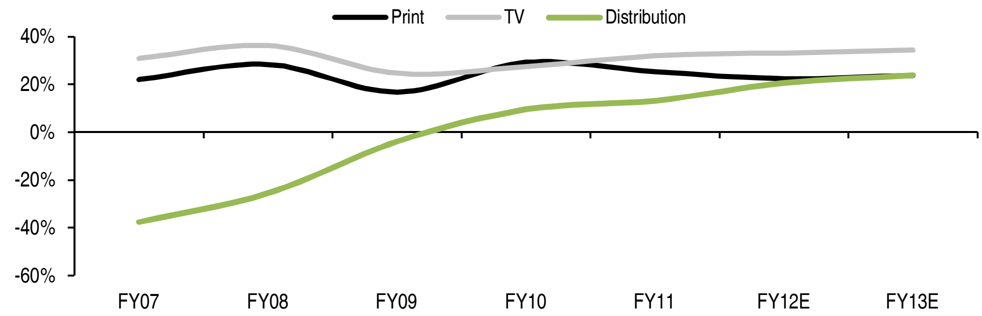
Exhibit 27: Newspaper margins in India, US, China



Source: Bloomberg, BRICS Research *based on sample set of listed newspaper publishers

Print media margin advantage slipping away: Though print-segment margins are better than Nifty companies, its lead over other media companies such as DTH and cable companies is vanishing (in fact, TV margins are better now). These companies' margins are improving due to digitisation and addressability initiatives resulting in strong subscription revenues. Print circulation revenues, which are equal to TV subscription revenues, are growing at a moderate pace of 2-3% annually.

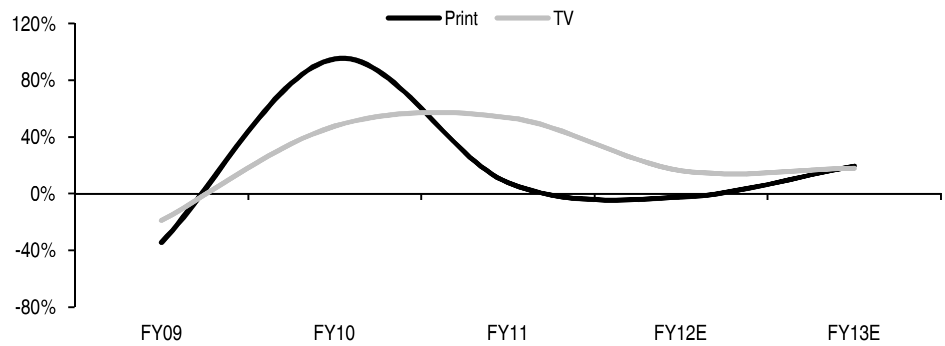
Exhibit 28: EBITDA margin trend in segments within media sector



Source: Bloomberg, BRICS Research

Print media also lagging TV segment in EBITDA growth: Not only in terms of margins, but in terms of EBITDA growth, too, the TV segment is likely to become comparable with print by FY13. Most of the FY12 drag in print segment EBITDA growth is due to a weak performance from Deccan Chronicle (Bloomberg data).

Exhibit 29: EBITDA growth trend of Print segment v/s TV



Source: Bloomberg, BRICS Research

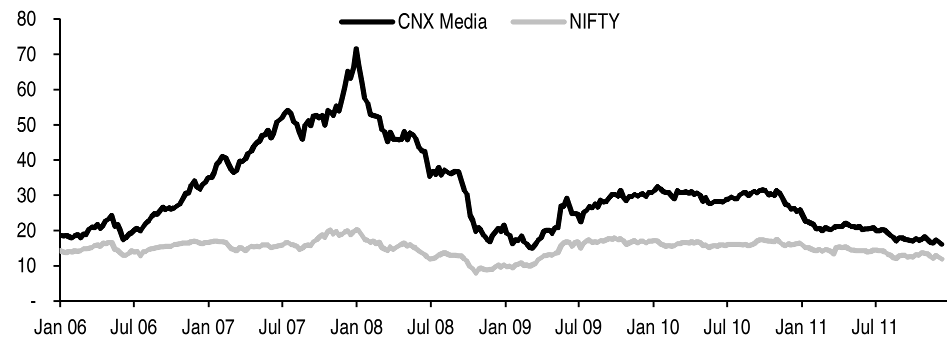
Print sector: Valuations comfortable

The CNX Media index trades at a premium to the NIFTY but print stocks' premium to the NIFTY is marginal. We believe the valuation gap between print and distribution/broadcasting companies is likely to sustain as the margin profile of the latter is sustainably better because of a slow shift in advertising share towards these companies.

CNX Media valuation at premium to NIFTY index

CNX Media trades at 1-year forward P/E multiple of 16x compared to 12x for NIFTY. This index has consistently traded at a higher P/E multiple with a 3-year average P/E of 31x vs. a NIFTY average of 15x. This index has a 14% weight from print and 57% from TV/broadcasting.

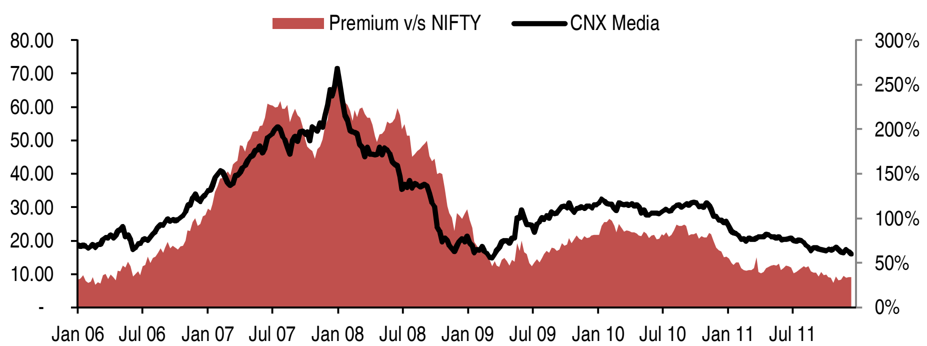
Exhibit 30: PER chart – CNX Media v/s NIFTY



Source: Bloomberg, BRICS Research

CNX Media index trades at a 34% premium to NIFTY and the last 3-year average premium is 80%. But most of the premium is driven by the TV/broadcasting segment rather than print.

Exhibit 31: CNX Media index premium relative to NIFTY

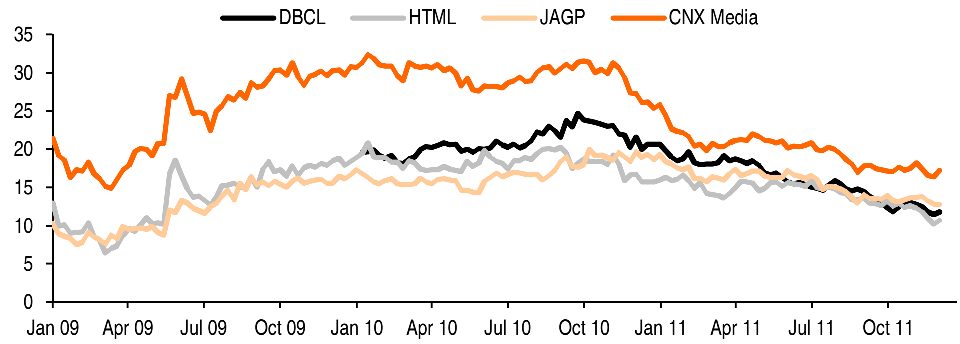


Source: Bloomberg, BRICS Research

Print trades at discount to CNX Media index

Compared with the CNX Media Index, print stocks DB Corp (DBCL), HT Media (HTML), and Jagran Prakashan (JAGP) trade at a discount of 32%, 38%, and 26% (1-year forward P/E). DBCL and HTML also trade at a 6% and 14% discount to NIFTY, though historically they traded at an average premium of 23% and 3%.

Exhibit 32: PER Chart – Print stocks



Source: BRICS Research

Valuation gap with TV/Broadcasting companies to persist

We believe the valuation gap between print stocks and distribution/broadcasting is not likely to narrow as the latter's margin profile is sustainably improving due to digitisation and addressability initiatives. Also, there is slow shift in advertising share towards TV/broadcasting from print companies.

Exhibit 33: Peer valuation

Company	CMP	Net sales		PAT		EPS (Rs)		P/E (x)		RoE (%)		EV/EBITDA (x)	
	(Rs)	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E
DB Corp	205	14,687	16,644	2,185	2,581	11.9	14.1	17.2	14.6	34.7	39.6	10.1	8.9
HT Media	123	20,407	22,404	2,108	2,444	9.0	10.4	13.7	11.8	14.4	14.3	9.1	7.8
Hindustan Media	127	6,077	6,871	753	829	10.3	11.3	12.3	11.2	18.7	16.4	8.3	7.2
Jagran Prakashan	93	13,282	14,947	2,131	2,532	6.8	8.1	13.7	11.5	28.0	29.6	9.0	7.8
Average								**13.0**	**11.5**	**16.5**	**15.4**	**8.7**	**7.5**
Zee Entertainment	121	30,599	34,585	6,055	7,088	6.2	7.3	19.4	16.6	17.7	18.7	14.3	12.1
Sun TV Network	265	20,539	23,140	7,888	8,988	20.2	23.0	13.2	11.5	31.2	30.7	6.5	5.8
ENIL	235	3,347	3,956	523	669	11.0	14.0	21.5	16.8	12.8	14.3	11.2	8.6
TV18 Broadcast	47	3,213	3,555	155	225	2.6	3.8	17.9	12.4	4.9	6.8	7.8	5.8
Den Networks	50	11,396	12,836	294	382	2.2	2.9	22.3	17.1	3.7	4.6	5.0	3.5
UTV Software	975	13,426	15,332	2,074	1,649	51.0	40.6	19.1	24.0	20.5	14.3	18.8	21.9
Average								**18.9**	**16.4**	**15.1**	**14.9**	**10.6**	**9.6**

Source: BRICS Research, Bloomberg

Our Universe

DB Corp	BUY
HT Media	BUY
Hindustan Media Ventures	BUY

DB Corp

BUY

CMP Rs205 Target Price Rs250

DB Corp (DBCL) is likely to be a major beneficiary of ad-share shift towards Hindi print, with its leadership across key Hindi states and regional urban centers. We model 16.5% revenue and 11.1% earnings CAGR over FY11-14 led by strong advertising CAGR of 16%.

Leadership in major Hindi markets to drive growth: We expect DBCL's ad revenue to grow at a 30-40% faster pace versus the industry, driven by market leadership in states like MP, Chhattisgarh, Haryana and Chandigarh and in urban centres of Gujarat, Rajasthan, and Punjab, and an ad-share shift towards Hindi from English.

Competitive edge from urban-centric expansion: It has launched newspapers in key cities in Jharkhand and Maharashtra over 2010-11 and is likely to launch in Bihar in 2012. Its expansion focus on higher-quality urban readership will improve ad yields. Based on its track record of successful launches in Gujarat, Rajasthan and Punjab, we expect a gestation period of 3-4 years before new forays become profitable.

FY11-14E revenue and earnings CAGR of 16.5% and 11.1%: Expect revenue CAGR of 16.5% over FY11-14 backed by advertising and circulation revenue CAGR of 16% and 10.4%, respectively. EBITDA margins have dropped to 22% in Q2FY12 (from 32% in FY11) due to higher newsprint prices. Margins are likely to stay around 26% over FY12-13 as sharp rupee depreciation will drive up input costs and new launches will keep promotional costs elevated.

Valuation and outlook: The stock trades at 17.2x and 14.6x our FY12 and FY13 estimated earnings. PEG ratio is at 0.44x FY13. We initiate coverage with a Buy rating and target price of Rs250 (16x average FY12-13E EPS) based on stronger growth in Hindi advertising (over English), leadership position in key Hindi states and urban centers, and its track record of successful entry into new markets.

KEY FINANCIALS				(Rs mn)
Y/E 31 March	2011	2012E	2013E	2014E
Revenue	12,652	14,687	16,644	19,986
EBITDA	4,031	3,847	4,393	5,384
EBITDA margin (%)	31.9	26.2	26.4	26.9
PAT	2,585	2,761	3,841	4,813
FDEPS (Rs)	14.2	11.9	14.1	17.6
% growth	34.1	(16.3)	18.2	25.2
P/E (x)	14.4	17.2	14.6	11.6
RoCE avg (%)	34.7	28.1	28.9	31.0

Source: Company, BRICS Research

Key data	(Rs mn)
Bloomberg	DBCL IN
Reuters	DBCL.BO
52-week high/low (Rs)	298/173
6-m average traded value	US$0.4mn
Market cap	Rs37.6bn/US$0.7bn
Shares outstanding	183.3mn
Shareholding pattern (September 2011)	(%)
Sponsors	86.5
FIIs	5.4
MFs / UTI	4.2
Banks / FIs	0.0
Others	4.0
Face value	Rs10
Exchange rate (Rs/US$)	53.0

Price performance

Source: Bloomberg

Investment argument

DBCL to benefit from Hindi market growth

DBCL reach is unmatched in the Hindi urban heartland: It publishes 62 editions in four languages -- Hindi, Gujarati, Marathi and English -- and has a readership of 15 million across 13 states (exhibit 1). DBCL's biggest strength is that it is focused on urban readers, which advertisers prefer, especially in the Hindi-speaking regions of Madhya Pradesh (MP), Chhattisgarh, and Rajasthan. DBCL is a market leader in the urban areas of Gujarat and Rajasthan despite being second in terms of overall readership in both states. In Rajasthan, it leads in Jaipur, Jodhpur, and Kota (75% of market together). In Gujarat, it leads in Ahmedabad, which accounts for almost 40% of Gujarat's print advertising.

Exhibit 34: DBCL's positioning

	Competition	Leader	Avg. Circulation	Avg. readership
MP	Nav Bharat	Bhaskar	0.6	2.5
Haryana	Dainik Jagran	Bhaskar	0.3	1.3
Chhattisgarh	Nav Bharat	Bhaskar	0.3	1
Chandigarh	Kesari	Bhaskar	0.1	0.2
Rajasthan	Rajasthan Patrika	Leading player	1.1	5.7
Gujarat	Guj Samachar	Leading player	1	3.4
Punjab	Punjab Kesari	Leading player	0.3	0.8

Source: Company, BRICS Research

Hindi print advertising will grow faster than overall print advertising: Hindi print media advertising is likely to grow at a CAGR of 12% over FY11-13, while overall print media advertising will have a lower growth of 8.4%. Our estimate is conservative than the KPMG FICCI estimate of 13% Hindi print ad and 9% for overall print ad CAGR over CY11-15. The Hindi market growth will be driven by rising discretionary spending in tier-two and tier-three cities led by accelerating economic activity in the key markets of UP, Gujarat and Rajasthan, higher disposable income as a result of various government social spending schemes in rural and semi-urban areas, and the reducing gap between advertising rates of English and Hindi dailies as spending in both markets becomes almost similar. Currently, English dailies enjoy a 2.5 times premium over Hindi on cost per thousand (CPT) basis. We expect the premium to fall to below 2 times in FY13.

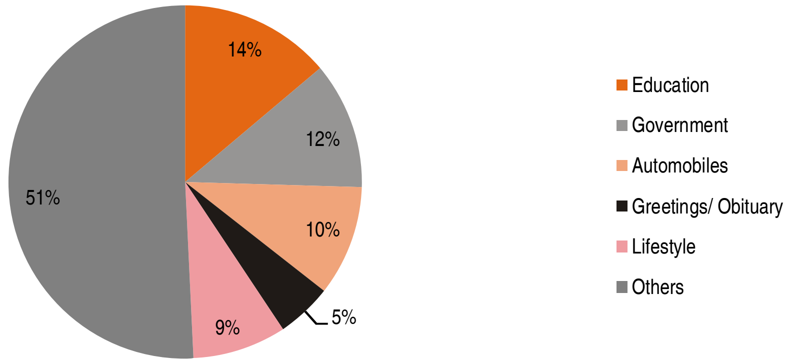
Exhibit 35: 13% CAGR in Hindi print advertising over CY10-13E **(Rs bn)**

	CY08	CY09	CY10	CAGR	CY11E	CY12E	CY13E	CAGR
Total Print Advertising	104	112	122	8.3%	133	144	158	9.0%
Hindi Advertising	22	24	27	10.8%	31	34	39	13.0%
Hindi as % of Print Advertising	21	22	22		23	24	25	

Source: Industry, BRICS Research

High focus on local advertisements: With almost 60% of its advertising revenue coming in from local ads, DBCL benefits from advertiser stickiness and stability as local ads are driven by governments and local economic activity which may be thriving despite slowdown at national or global level. Top-3 sectors for DBCL are - Education (at 14%), government (12%), and automobiles (10%).

Exhibit 36: Advertisement share for FY11



Source: IRS, BRICS Research

Sustainable advantage; defendable business position

Dominant positions offers sustainable advantage: Usually, most advertising spends go to the top two newspapers in any market as the lower-rung papers do not offer incremental benefits to advertisers. Mostly, only the top three papers in any market are profitable. With its leadership position in Haryana, Chandigarh, Madhya Pradesh, Chhattisgarh and Rajasthan and its second position in Gujarat, DBCL will be able to attract and retain many national advertisers.

Exhibit 37: Print players: Market-wise leadership

	Leader	Close No.2	Distant No.2	No. 3
Jagran	Uttar Pradesh	Uttaranchal	Bihar	Jharkhand
Bhaskar	MP,Chattisgarh,Haryana	Gujarat, Rajasthan		
Hindi Hindustan	Bihar	Jharkhand	UP	
Rajasthan Patrika	Rajasthan			
Gujarat Samachar	Gujarat			
Amar Ujala	Uttaranchal		Uttar Pradesh	

Source: Company, BRICS Research

High entry barriers make position defendable: It launched newspapers in markets that were already serviced by near monopolies such as in Rajasthan, Gujarat, and Haryana. However, it occupied the second position in these markets using a strategy of innovative marketing (coupons, freebies, low cover price, surveys), incurring large capex (around Rs2bn each for Rajasthan and Gujarat), and by absorbing operating losses of Rs2.5-3bn in the first 3-4 years. Any new entrant would find the cost of dislodging DBCL prohibitive.

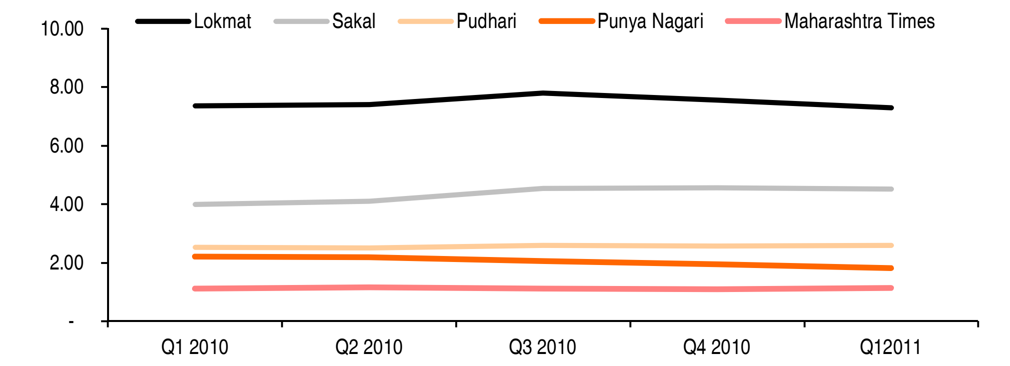
Strong execution track record in the new markets

From a single-state player, DBCL has widened its reach to thirteen states out of which it has emerged a leader in five and a dominant player in three. It has done this through a strategy of offering low cover prices, bundled offering to advertisers, and engaging readers with surveys and schemes. It expects to repeat its strategy and emerge a leading player in Jharkhand (Rs1.5-2bn market) and Maharashtra (Rs8-10bn market), where it has already launched papers.

Entry into Maharashtra which is a lucrative market for print media: Maharashtra is one of the more developed states in India contributing close to 15% of India's GDP with above-average per capita income (56% higher than national average), and consumption and literacy rates (83% vs. national average of 74%). The *Marathi* newspaper market is estimated to be Rs10bn, which is one of the biggest language-based markets in India.

Within Maharashtra, different players lead different cities -- for example, Sakal is a leader in Pune, Maharashtra Times in Mumbai, and Lokmat in Nagpur. Overall, Lokmat is the largest player in terms of circulation and number of editions at 11.

Exhibit 38: Current market is highly fragmented (Readership in mn)



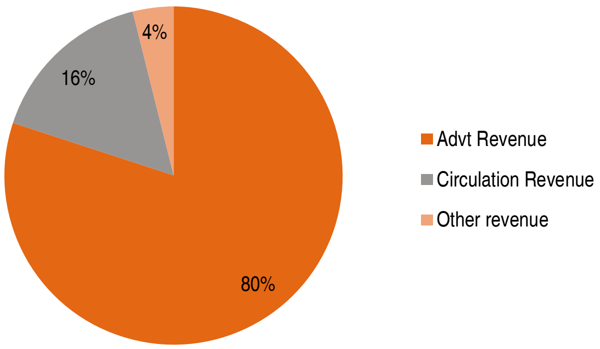
Source: IRS, BRICS Research

DBCL entered Maharashtra with a launch in Aurangabad and Nasik and recently launched its Jalgaon edition. It is expected to have 4-5 editions by the end of FY12. Initial reports suggest it has managed to clock respectable circulation numbers. It may launch its Pune and Mumbai editions only later since these markets are comparatively rigid.

Diversified presence hedge against local business volatility

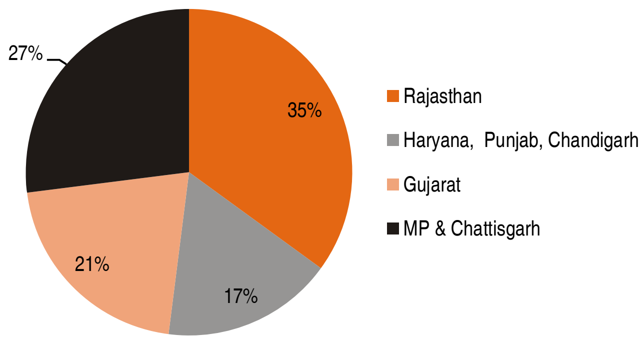
DBCL's readership and advertiser base is more widespread than its peers such as Jagran and Hindustan in whose cases more than 50% readership comes from single states, (Uttar Pradesh and Bihar, respectively). This makes it less vulnerable to intense competition in any particular city, state or localized market or to any downturn due to a local issue such as the Telagana agitation. In the overall Indian newspaper market, DBCL is the second largest player (the largest being Jagran Prakashan) with an average readership of 18.1mn. Rajasthan makes up for 35% of its readership base, Madhya Pradesh and Chhattisgarh 27%, Gujarat 21%, while Haryana, Punjab, and Chandigarh make up for 17%.

Exhibit 39: Revenue highly dependent on advertising



Source: Company, BRICS Research

Exhibit 40: Diversified newspaper circulation



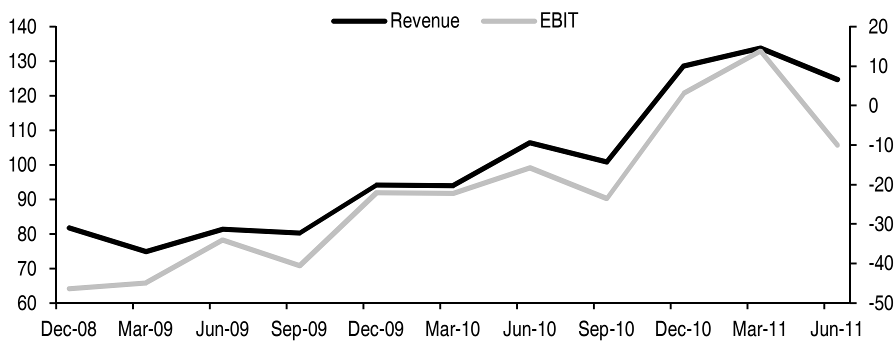
Source: Company, BRICS Research

DBCL has diversified into 'new media' such as digital, mobile, and FM radio. It plans to expand its FM footprint in cities where it has print editions to drive synergy and will therefore participate in phase-three FM bids.

Radio business: Calibrated expansion, synergy with print bodes well

In a record two-and-half years since its launch, DBCL has managed to breakeven at the EBITDA level in its radio business. It currently operates 17 stations. Radio and print businesses tend to complement each other as both target similar advertisers increasing cross selling opportunities. DBCL has hinted that it will participate in Phase three FM bidding but will focus only on those non metros where it has a print presence. Although this segment comprises only 4% of its revenue right now, it is seeing significant growth. In FY11, this segment's revenue grew 34% and EBIT losses contracted sharply to Rs22.3mn from Rs119.1mn in FY10. We expect the radio business to breakeven at the EBIT level in H1FY13.

Exhibit 41: Radio Business revenue and EBIT **(Rs mn)**

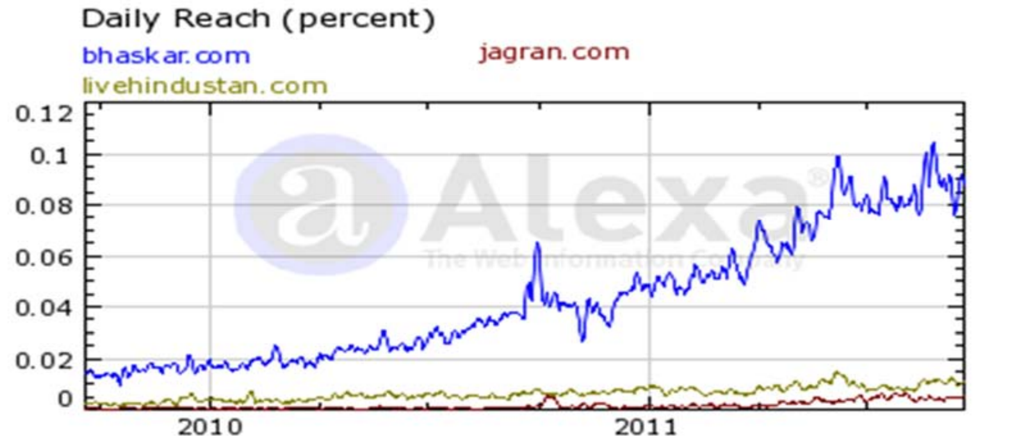


Source: Company, BRICS Research

Investing in online to mitigate any future impact on print business

Globally, the newspaper print business has been declining with the rise of digital media. However, in India, since broadband penetration is minuscule (~2%) and online content in regional languages even more scare, print media has not suffered advertiser erosion. Even so, in order to prepare for growth in the digital space, DBCL is investing in the mobile and internet platforms and its Hindi news portal has emerged as one of the most popular ones (see exhibit 42).

Exhibit 42: Traffic to leading Hindi news portals – Bhaskar is a clear winner



Source: alexa.com

Income Statement Analysis

Expect revenue CAGR of 16.5% over FY11-14 backed by strong growth in advertising revenues. EBITDA margins to come down marginally to around 27% by FY14 from 32% in FY11 due to pressure from new expansions.

Strong revenue growth

Over FY11-14, we expect an advertising revenue CAGR of 16% and circulation revenue CAGR of 10.4%. The growth will be led by stronger advertising yields in the mature markets and increasing revenue contribution from the radio, and digital platforms. Circulation revenue growth is likely to lag due to promotion of new launches.

Exhibit 43: Income statement (Rs mn)

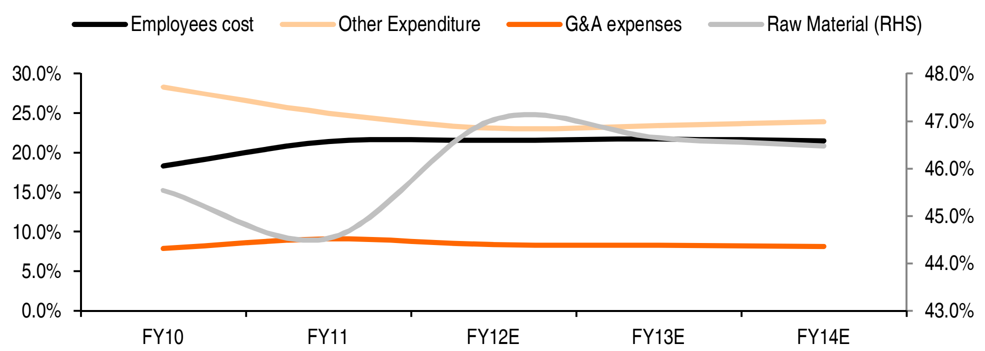
Particulars	FY10	FY11	FY12E	FY13E	FY14E
Revenue	**10,630**	**12,652**	**14,687**	**16,644**	**19,986**
Increase/decrease in stock on trade	(0)	(1)	0	-	-
Consumption of Raw Materials	3,279	3,839	5,098	5,715	6,786
General administrative expenses	1,318	1,846	2,334	2,660	3,140
Selling and distribution expenses	601	676	799	917	1,158
Employees cost	566	782	906	1,010	1,183
Other Expenditure	1,437	1,480	1,702	1,949	2,333
EBITDA	**3,429**	**4,031**	**3,847**	**4,393**	**5,384**
Depreciation	378	433	543	548	628
PBIT	**3,051**	**3,598**	**3,305**	**3,845**	**4,757**
Financial Charges	245	11	63	4	(56)
PBT	2,806	3,587	3,242	3,841	4,813
Tax	1,057	1,000	1,057	1,260	1,580
PAT	**1,828**	**2,585**	**2,185**	**2,581**	**3,233**
Equity	183	183	183	183	183
EPS (Rs.)	10.62	14.24	11.92	14.08	17.64

Source: Company, BRICS Research

Margins to moderate

We expect volatility in EBITDA margins as new launches in Bihar would mean higher SG&A expenses although strain from Jharkhand and Maharashtra will reduce over FY13. Rising wage inflation will also pressure margins.

Exhibit 44: Total cost breakup



Source: Company, BRICS Research

Balance Sheet Analysis

To remain healthy as strong cash generation from mature markets would be enough for investment needs of new markets. We expect debtor-days to stay in the 69- to-72 days range in FY12-13.

Assets to grow with foray in new geographies

Total assets are likely to post a 14.5% CAGR over FY11-14 (16.5% revenue CAGR over FY11-14), driven by capex for expansion in Jharkhand, Maharashtra and a possible entry into the Bihar market.

Exhibit 45: Balance sheet (Rs mn)

Particulars	FY10	FY11	FY12E	FY13E	FY14E
Inventories	6,475	7,358	8,212	9,100	9,976
Sundry debtors	205	163	233	311	397
Loans & advances	5,614	5,918	6,908	8,146	9,873
Cash & Cash Equivalents	722	728	965	1,110	1,259
Current assets	**1,934**	**2,401**	**2,777**	**3,146**	**3,783**
Gross fixed assets	1,926	1,731	1,893	2,240	2,836
Accumulated Depreciation	1,032	1,058	1,274	1,650	1,995
CWIP	126	110	110	110	110
Net fixed assets	**12,420**	**13,548**	**15,462**	**17,667**	**20,356**
Investments	6,531	8,293	9,790	11,546	13,788
Other assets	1,815	1,833	1,833	1,833	1,833
Total assets	**4,672**	**6,456**	**7,953**	**9,709**	**11,951**
Sundry Creditors	44	4	4	4	4
Current liabilities	3,207	2,372	2,233	2,051	1,883
Loan funds	2,966	2,082	1,957	1,747	1,555
Other liabilities	241	290	276	303	328
Equity capital	2,073	2,189	2,620	3,038	3,467
Shareholder's Equity	1,706	1,648	2,052	2,379	2,709
Total liabilities & Equity	**367**	**541**	**568**	**659**	**758**

Source: Company, BRICS Research

Capital efficiency to improve over FY12-14: We forecast RoCE (return on capital employed) to increase to 31% by FY14 from 28% in FY12 led by 70bps operating margin recovery over FY12-14 after a sharp fall in FY12 due to rising input cost led by rupee depreciation and employee cost. RoE (return on equity) will improve to 35% over FY12-14 as strong operating cash flow will boost net worth.

Exhibit 46: RoCE and RoE trend (%)

	FY10	FY11	FY12E	FY13E	FY14E
RoCE	32.3	34.7	28.1	28.9	31.0
RoE	28.2	31.2	28.2	33.3	34.9

Source: Company, BRICS Research

Cash flow analysis

Cash flow is robust as the business does not need more funding. This may drive the management towards diversification – not necessarily a positive move. Dividend distribution policy may remain adverse.

Exhibit 47: Cash flow analysis (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Profit befor tax	**2,806**	**3,587**	**3,242**	**3,841**	**4,813**
Depreciation	378	433	543	548	628
Interest paid	245	(8)	63	4	(56)
Chg in working capital	(198)	(556)	(398)	(473)	(702)
Tax paid	(1,013)	(911)	(1,057)	(1,260)	(1,580)
Other op activities	142	196	-	-	-
Cash flow from op (a)	**2,360**	**2,741**	**2,392**	**2,660**	**3,103**
Capital expenditure	(596)	(1,423)	(1,396)	(1,436)	(1,504)
Chg in investments	(13)	(3)	(70)	(78)	(86)
Other investing act	(1,262)	845	-	-	-
Cash flow from inv. (b)	**(1,871)**	**(581)**	**(1,466)**	**(1,514)**	**(1,590)**
Free cash flow (a+b)	**489**	**2,160**	**926**	**1,146**	**1,513**
Equity raised/(repaid)	2,690	4	-	-	-
Debt raised/(repaid)	(2,268)	(835)	(125)	(209)	(192)
Interest paid	(396)	(134)	-	-	-
Dividend (incl. tax)	(258)	(688)	(688)	(825)	(990)
Other fin. activities	(155)	-	-	-	-
Cash flow from fin. (c)	**(388)**	**(1,652)**	**(813)**	**(1,035)**	**(1,183)**
Net chg in cash (a+b+c)	**101**	**507**	**113**	**111**	**330**

Source: Company, BRICS Research

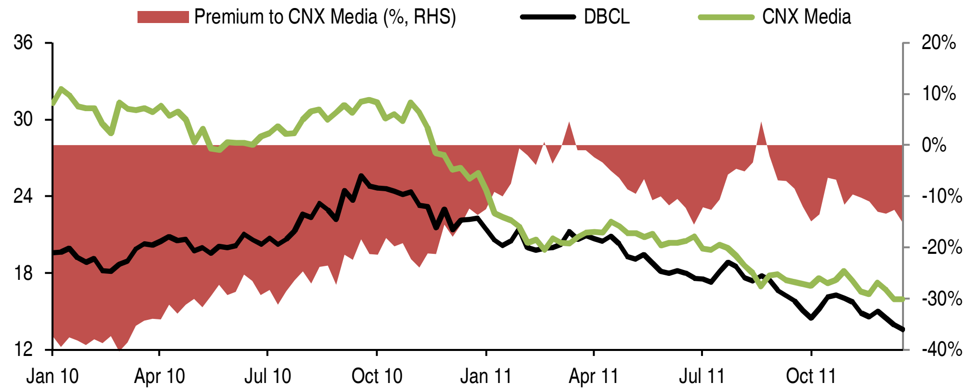
Valuation

We initiate coverage with a target price of Rs250 based by assigning a 16x P/E on average FY12-13 EPS estimate. DBCL has better operating margins within the print sector and a leadership position in key states of Hindi/regional market, but the stock is unlikely to regain its last two-year historical P/E average of 20x because of weakening growth in ad-spend and muted market sentiment.

Valuation multiple softened over CY11

DBCL trades at a 1-year forward P/E of 13.5x vs. its historical average of 20x and is currently at 15% discount to CNX Media index (vs. average discount of 18%). Its valuation multiple has softened over time to 13-15x from a peak 24-26x in September 2010, in line with the correction in CNX Media due to paring down of ad-spend expectations over 2011.

Exhibit 48: DBCL P/E chart and discount to CNX Media



Source: BRICS Research

Initiate with target price of Rs250, by assigning 16x target P/E multiple: We assign a target P/E multiple of 16x (equivalent to 8.5x EV/EBITDA) based on better operating margins within the print sector, leadership position in key states and urban centers across central, northern and western India, and strong execution track record — the multiple also factors in weakening growth in advertising spend and weak market sentiments. We arrive at a target price of Rs250 by assigning 16x P/E to the average of our FY12-13 estimated EPS.

Exhibit 49: Peer valuation comparison

Valuation	DB Corp	HT Media	Hindustan Media	Jagran Prakashan	Zee Entertainment	Sun TV Network	ENIL	Dish TV
P/E FY13E	14.6	11.8	11.2	11.4	16.2	12.6	15.9	52.0
EV/EBITDA FY13E	8.9	7.8	7.2	7.4	11.8	6.3	8.0	9.5
PEG - FY13E	1.97	0.67	0.43	0.83	1.69	1.09	0.24	(0.24)
Financials								
FY12-14E EPS CAGR	7.4%	17.7%	26.0%	13.8%	9.6%	11.5%	65.9%	-218.2%
FY13E EBIT margin	23.1%	14.8%	16.0%	23.4%	27.1%	54.8%	25.7%	8.5%
FY13E RoE	39.6%	14.3%	16.4%	29.6%	18.7%	30.7%	14.3%	81.4%

Source: Bloomberg, BRICS Research

Risks and concerns

Increase in raw material prices:

Newsprint cost constitutes around 45% of total operating cost for DBCL. Domestic newsprint prices have remained at elevated levels since Q2FY12. It can circumvent this problem to some extent by reducing the number of pages in an edition.

More than expected resilience of existing players in newer geographies

DBCL, with entry into newer markets like Jharkhand and Maharashtra and expected launch in Bihar, will compete with already existing players such as Hindustan and Lokmat. It hopes to achieve significant share in these markets with aggressive marketing. However, a stickier-than-expected market will hamper its plans and revenue generation targets.

Slowdown in GDP/consumption growth

Any slowdown in consumption due to macroeconomic factors will affect advertising revenues. An interest-rate driven slowdown in sectors such as automobile, BFSI, and real estate, may see sharper than expected ad budget cuts.

Financial summary

Income statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Revenue	12,652	14,687	16,644	19,986
Revenue growth (%)	19.0	16.1	13.3	20.1
Operating exp	8,621	10,840	12,252	14,601
EBITDA	4,031	3,847	4,393	5,384
EBITDA margin (%)	31.9	26.2	26.4	26.9
Depreciation	433	543	548	628
EBIT	3,598	3,305	3,845	4,757
MTM profit / (loss)	—	—	—	—
Other income	142	103	123	177
Interest paid	153	166	127	121
PBT	3,587	3,242	3,841	4,813
Tax	1,000	482	—	—
PAT	2,585	2,761	3,841	4,813
Minority interest	3	(1)	—	—
EO income	—	—	—	—
APAT	2,585	2,761	3,841	4,813
PAT growth (%)	41.4	6.8	39.1	25.3
Shares o/s (mn)	183	183	183	183
Fully diluted o/s shrs (mn)	183	183	183	183
FDEPS (Rs) recurring	14.2	11.9	14.1	17.6

Cash flow statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
PBT	3,587	3,242	3,841	4,813
Depreciation	433	543	548	628
Amortisation	—	—	—	—
Interest paid	(8)	63	4	(56)
Tax paid	(897)	(458)	—	—
Chg in working capital	(556)	(398)	(473)	(702)
Int/div in other income	(142)	(103)	(123)	(177)
Other operations	196	—	—	—
CF from operations (a)	2,741	2,392	2,660	3,103
Capital expenditure	(1,423)	(1,396)	(1,436)	(1,504)
Chg in investments	(3)	(70)	(78)	(86)
Other investing act	845	—	—	—
Int/div in other income	142	103	123	177
CF from investments (b)	(581)	(1,466)	(1,514)	(1,590)
Free cash flow (a+b)	2,160	926	1,146	1,513
Equity raised/(repaid)	4	—	—	—
Debt raised/(repaid)	(835)	(125)	(209)	(192)
Interest paid	(134)	—	—	—
Dividend (incl tax)	(688)	(688)	(825)	(990)
Other fin activities	—	—	—	—
CF from financing (c)	(1,652)	(813)	(1,035)	(1,183)
Net chg in cash (a+b+c)	507	113	111	330
Opening balance	465	972	1,085	1,196
Closing balance	972	1,085	1,196	1,526

Balance sheet (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Net fixed assets	7,358	8,212	9,100	9,976
Investments	163	233	311	397
Current assets	5,918	6,908	8,146	9,873
Inventories	728	965	1,110	1,259
Sundry debtors	2,401	2,777	3,146	3,783
Cash & bank balance	1,731	1,893	2,240	2,836
Loans & advances	1,058	1,274	1,650	1,995
Other current assets	—	—	—	—
Total assets	13,548	15,462	17,667	20,356
Net worth	6,456	7,953	9,709	11,951
Share capital	1,833	1,833	1,833	1,833
Reserves & surplus	4,623	6,120	7,876	10,118
Minority interest	4	4	4	4
Total debt	2,372	2,233	2,051	1,883
Secured loans	2,082	1,957	1,747	1,555
Unsecured loans	290	276	303	328
Current liabilities & prov	2,189	2,620	3,038	3,467
Current liabilities	1,648	2,052	2,379	2,709
Provisions	541	568	659	758
Net deferred tax liab	695	820	1,033	1,219
Total liabilities	13,548	15,462	17,667	20,357

Key ratios

Y/E 31 March	2011	2012E	2013E	2014E
Valuation ratios				
PE (x)	14.4	17.2	14.6	11.6
CEPS (Rs)	16.0	17.9	23.9	29.7
PCE (x)	12.8	11.5	8.6	6.9
BVPS (Rs)	35	43	53	65
Price/Book (x)	5.8	4.7	3.9	3.1
EV/EBITDA (x)	9.5	9.9	8.5	6.8
EV/Revenue (x)	3.0	2.6	2.2	1.8
Dividend yield (%)	—	—	—	—
Cash flow yield (%)	5.7	2.5	3.0	4.0
Performance ratios				
Raw material to sales (%)	30.3	34.7	34.3	34.0
SGA to sales (%)	—	—	—	—
Effective tax rate (%)	27.9	14.9	—	—
PAT margin (%)	20.4	18.8	23.1	24.1
DPS (Rs)	—	—	—	—
Dividend payout ratio (%)	—	—	—	—
Return ratios				
RoE avg (%)	46.5	38.3	43.5	44.4
RoCE avg (%)	34.7	28.1	28.9	31.0
Fixed asset turnover (x)	1.8	1.9	1.9	2.1
Working capital ratios				
Inventory (days)	—	—	—	—
Payable (days)	—	—	—	—
Receivable (days)	69	69	69	69
Working capital (days)	69	69	69	69
Leverage ratios				
Interest cost (%)	5.5	7.2	5.9	6.2
Net debt/equity (x)	0.1	—	—	(0.1)
Interest coverage (x)	23.5	20.0	30.3	39.3

HT Media

BUY

CMP Rs123 Target Price Rs145

HT Media (HTML)'s margin drag from new business is likely to be over by H1FY13 with monetisation of its Mumbai edition and Mint (business daily). We expect a print industry ad-spend CAGR of 8.4% over FY11-13 and HTML to outperform this with an 11.8% revenue and 17.6% earnings CAGR due to a turnaround in HT Mumbai, Mint, and its radio businesses.

Mint, HT Mumbai are growth engines; core business is steady: *Hindustan Times* Mumbai and Mint have emerged clear runner ups (#2) in their respective segments. This may lead to better pricing and improvement in ad-yields. With Delhi emerging as a duopoly, we expect HT to hold its lead in readership (relative to Times of India, which is a close #2) and continue to maintain revenue market share.

Consolidation in the Hindustan newspaper: Investment for expanding the *Hindustan* in UP is now tapering off. In FY13 this newspaper will start to show improvement in ad-yield driven by large readership base (#3 as per Q3CY11 IRS) and 100% cheaper ad rates than the leader *Jagran,* in our opinion.

Expect 11.8% revenue and 17.6% earnings CAGR over FY11-14: Expect revenue CAGR of 11.8% over FY11-14 led by advertising revenue CAGR of 10.5% and circulation revenue CAGR of 9.4% over same period. EBITDA margins likely to improve over FY11-14E due to turnaround in HT Mumbai and Mint business.

Valuation: The stock trades at a P/E of 13.7x FY12 and 11.8x FY13 estimated earnings. We initiate coverage with a Buy rating and target price of Rs145 (using 12.5x average FY13-14E EPS). We believe HT Mumbai and *Mint* will become profitable from H1FY13 and its diversified presence across newspaper segments (Hindi, English) will hedge slowdown in either market.

Key data	(Rs mn)
Bloomberg	HTML IN
Reuters	HTML.BO
52-week high/low (Rs)	182/112
6-m average traded value	US$0.3mn
Market cap	Rs28.8bn/US$0.5bn
Shares outstanding	235.0mn
Shareholding pattern (September 2011)	**(%)**
Sponsors	68.8
FIIs	11.8
MFs / UTI	12.8
Banks / FIs	0.0
Others	6.5
Face value	Rs2
Exchange rate (Rs/US$)	53.0

Price performance

Source: Bloomberg

KEY FINANCIALS				(Rs mn)
Y/E 31 March	**2011**	**2012E**	**2013E**	**2014E**
Revenue	18,152	20,407	22,404	24,952
EBITDA	3,649	3,595	4,205	5,020
EBITDA margin (%)	20.1	17.6	18.8	20.1
PAT	1,809	2,108	2,444	2,953
FDEPS (Rs)	7.7	9.0	10.4	12.6
% growth	33.2	16.5	15.9	20.8
P/E (x)	15.9	13.7	11.8	9.8
RoCE avg (%)	17.7	13.9	15.2	16.4

Source: Company, BRICS Research

Investment argument

HT Media (HTML) is a diversified media company with presence in English newspapers through its flagship brand 'Hindustan Times' (#2 English national daily), 'Mint' (#2 English national business daily), and in Hindi newspapers through 'Hindustan' (Hindi daily). HTML also has an FM radio business (4% of its revenues) with the 'Fever 104' brand and various internet portals.

Mint, HT Mumbai are the engines of growth; core business steady: HT Mumbai and Mint have emerged clear runner ups (#2) in their respective segments — this may lead to better pricing power and improvement in ad yield. With Delhi emerging as a duopoly, we expect HT to hold on to its marginal lead in readership (relative to Times of India, which is a close #2) and continue to maintain revenue market share.

Yield improvement to drive growth for Hindustan: HTML holds 77% stake in its Hindi newspaper business subsidiary — Hindustan Media Ventures Limited (HMVL). Hindustan has a readership of 12.03 mn, which makes it #3 among Hindi newspapers in India and is 73% of the leader, *Dainik Jagran*. We expect HMVL ad-yields to improve due to three reasons — accelerating economic growth in core areas (Bihar, Jharkhand, and UP), strong readership growth due to rapid expansion, and the present low base of ad rates.

Investment in emerging media to help in the long run: HTML continues to invest in its (now profitable) radio business and the loss-making internet business. We believe that HTML's investments in emerging media will de-risk its core print business and will provide value in the long run.

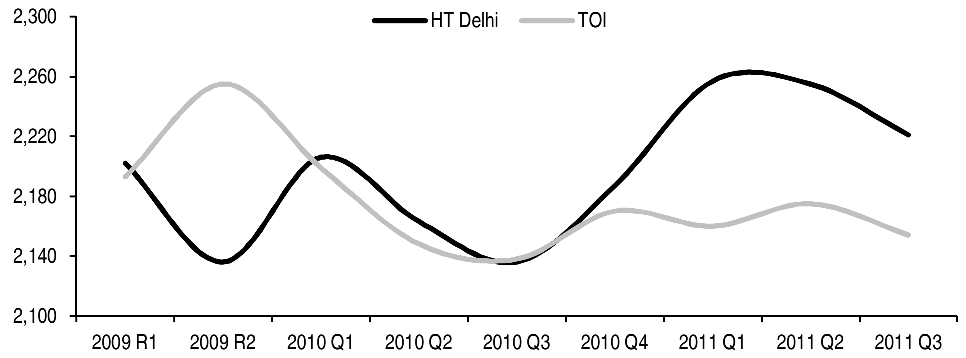
Diversified media portfolio…but dependency on Delhi may continue

Hindustan Times (HT) is the leading English daily in Delhi, and the #2 English daily in India. It has the second-largest readership in Mumbai (lagging *Times of India* but ahead of *DNA*). It has a presence across 13 cities in India and a total readership base of 3.73mn. Despite having such a diversified portfolio, HTML derives 57% of its standalone revenue from its HT-Delhi business.

Delhi – a duopoly, where HT has a marginal lead: Delhi is HT's home market where it enjoyed a monopoly until *Times of India* was launched in the mid 1990s. Now, the Delhi market (worth Rs15bn in advertisement revenues) has become a classic duopoly with two large players having almost similar readership and advertisement market share. Historical evidence suggests it is difficult to replace the incumbent and based on HTML's moves such as promotional campaigns, content and layout redesigning, we expect it to maintain its market and readership share in Delhi.

We believe that HT will retain its leadership position in Delhi

Exhibit 50: English newspaper readership in Delhi/NCR region **('000)**



Source: IRS, BRICS Research

Muted growth in English print advertising

In last couple of quarters, Indian macroeconomic indicators have deteriorated further. Weakening demand, persistently high inflation, and elevated interest rates impact advertisers' investments and margins. We believe English print is more sensitive to the economic slowdown due to its higher dependency on sectors such as real-estate, telecom, and banking & financial services, most of which are facing significant drops in activity driven by a weakening economy. Also, since advertisers are distributing budgets over various types of media to grab wider audience attention, print media's share in advertising is shrinking. We expect this trend to continue and the growth in English print advertising to be muted.

As of CY10, English print advertising is around 40% or Rs57.2bn of total print media's Rs143bn. By CY14, we expect this share to come down to ~36% or Rs75bn of the total print advertisement market of Rs208bn.

Exhibit 51: Advertising rates per person

Newspaper by language	Reach (mn)	Ad Rs/person
English	40	1,248
Regional	468	148

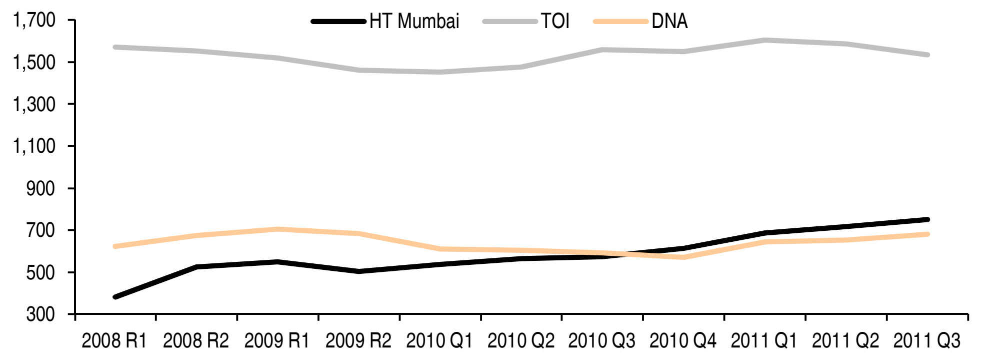
Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

Mint and HT Mumbai likely to become profitable in FY13

HT launched in Mumbai in 2006 but still continues to lose money at an operating level. It is pitted against market leader, ToI, and DNA, which was launched in 2005, who it has already pipped. As per Q3 2011 IRS (Indian Readership Survey), HT has a readership of 751,000 as against DNA's 680,000. ToI is a clear leader with a readership of 1.58mn. (exhibit 52). We expect HT's readership share to continue to increase in Mumbai's Rs13bn market.

We see HT Mumbai turning EBITDA positive in Q1FY13 led by improving ad yields as it consolidates its second position, the much cheaper ad rates it offers (75% discount to ToI for 50% less readership), and an ad edit ratio of 28%, which signifies room for improvement.

Exhibit 52: English newspaper readership in Mumbai **('000)**



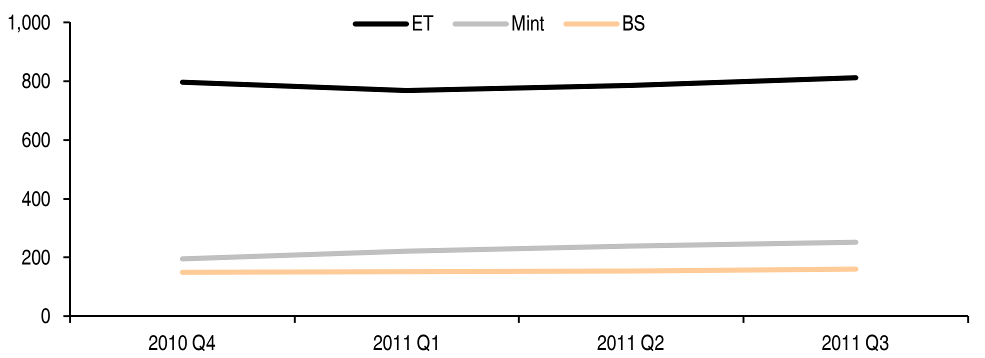
Source: IRS, BRICS Research

Mint to breakeven by H1FY13

HTML launched a business paper *Mint* in 2007 in association with *The Wall Street Journal*. With its differentiated content, size, and look, it made its own niche. In a short span, it was established as a different No.2 player in the business daily segment with a readership of 253,000, following Economic Times with a readership of 812,000. *Mint* is present in 5 cities having 29% readership share in the key markets of Delhi, Mumbai, Bangalore and Kolkata. It has clocked a revenue of Rs650mn in FY11 and is expected to grow by 31% in FY12. We expect Mint to be EBITDA positive in H1FY13.

In a short span, Mint has overtaken the more established Business Standard to occupy the No.2 position

Exhibit 53: Business newspapers readership across India **('000)**



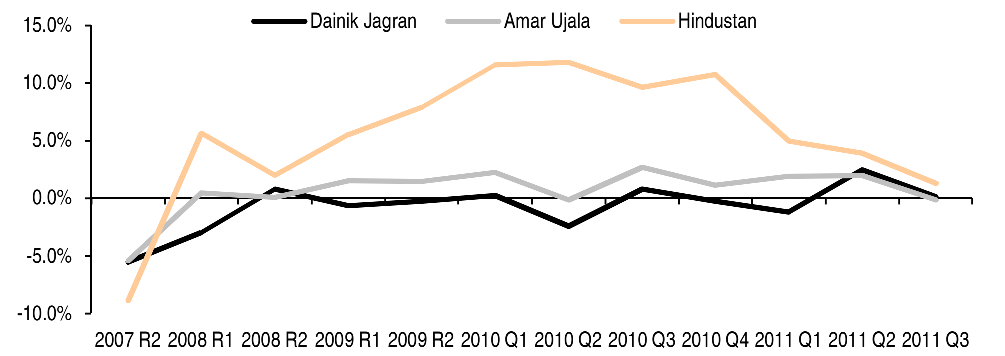
Source: IRS, BRICS Research

Hindustan Media Ventures: riding growth in the Hindi heartland

HTML owns Hindi daily *'Hindustan'* through its subsidiary, Hindustan Media Ventures (HMVL). *Hindustan* is India's third most read Hindi daily with strong presence in Bihar, Jharkhand, Delhi and Uttar Pradesh. With strong improvement in readership, we expect the yield in UP market to increase resulting in revenue growth outperformance and margin improvement.

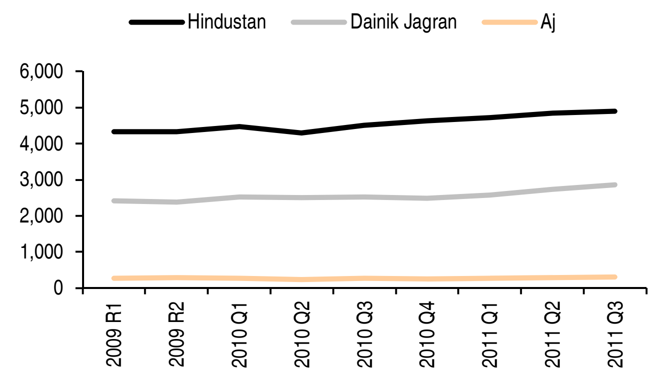
Hindustan has a strong presence in the Hindi heartland with 16 editions and clear leadership in Bihar and Jharkhand, second position in Delhi, and third position in Uttar Pradesh and Uttaranchal. HMVL has been investing in the UP market, which has resulted in *Hindustan* becoming the fastest growing daily among the top 10 dailies in India since 2007. HMVL's readership in UP and Uttaranchal is 43% of the leader, *Dainik Jagran*, whereas its yields are almost 23% of the leader (73% discount). We expect that over next two years, this discount in yields will come down to 60%.

Exhibit 54: Readership growth in UP and Uttaranchal



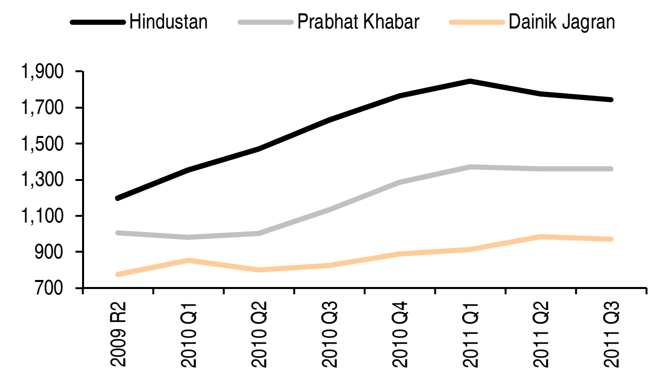
Source: IRS, BRICS Research

Exhibit 55: Readership Bihar **('000)**



Source: IRS, BRICS Research

Exhibit 56: Readership Jharkhand **('000)**



Source: IRS, BRICS Research

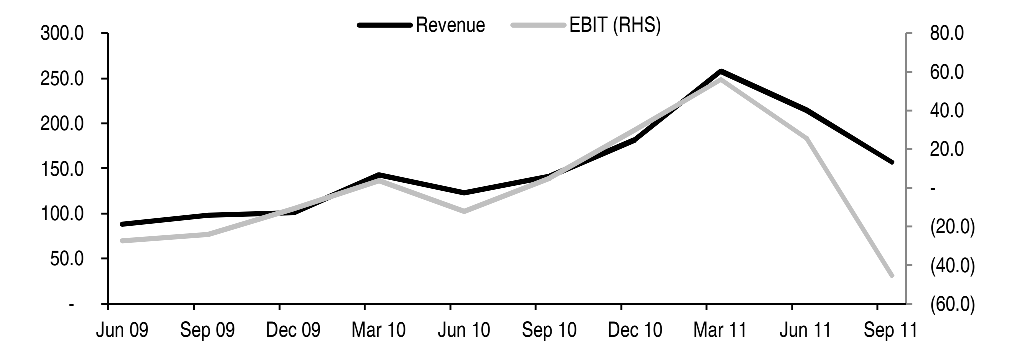
Radio business growing profitably

HTML currently has presence in the radio business in Delhi, Mumbai, Bangalore and Kolkata. It is planning to expand its presence to top 10-12 cities with participation in Phase 3 bidding.

HTML currently gets around 4% of its revenue from its radio business. It operates radio stations under the *Fever* brand and is focused only on metros due to higher ad spend there. Going forward, it will continue to focus mainly on metros and tier-1 cities for expansion since it believes that the ad-spend in smaller towns cannot justify an investment.

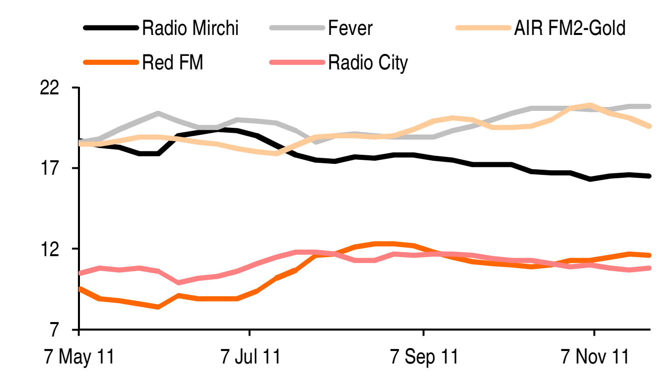
HTML's radio business has grown handsomely. In H1FY12, its revenue from this segment had grown 41% and it had managed to be profitable at the EBIT level in FY11 itself. In the last two quarters, the radio segment revenue has slowed down marginally due to seasonal factors and a general slowdown in advertisement. We expect this segment's revenue to see a 14% CAGR over FY11-14 without factoring in a possible increase in revenue with the addition of radio stations after the Phase-3 bidding.

Exhibit 57: Radio Business revenue and EBIT (Rs mn)



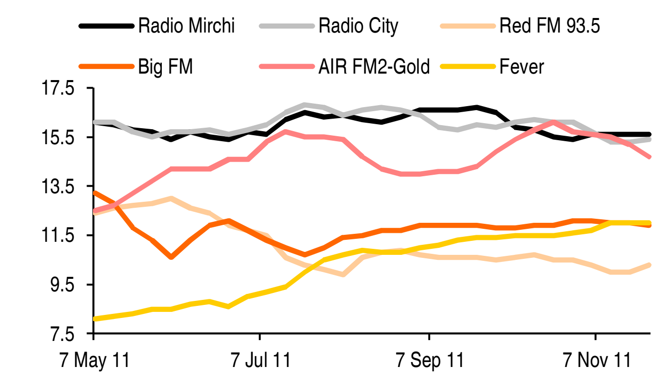
Source: Company, BRICS Research

Exhibit 58: RAM-Delhi (%)



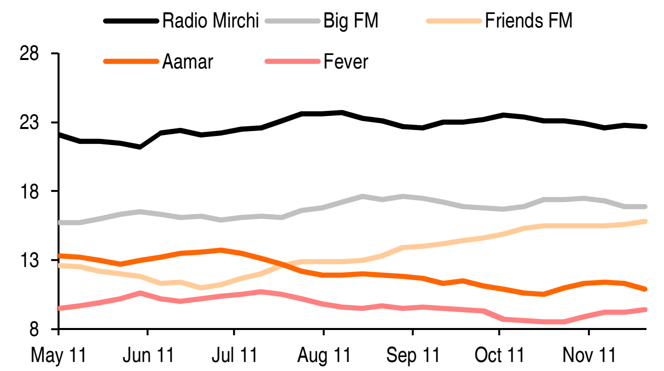
Source: RAM, BRICS Research

Exhibit 59: RAM- Mumbai (%)



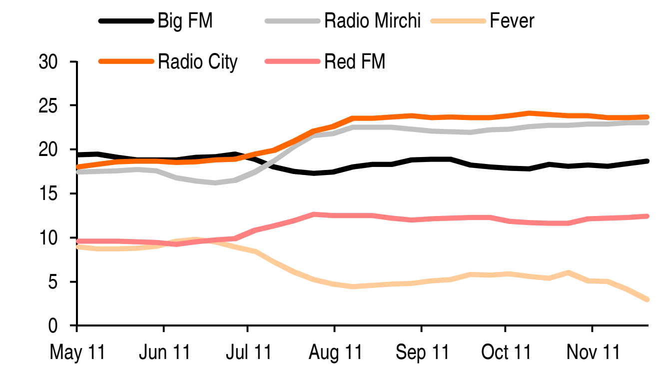
Source: RAM, BRICS Research

Exhibit 60: RAM-Kolkota (%)



Source: RAM, BRICS Research

Exhibit 61: RAM- Bangalore (%)



Source: RAM, BRICS Research

Internet businesses likely to continue drag

HTML has been investing in the internet substantially in order to de-risk its core print business from new media. It has various internet properties as detailed in Exhibit 62.

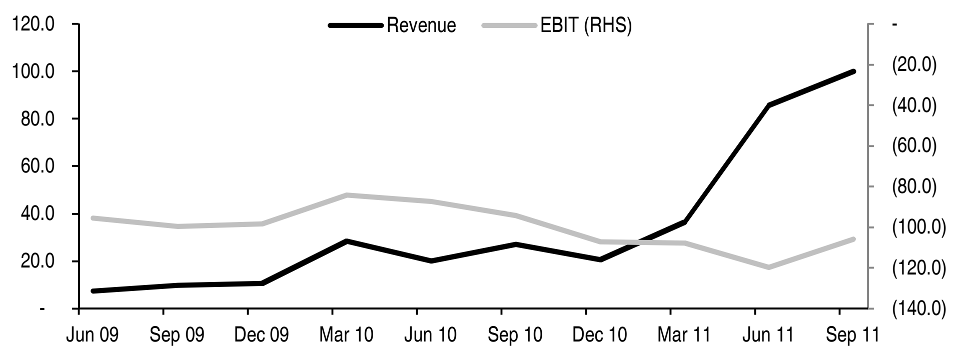
Exhibit 62: Internet business

Website	Description
Shine.com	Leading job portal with close to 7.5mn resume database
Desimartini.com	Movie reviews and ratings website covering both Bollywood and Hollywood movies
HTCampus.com	Education portal with a database of 24,000 institutes and 400,000 candidates
Hindustantimes.com	Supplementary website for English news daily- Hindustan Times
Livemint.com	Supplementary website for English business daily- Mint
Livehindustan.com	Supplementary website for Hindi news daily- Hindustan

Source: Company, BRICS Research

Although its internet business continues to lose money, quarterly EBIT losses in this segment will be capped at around Rs120mn.

Exhibit 63: Internet business revenue and EBIT (Rs mn)



Source: Company, BRICS Research

Other investments in infancy

HTML has formed a 51:49 joint venture, HT Burda Media Ltd (with Burda Druck GmbH, Germany) for setting up pre-press and printing operations mainly to cater to high-end magazines and brochures across the world. It has set up a capacity to produce over 350,000 copies of magazines and catalogues daily and has got a revenue of Rs560mn in H1FY12 and an EBITDA of Rs5mn. We expect the revenue from this joint venture to grow to Rs1.3bn by FY12 and EBITDA margins of ~20%.

Income Statement Analysis

Expect revenue CAGR of 11.8% over FY11-14 led by advertising revenue CAGR of 10.5% and circulation revenue CAGR of 9.4%. EBITDA margins likely to improve due to turnaround in HT Mumbai and Mint business.

Strong revenue growth; margins to moderate

We expect advertising revenue to grow by a CAGR of 13% over FY11-14 driven by strong growth in the radio business (CAGR of 14%) and internet business (CAGR of 141%). FY12 EBITDA margins will be lower due to high sales and promotion costs which will then come down in FY13 and FY14. We expect EBITDA margins to inch back to 20% levels by FY14.

Exhibit 64: Income statement (Rs mn)

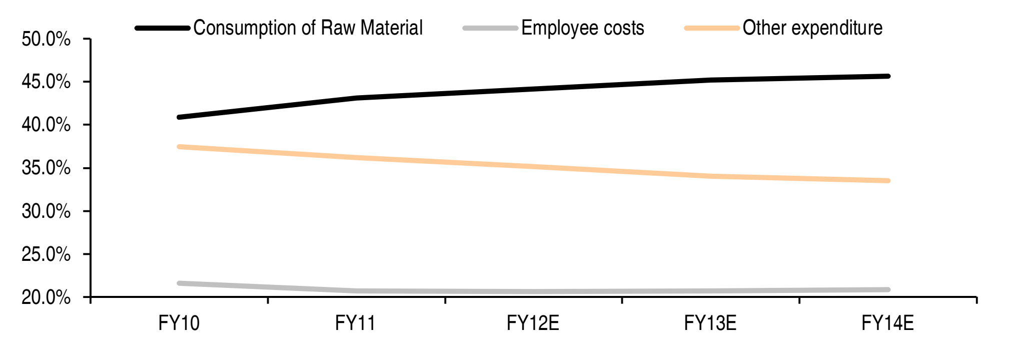
Particulars	FY10	FY11	FY12E	FY13E	FY14E
Revenue	**14,538**	**18,152**	**20,407**	**22,404**	**24,952**
Increase/ (Decrease) in stock in Trade and WIP	(0)	(30)	6	-	-
Consumption of Raw Material	4,761	6,279	7,415	8,232	9,091
Employee costs	2,520	3,009	3,476	3,767	4,158
Other expenditure	4,365	5,245	5,916	6,201	6,683
EBITDA	**2,893**	**3,649**	**3,595**	**4,205**	**5,020**
Depreciation	707	842	883	888	988
PBIT	**2,186**	**2,807**	**2,713**	**3,317**	**4,032**
Financial Charges	295	236	(386)	(380)	(434)
PBT	1,891	2,571	3,098	3,697	4,466
Tax	536	713	891	1,123	1,384
PAT	**1,359**	**1,809**	**2,108**	**2,444**	**2,953**
Equity	470	470	470	470	470
EPS (Rs.)	5.78	7.70	8.97	10.40	12.57

Source: Company, BRICS Research

Proportion of raw material cost to rise

Rupee depreciation and high inflation in India is likely to push up raw material prices, which would lead to margins pressure for HTML. It is likely to offset raw material impact by controlling other expenditure and curtailing advertising and sales promotion expenditure.

Exhibit 65: Total cost breakup



Source: Company, BRICS Research

Balance sheet analysis

We expect HTML to incur capital expenditure of Rs4.4bn over FY11-14. Despite this, it will be a net cash company by FY14. We expect RoE and RoCEs to expand with increasing profitability and low financial leverage.

Exhibit 66: Balance Sheet Analysis (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net fixed assets	**8,407**	**8,244**	**8,217**	**8,107**	**7,913**
Investments	**4,755**	**7,595**	**8,734**	**10,481**	**11,529**
Current assets	**6,710**	**7,556**	**10,500**	**11,407**	**14,125**
Inventories	1,200	1,456	1,900	2,009	2,274
Sundry Debtors	2,422	2,525	3,164	3,441	3,724
Cash and Bank Balances	1,087	1,152	2,154	2,522	4,356
Other Current Assets	41	313	506	545	600
Loans and Advances	1,959	2,110	2,776	2,890	3,171
Miscellaneous Expenditure	**22**	**-**	**-**	**-**	**-**
Total assets	**19,893**	**23,395**	**27,451**	**29,996**	**33,567**
Networth	9,930	14,321	16,488	18,980	21,994
Share capital	470	470	470	470	470
Reserves & surplus	9,241	12,552	14,660	17,104	20,057
Minority interest	218	1,299	1,358	1,406	1,467
Total debt	**4,021**	**3,122**	**4,922**	**4,722**	**4,522**
Secured loans	3,125	2,839	4,439	4,239	4,039
Unsecured loans	896	284	484	484	484
Current liabilities & prov	**5,764**	**6,037**	**6,284**	**6,581**	**7,402**
Current liabilities	5,486	5,574	5,895	6,103	6,862
Provisions	279	462	388	479	540
Net deferred tax liab	**178**	**(86)**	**(234)**	**(269)**	**(320)**

Source: Company, BRICS Research

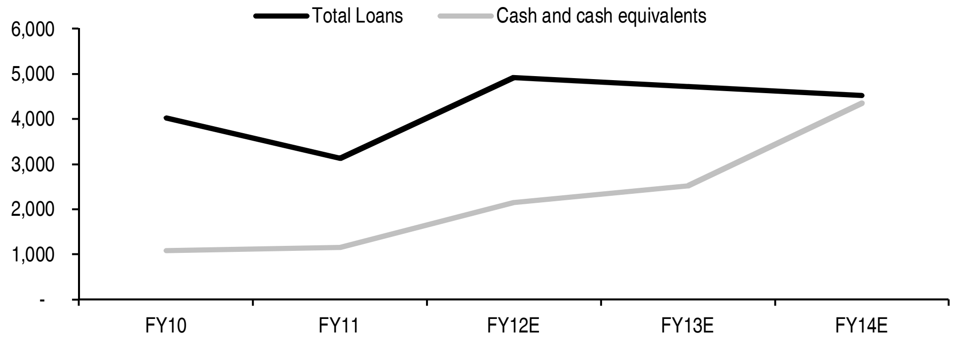
Low gearing

HTML had a low net debt-to-equity ratio of 27.5% in H1FY12. Strong cash generation will fund its investment plans and it will still have enough cash to pay back debt. Since HTML has finished most of its major expansions, the capex going forward is more of maintenance. However, we are not factoring in phase-3 radio auctions expected in March 2012 because of lack of clarity. We must note that HTML has adequate resources to bid moderately aggressively for phase-3 radio spectrum.

Comfortable cash position

We expect cash and equivalent position to reach Rs4.36bn by FY14 (Rs1bn as on H1FY12) with total debt coming down to Rs4.5bn by FY14 (Rs4.85bn as on H1FY12).

Exhibit 67: Trend in Total debt and cash & balances (Rs mn)



Source: Company, BRICS Research

Cash flow analysis

Cash flow is robust with the business not needing additional funding. This may drive the management towards increased allocation to emerging media.

Exhibit 68: Cash flow analysis (Rs mn)

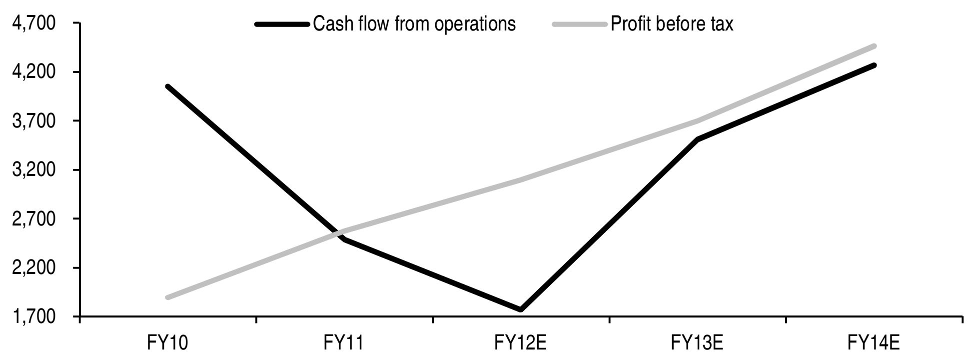
	FY10	FY11	FY12E	FY13E	FY14E
Profit befor tax	**1,891**	**2,571**	**3,098**	**3,697**	**4,466**
Depreciation	707	842	874	796	814
Interest paid	178	(64)	386	380	434
Chg in working capital	1,695	(328)	(1,696)	(242)	(63)
Tax paid	(407)	(515)	(891)	(1,123)	(1,384)
Other op activities	(12)	(18)	-	-	-
Cash flow from op (a)	**4,052**	**2,487**	**1,771**	**3,508**	**4,266**
Capital expenditure	(1,575)	(773)	(1,261)	(1,183)	(1,201)
Chg in investments	(1,811)	(3,072)	(1,139)	(1,747)	(1,048)
Other investing act	607	899	60	48	61
Cash flow from inv. (b)	**(2,779)**	**(2,946)**	**(2,341)**	**(2,882)**	**(2,189)**
Free cash flow (a+b)	**1,273**	**(459)**	**(570)**	**626**	**2,078**
Equity raised/(repaid)	-	1,979	-	-	-
Debt raised/(repaid)	(490)	(881)	1,800	(200)	(200)
Interest paid	(249)	(205)	-	-	-
Dividend (incl. tax)	(82)	(99)	(85)	(85)	(85)
Other fin. activities	(22)	(124)	-	-	-
Cash flow from fin. (c)	**(844)**	**670**	**1,715**	**(285)**	**(285)**
Net chg in cash (a+b+c)	**429**	**211**	**1,146**	**342**	**1,793**

Source: Company, BRICS Research

Robust cash flow from operations

HTML will almost double its cash flow from operations over FY11-14, as its newer products *Mint* and *HT Mumbai* become profitable at an operating level. However, the cash flow from operations is expected to fall in FY12 due to investment in current assets.

Exhibit 69: Cash flow from operations v/s profit before tax (Rs mn)



Source: Company, BRICS Research

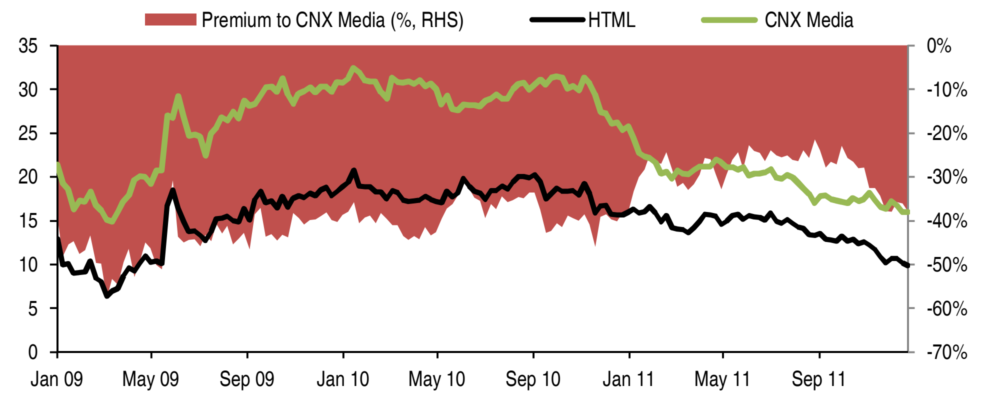
Valuation

We assign a target P/E multiple 12.5x for valuing HTML (equivalent to 7.5x EV/EBITDA) based on its diversified media portfolio across print, radio, and internet, leadership position in the Delhi English newspaper market, and expected EBITDA breakeven from *HT Mumbai* and *Mint* by H1FY13.

Target P/E multiple of 1x to reflect strong growth over FY10-12

HTML trades at a one-year forward P/E multiple of 10x, which is lower than its three-year historical average of 15.3x; it is currently at a 38% discount to CNX Media index (last 3-year average discount of 37%). Its valuation multiple has softened over time, to 11-12x from a peak of 24-26x in September 2010, in line with the correction in CNX Media with lower ad-spend expectations over CY11 (high-inflation, high-interest rate environment) and a weak capital market.

Exhibit 70: DBCL P/E chart and discount to CNX Media **(x)**



Source: BRICS Research

Initiate with target price of Rs145, by assigning 12.5x target P/E multiple: We assign target P/E multiple of 12.5x to HTML (equivalent to 7.5x EV/EBITDA) based on its diversified media portfolio across print, radio, and internet, leadership position in the Delhi English newspaper market, and an expected EBITDA breakeven from *HT Mumbai* and *Mint* by H1FY13. At our target multiple of 12.5x, which is at a 20% discount to its historical average, we factor in weakening growth in advertising spend and weak market sentiment. We derive our target price of Rs145 by assigning 12.5x P/E to the average of FY12-13 EPS.

Exhibit 71: Peer valuation comparison

Valuation	DB Corp	HT Media	Hindustan Media	Jagran Prakashan	Zee Entertainment	Sun TV Network	ENIL	Dish TV
P/E FY13E	14.6	11.8	11.2	11.4	16.2	12.6	15.9	52.0
EV/EBITDA FY13E	8.9	7.8	7.2	7.4	11.8	6.3	8.0	9.5
PEG - FY13E	1.97	0.67	0.43	0.83	1.69	1.09	0.24	(0.24)
Financials								
FY12-14E EPS CAGR	7.4%	17.7%	26.0%	13.8%	9.6%	11.5%	65.9%	-218.2%
FY13E EBIT margin	23.1%	14.8%	16.0%	23.4%	27.1%	54.8%	25.7%	8.5%
FY13E RoE	39.6%	14.3%	16.4%	29.6%	18.7%	30.7%	14.3%	81.4%

Source: Bloomberg, BRICS Research

Risks and concerns

Higher inflation resulting in slowdown in consumption

Advertisement growth is dependent on consumption growth and GDP growth. A slower-than-expected recovery in the economy would result in muted ad revenue growth.

Sharp spike in newsprint prices

Newsprint makes up 44% of HTML's total operating cost. We have assumed newsprint prices will remain at ~US$630 till FY14 but any sharp rise could significantly reduce margins and hence profitability.

Higher investment in new businesses

HTML's investment in various new initiatives – HT Burda and internet – are still in an investment phase. Also, it is planning to bid for phase-3 radio auctions. Any investment in these projects which are not adequately compensated by desired returns is likely to weigh on its profitability.

Financial summary

Income statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Revenue	18,152	20,407	22,404	24,952
Revenue growth (%)	24.9	12.4	9.8	11.4
Operating exp	14,503	16,812	18,199	19,932
EBITDA	3,649	3,595	4,205	5,020
EBITDA margin (%)	20.1	17.6	18.8	20.1
Depreciation	842	883	888	988
EBIT	2,807	2,713	3,317	4,032
MTM profit / (loss)	—	—	—	—
Other income	—	694	803	833
Interest paid	236	309	424	399
PBT	2,571	3,098	3,697	4,466
Tax	713	891	1,123	1,384
PAT	1,809	2,108	2,444	2,953
Minority interest	49	100	130	128
EO income	—	—	—	—
APAT	1,809	2,108	2,444	2,953
PAT growth (%)	33.1	16.5	15.9	20.8
Shares o/s (mn)	235	235	235	235
Fully diluted o/s shrs (mn)	235	235	235	235
FDEPS (Rs) recurring	7.7	9.0	10.4	12.6

Cash flow statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
PBT	2,571	3,098	3,697	4,466
Depreciation	842	874	796	814
Amortisation	—	—	—	—
Interest paid	200	(309)	(424)	(399)
Tax paid	(932)	(891)	(1,123)	(1,384)
Chg in working capital	(328)	(1,696)	(242)	(63)
Int/div in other income	—	—	—	—
Other operations	(282)	694	803	833
CF from operations (a)	2,487	1,771	3,508	4,266
Capital expenditure	(773)	(1,261)	(1,183)	(1,201)
Chg in investments	(2,256)	(1,080)	(1,699)	(988)
Other investing act	83	—	—	—
Int/div in other income	—	—	—	—
CF from investments (b)	(2,946)	(2,341)	(2,882)	(2,189)
Free cash flow (a+b)	(459)	(570)	626	2,078
Equity raised/(repaid)	—	—	—	—
Debt raised/(repaid)	(881)	1,800	(200)	(200)
Interest paid	(205)	—	—	—
Dividend (incl tax)	(99)	(85)	(85)	(85)
Other fin activities	1,855	—	—	—
CF from financing (c)	670	1,715	(285)	(285)
Net chg in cash (a+b+c)	211	1,146	342	1,793
Opening balance	779	990	2,135	2,477
Closing balance	990	2,135	2,477	4,270

Balance sheet (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Net fixed assets	8,244	8,217	8,107	7,913
Investments	7,595	8,734	10,481	11,529
Current assets	7,556	10,500	11,407	14,125
Inventories	1,456	1,900	2,009	2,274
Sundry debtors	2,525	3,164	3,441	3,724
Cash & bank balance	1,152	2,154	2,522	4,356
Loans & advances	2,110	2,776	2,890	3,171
Other current assets	313	506	545	600
Total assets	23,395	27,451	29,996	33,567
Net worth	12,552	14,651	17,085	20,026
Share capital	470	470	470	470
Reserves & surplus	12,082	14,181	16,615	19,556
Minority interest	1,299	1,358	1,406	1,467
Total debt	3,122	4,922	4,722	4,522
Secured loans	2,839	4,439	4,239	4,039
Unsecured loans	284	484	484	484
Current liabilities & prov	6,037	6,284	6,581	7,402
Current liabilities	5,574	5,895	6,103	6,862
Provisions	462	388	479	540
Net deferred tax liab	(86)	(234)	(269)	(320)
Total liabilities	23,395	27,451	29,996	33,567

Key ratios

Y/E 31 March	2011	2012E	2013E	2014E
Valuation ratios				
PE (x)	15.9	13.7	11.8	9.8
CEPS (Rs)	12.4	13.1	14.7	17.3
PCE (x)	9.9	9.3	8.3	7.1
BVPS (Rs)	53	62	73	85
Price/Book (x)	2.3	2.0	1.7	1.4
EV/EBITDA (x)	8.4	8.8	7.4	5.8
EV/Revenue (x)	1.7	1.5	1.4	1.2
Dividend yield (%)	—	—	—	—
Cash flow yield (%)	(1.6)	(2.0)	2.2	7.2
Performance ratios				
Raw material to sales (%)	34.4	36.4	36.7	36.4
SGA to sales (%)	—	—	—	—
Effective tax rate (%)	27.7	28.7	30.4	31.0
PAT margin (%)	10.0	10.3	10.9	11.8
DPS (Rs)	—	—	—	—
Dividend payout ratio (%)	—	—	—	—
Return ratios				
RoE avg (%)	16.6	15.5	15.4	15.9
RoCE avg (%)	17.7	13.9	15.2	16.4
Fixed asset turnover (x)	2.2	2.5	2.7	3.1
Working capital ratios				
Inventory (days)	—	—	—	—
Payable (days)	—	—	—	—
Receivable (days)	51	57	56	54
Working capital (days)	51	57	56	54
Leverage ratios				
Interest cost (%)	6.6	7.7	8.8	8.6
Net debt/equity (x)	0.2	0.2	0.1	—
Interest coverage (x)	11.9	8.8	7.8	10.1

Hindustan Media Ventures

BUY

CMP Rs127 Target Price Rs180

Hindustan Media Ventures (HMVL) is likely to be a major beneficiary of ad-spend growth in its core markets of Bihar and Jharkhand due to a revival in economic growth and government-led social spending. We expect an print industry ad-revenue CAGR of 8.4% over FY11-13. HMVL will outperform the industry with 15% revenue and 26% earnings CAGR with an ad-yield improvement in Bihar and Jharkhand and readership improvement in UP.

Strong growth in core markets of Bihar and Jharkhand: Both states are seeing better-than-national-average growth in literacy and GDP which are key ingredients for growth in readership and advertising. HMVL is a strong leader in these regions and will be a key beneficiary.

Consolidation in UP: Investment for expanding the *Hindustan* newspaper in UP is now tapering off. In FY13, the paper will start showing an improvement in ad yields driven by large readership base (#3 as per Q3CY11 IRS data) and 73% cheaper ad rates compared with the market leader *Jagran*.

Expect 15% revenue and 26% earnings CAGR over FY11-14: Topline growth will be driven by strong growth in advertising revenues. We expect EBITDA margins to expand to 21% by FY14 from 15% in FY11 with an improvement in ad-yields and stable operating costs.

Valuation and outlook: The stock trades at a P/E multiple of 13x FY12 and 12x FY13 EPS estimates. We initiate coverage with a Buy rating and a target price of Rs180 (13.5x our average FY13-14 EPS estimates) based on growth revival in its core Hindi market, improvement in ad-yield gap in UP, and tapering off of expenditure. A 15% discount to DB Corp factors in relatively smaller addressable market for HMVL and threat of increased competition from new entrants in its core market.

KEY FINANCIALS				(Rs mn)
Y/E 31 March	2011	2012E	2013E	2014E
Revenue	5,280	6,077	6,871	7,948
EBITDA	969	1,126	1,293	1,738
EBITDA margin (%)	18.4	18.5	18.8	21.9
PAT	536	753	829	1,145
FDEPS (Rs)	7.8	10.3	11.3	15.6
% growth	198.9	31.6	10.0	38.2
P/E (x)	16.2	12.3	11.2	8.1
RoCE avg (%)	20.2	19.0	18.6	21.0

Source: Company, BRICS Research

Key data	(Rs mn)
Bloomberg	HMVL IN
Reuters	HINS.BO
52-week high/low (Rs)	194/102
6-m average traded value	US$0.1mn
Market cap	Rs9.3bn/US$0.2bn
Shares outstanding	73.4mn
Shareholding pattern (September 2011)	(%)
Sponsors	77.7
FIIs	0.9
MFs / UTI	13.7
Banks / FIs	0.8
Others	6.9
Face value	Rs10
Exchange rate (Rs/US$)	53.0

Price performance

Source: Bloomberg

Investment argument

Hindustan Media Ventures (HMVL), a subsidiary of HT Media, publishes India's third most-read daily *'Hindustan'.* It has a leadership position in Bihar and Jharkhand, second position in Delhi, and third position in Uttar Pradesh and Uttaranchal.

Bihar, Jharkhand on strong footing: These states are seeing a combination of higher-than-national-average GDP growth and an improvement in literacy rates which will increase the advertising spend and readership. With dominant market presence in these markets, (readership share of 52% in Bihar and 34% in Jharkhand), we expect *Hindustan* advertising yield and volume to increase.

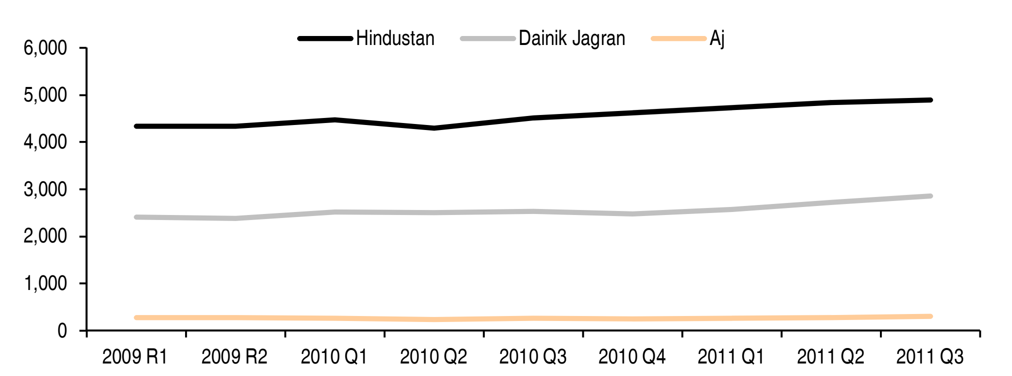
Investment in UP starting to pay off: To expand its footprint across the Hindi belt, HMVL invested heavily in UP over CY09-11 by spending on launching new editions, establishing new printing centers, and promotional campaigns to improve circulation. *Hindustan* is the fastest growing daily in UP and has third highest readership. We believe readership growth would lead to improving ad rates in CY12.

Strong cash flow, to be debt free by FY12: HMVL currently has a marginal total debt of Rs60mn but strong operating cash flow (Rs570mn in FY11, Rs385mn in FY12) with low capital expense requirements. It may buy smaller print businesses in order to expand its footprint in other *Hindi* markets such as Rajasthan, Madhya Pradesh. We believe that strong cash flows and negligible debt position will help HMVL to efficiently tackle any slowdown in advertising market.

Strong entrenched position in Bihar and Jharkhand

As per IRS Q3 2011, in April-June, *'Hindustan'* was the leading daily in Bihar with a readership of 4.9mn against *Dainik Jagran's* 2.86mn. The latter, who is its nearest competitor, entered Bihar more than 10 years ago. HMVL has managed to defend its leadership position despite strong competition from *Dainik Jagran,* which is incidentally India's most read Hindi daily, and HMVL will be able to retain its readership share despite the expected entry of DB Corp in FY13, in our view.

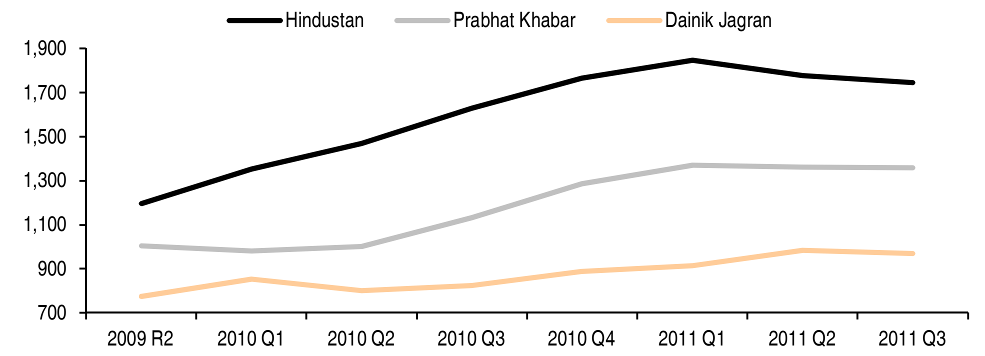
Exhibit 72: Readership in Bihar **('000)**



Source: IRS, BRICS Research

Even though the market in Jharkhand is more fragmented than Bihar, *Hindustan* has a clear lead. It has a readership of 1.74mn against 1.36mn for *Prabhat Khabar*, its nearest competitor.

Exhibit 73: Readership in Jharkhand **('000)**

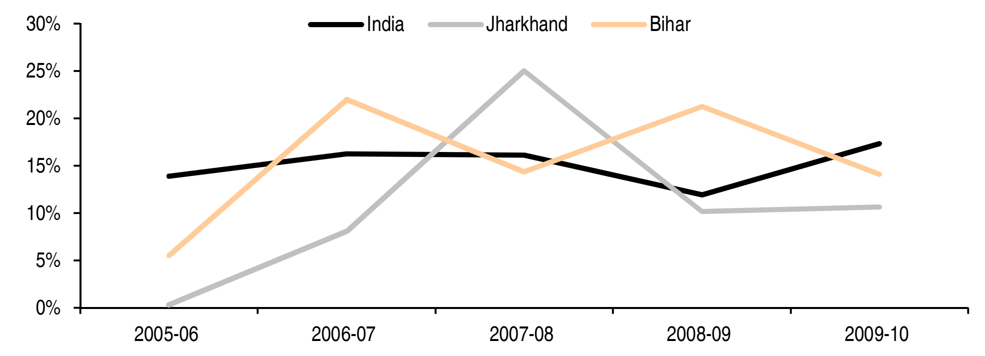


Source: IRS, BRICS Research

HMVL best play on Bihar, Jharkhand consumption growth

Bihar and Jharkhand, which used to lag India's overall growth, have started showing stronger-than-national-average GDP growth, driving up per capita and disposable income and resultant consumer spending. *Hindustan* has a strong presence in Bihar and Jharkhand with 52% and 34% readership share, respectively, spread across 16 editions. This unmatched coverage makes *'Hindustan'* indispensible for marketers. We believe it will be able to command higher yields led by an increase in ad spend in these markets from rising regional economic activity and its defendable dominant position.

Exhibit 74: GDP growth rates



Source: CMIE, BRICS Research

Readership in Bihar and Jharkhand is well below national average

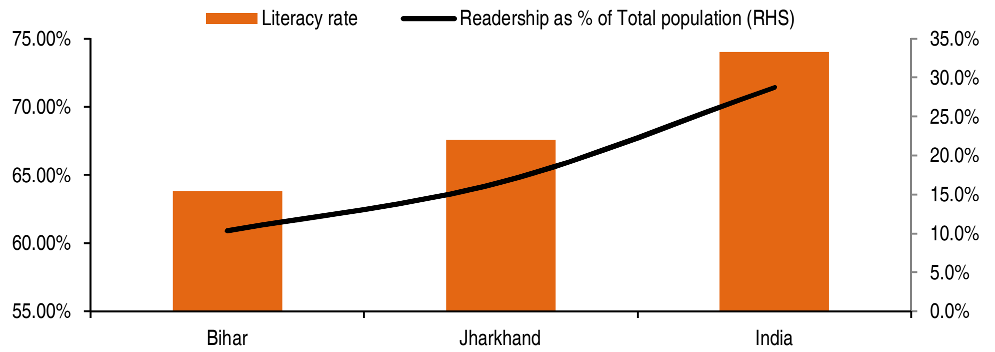
We believe newspaper penetration in Bihar and Jharkhand would continue to increase at faster rate than nation average due to faster literacy improvement. Readership in these two states is below the national average partially due to historically low literacy rates in these states. In the last decade, the two states have seen the fastest growth in literacy driven by strong Government initiatives. So, besides ad-rate improvement, HMVL has more headroom to grow circulation revenues in these two states with improving newspaper penetration.

Exhibit 75: Literacy growth in Bihar and Jharkhand is highest in India (bn)

Rank	India/State	No of literate in 2011	No of literate in 2001	Increase in literates
	India	**778**	**561**	**38.8%**
1	Bihar	54	31	74.8%
2	Jharkhand	19	12	59.2%
3	UP	118	76	56.4%
4	Rajasthan	39	28	40.7%

Source: Census of India, BRICS Research

Exhibit 76: Literacy and readership in Bihar and Jharkhand

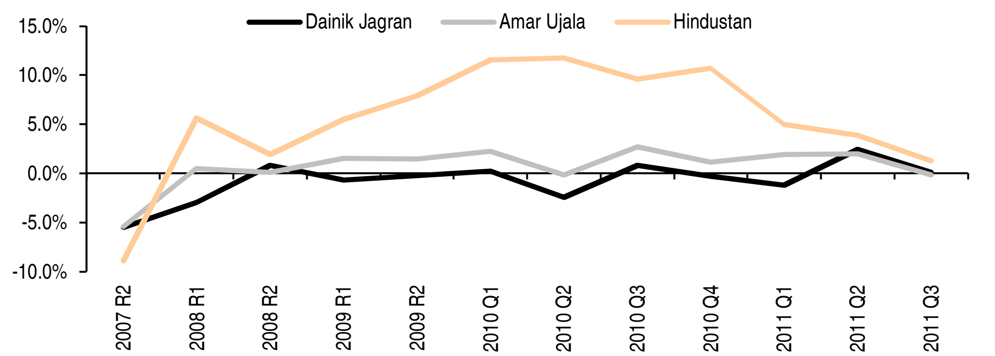


Source: IRS, Census of India, BRICS Research

UP: The new frontier

HMVL has aggressively invested in UP to increase penetration in India's most populous state and to expand its footprint across the Hindi belt. While it has managed to increase readership substantially, advertising yields are still low compared to the leader, *Dainik Jagran*. Its readership in UP and Uttaranchal is 43% of the leader, *Dainik Jagran*, whereas its yields are just 22.5% (a 72.5% discount). With further increase in readership, we expect that over the next two years, this discount will narrow down to 60%. We also believe that HMVL will have the advantage of cross selling through its parent company, HTML, which will also help improve yields.

Exhibit 77: UP& Uttaranchal readership growth rate



Source: IRS, BRICS Research

Income Statement Analysis

Expect revenue CAGR of 14.6% over FY11-14 backed by better yields leading to EBITDA margin expansion to 22% by FY14 from 18.5% in FY11. We expect an earnings CAGR of 29% over FY11-14 led by margin expansion and reducing interest charges.

Strong revenue growth; margin expansion

Revenue growth would be mostly driven by ad revenue growth as circulation revenue growth will be muted due to promotional offers for new launches and possible price war to fend off new entrants (such as DB Corp in the Bihar market). We expect EBITDA CAGR of 21% over FY11-14 with moderation in sales and promotional expenditure.

Exhibit 78: Income statement (Rs mn)

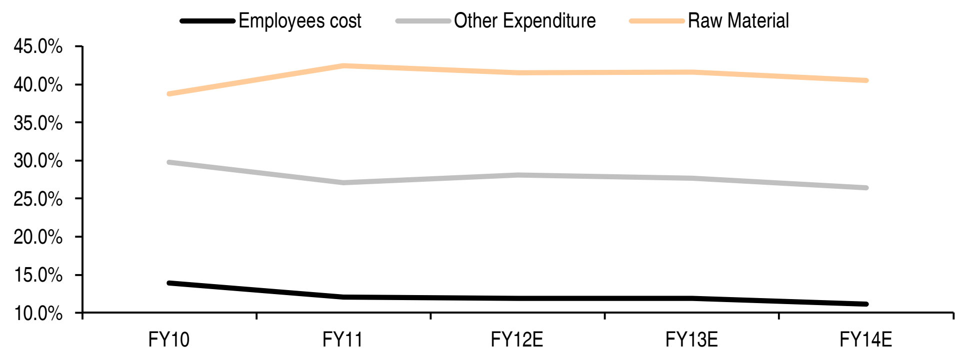
Particulars	FY10	FY11	FY12E	FY13E	FY14E
Revenue	**1,670**	**5,280**	**6,077**	**6,871**	**7,948**
Increase/decrease in stock on trade and work in progress	5	(2)	(1)	-	-
Consumption of Raw Materials	642	2,245	2,524	2,861	3,222
Employees cost	233	636	721	816	885
Other Expenditure	497	1,432	1,707	1,901	2,103
EBITDA	**293**	**969**	**1,126**	**1,293**	**1,738**
Depreciation	25	164	188	192	218
PBIT	**268**	**805**	**938**	**1,101**	**1,520**
Financial Charges	37	43	(124)	(94)	(134)
PBT	230	762	1,061	1,195	1,654
Tax	76	226	308	366	509
PAT	**147**	**536**	**753**	**829**	**1,145**
Equity	73	73	73	73	73
EPS (Rs)	2.6	7.8	10.3	11.3	15.6

Source: Company, BRICS Research

S&M cost to decrease its share

With HMVL focusing on advertising revenue and hence readership, we expect the raw material cost to remain at 41% of the revenue till FY14. However, reduction in sales and marketing expenditure is expected to bring down other expenditure as a percentage of revenue to 26.5% by FY14 from 27.5%.in H1FY12

Exhibit 79: Operating cost as % of revenue

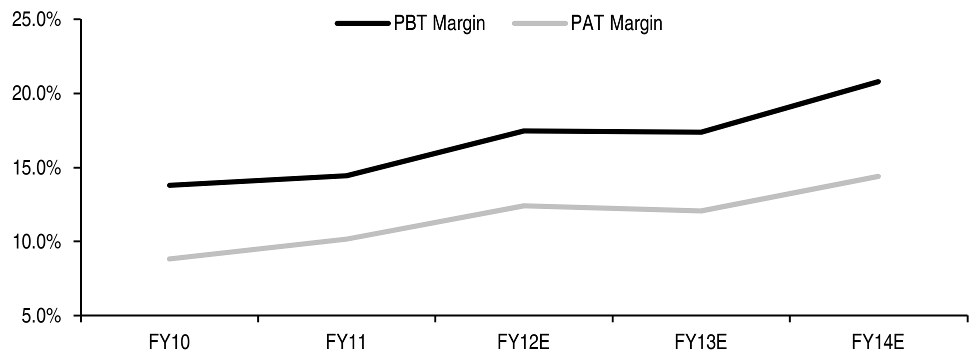


Source: Company, BRICS Research

Strong balance sheet to improve PBT/PAT margins

We expect HMVL's PAT margins to improve substantially due to interest income from its net cash position. We expect PAT margins to grow to 15.4% in FY14 from 8.8% in FY10. Also, PBT margins will expand to 21% from 14% in FY10.

Exhibit 80: PBT/PAT Margins



Source: Company, BRICS Research

Balance sheet analysis

After expansion into UP, peak capital expenditure will be over — we expect capex over FY11-14 to be Rs631mn. Low capex coupled with strong cash flow will result in a net cash of Rs2.21bn by FY14.

Debt free company

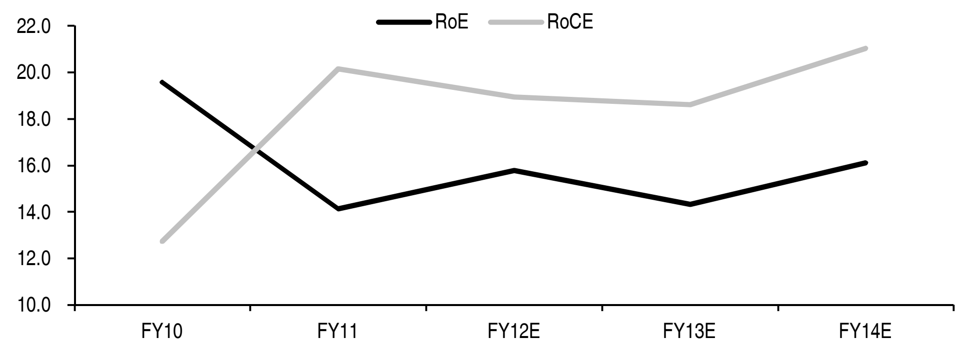
With IPO proceedings, HMVL currently has a debt of only Rs60mn. With strong operating cash flow and the low capex needs, it is expected to have a net cash balance of Rs2.38bn by FY14.

Exhibit 81: Balance Sheet Analysis (Rs mn)

Particulars	FY10	FY11	FY12E	FY13E	FY14E
Net fixed assets	**1,559**	**1,686**	**1,923**	**2,145**	**2,335**
Investments	**312**	**1,890**	**1,992**	**2,083**	**2,176**
Miscellaneous Expenditure	**22**	**-**	**-**	**-**	**-**
Current assets	**1,410**	**1,754**	**2,678**	**3,602**	**4,990**
Inventories	164	242	305	327	379
Sundry debtors	715	773	1,106	1,356	1,393
Cash & bank balance	271	361	533	1,034	2,212
Other current assets	0	59	141	168	177
Loans & advances	259	318	593	717	829
Total assets	**3,302**	**5,329**	**6,593**	**7,830**	**9,502**
Networth	754	3,790	4,770	5,781	7,110
Share capital	571	734	734	734	734
Reserves & surplus	182	3,056	4,036	5,047	6,376
Total debt	**1,350**	**205**	**177**	**138**	**113**
Secured loans	1,350	205	177	138	113
Unsecured loans	-	-	-	-	-
Current liabilities & prov	**1,171**	**1,299**	**1,605**	**1,865**	**2,224**
Current liabilities	1,146	1,182	1,493	1,739	2,075
Provisions	25	117	112	126	149
Net deferred tax liab	**28**	**36**	**41**	**47**	**54**
Total liabilities	**3,302**	**5,329**	**6,593**	**7,830**	**9,501**

Source: BRICS Research

Exhibit 82: Capital efficiency ratios to largely stay rangebound



Source: Company, BRICS Research

Cash flow analysis

With 33% CAGR over FY11-14 in profit before tax, we expect cash flow from operations to show robust growth of 34%. With strong operating cash flow, and no net debt, we believe the company may look at the acquisition route to penetrate newer geographies in the Hindi belt such as Rajasthan and MP.

Exhibit 83: Cash flow analysis (Rs mn)

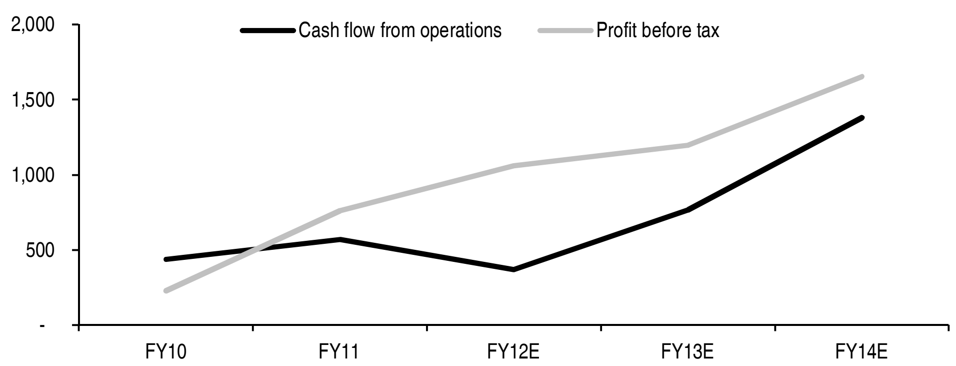
Particulars	FY10	FY11	FY12E	FY13E	FY14E
Profit befor tax	**230**	**762**	**1,061**	**1,195**	**1,654**
Depreciation	29	166	188	192	218
Interest paid	25	39	25	38	29
Chg in working capital	207	(134)	(447)	(164)	150
Tax paid	(30)	(191)	(308)	(366)	(509)
Other op activities	(24)	(70)	(148)	(132)	(163)
Cash flow from op (a)	**438**	**570**	**371**	**764**	**1,379**
Capital expenditure	(234)	(293)	(188)	(227)	(216)
Chg in investments	(312)	(1,578)	(102)	(91)	(93)
Other investing act	3	18	148	132	163
Cash flow from inv. (b)	**(544)**	**(1,853)**	**(142)**	**(186)**	**(146)**
Free cash flow (a+b)	**(107)**	**(1,283)**	**229**	**577**	**1,232**
Equity raised/(repaid)	455	2,562	-	-	-
Debt raised/(repaid)	1,350	(1,350)	(28)	(39)	(25)
Interest paid	(17)	(45)	(25)	(38)	(29)
Dividend (incl. tax)	-	-	-	-	-
Other fin. activities	(1,416)	204	-	-	-
Cash flow from fin. (c)	**371**	**1,371**	**(53)**	**(77)**	**(54)**
Net chg in cash (a+b+c)	**265**	**88**	**176**	**500**	**1,179**

Source: Company, BRICS Research

Robust cash flow from operations

We expect HMVL to increase investment in current assets in FY12, which is likely to temporarily impact the operating cash flow for FY12.

Exhibit 84: Cash flow from operations v/s profit before tax (Rs mn)



Source: Company, BRICS Research

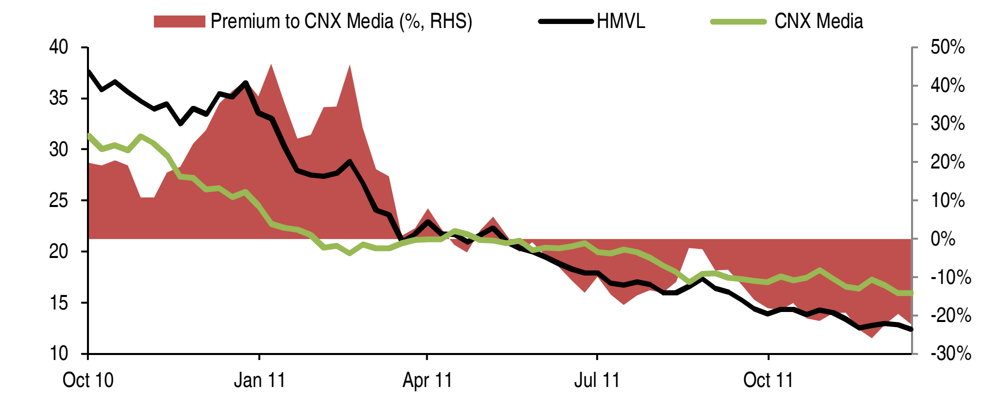
Valuation

We assign a target P/E multiple 13.5x on the average of our FY13-14 EPS estimates (15% discount to DB Corp) to arrive at a target price of Rs180. We believe its core Hindi markets will see a growth revival, the ad-yield gap in its UP market will narrow as it sustains its number-three position, and that its capex expansion is at an end.

P/E multiples has corrected to attractive levels

HMVL trades at 1-year forward P/E multiple of 12.4x vs. historical average (since listing after demerger from parent HT Media) of 23x and is currently at 22% discount to CNX Media index (historical premium of 4%). HMVL's valuation multiple has softened from a peak of 37-38x in January 2011, in line with correction in CNX Media due to paring down of ad-spend expectation in core markets and a weak capital market.

Exhibit 85: DBCL P/E chart and discount to CNX Media



Source: BRICS Research

Initiate with target price of Rs180, by assigning 13.5x target P/E multiple: We assign a target P/E multiple 13.5x on the average of our FY13-14 EPS estimates (15% discount to DB Corp) to arrive at a target price of Rs180. Our target assumes its core Hindi markets will see a growth revival, the ad-yield gap in its UP market will narrow as it sustains its number-three position, and that its capex expansion is at an end. The 15% discount to DB Corp factors in HMVL's relatively smaller addressable market and threat of increased competition from new entrants in its core markets of Bihar and Jharkhand.

Exhibit 86: Peer valuation comparison

Valuation	DB Corp	HT Media	Hindustan Media	Jagran Prakashan	Zee Entertainment	Sun TV Network	ENIL	Dish TV
P/E FY13E	14.6	11.8	11.2	11.4	16.2	12.6	15.9	52.0
EV/EBITDA FY13E	8.9	7.8	7.2	7.4	11.8	6.3	8.0	9.5
PEG - FY13E	1.97	0.67	0.43	0.83	1.69	1.09	0.24	(0.24)
Financials								
FY12-14E EPS CAGR	7.4%	17.7%	26.0%	13.8%	9.6%	11.5%	65.9%	-218.2%
FY13E EBIT margin	23.1%	14.8%	16.0%	23.4%	27.1%	54.8%	25.7%	8.5%
FY13E RoE	39.6%	14.3%	16.4%	29.6%	18.7%	30.7%	14.3%	81.4%

Source: Bloomberg, BRICS Research

Risks and concerns

Higher inflation resulting in slowdown in consumption

Advertisement growth is dependent on consumption growth and GDP growth. A slower-than-expected recovery in the economy would result in muted ad revenue growth.

Sharp spike in newsprint prices

Newsprint makes up for 50% of HMVL's total operating costs. We have assumed newsprint prices to remain around US$630 till FY14 but any sharp rise could significantly reduce margin and hence profitability.

Acquisition at higher valuation

HMVL's debt free position, strong cash flow and north centric operations may tempt management to go for an acquisition at higher valuations.

Financial summary

Income statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Revenue	5,280	6,077	6,871	7,948
Revenue growth (%)	216.2	15.1	13.1	15.7
Operating exp	4,311	4,952	5,577	6,210
EBITDA	969	1,126	1,293	1,738
EBITDA margin (%)	18.4	18.5	18.8	21.9
Depreciation	164	188	192	218
EBIT	805	938	1,101	1,520
MTM profit / (loss)	—	—	—	—
Other income	—	148	132	163
Interest paid	43	25	38	29
PBT	762	1,061	1,195	1,654
Tax	226	308	366	509
PAT	536	753	829	1,145
Minority interest	—	—	—	—
EO income	—	—	—	—
APAT	536	753	829	1,145
PAT growth (%)	263.4	40.6	10.0	38.2
Shares o/s (mn)	73	73	73	73
Fully diluted o/s shrs (mn)	73	73	73	73
FDEPS (Rs) recurring	7.8	10.3	11.3	15.6

Cash flow statement (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
PBT	762	1,061	1,195	1,654
Depreciation	164	188	192	218
Amortisation	—	—	—	—
Interest paid	(38)	(124)	(94)	(134)
Tax paid	(173)	(308)	(366)	(509)
Chg in working capital	(134)	(447)	(164)	150
Int/div in other income	—	(148)	(132)	(163)
Other operations	8	—	—	—
CF from operations (a)	570	371	764	1,379
Capital expenditure	(293)	(188)	(227)	(216)
Chg in investments	(1,578)	(102)	(91)	(93)
Other investing act	18	148	132	163
Int/div in other income	—	148	132	163
CF from investments (b)	(1,853)	(142)	(186)	(146)
Free cash flow (a+b)	(1,283)	229	577	1,232
Equity raised/(repaid)	2,700	—	—	—
Debt raised/(repaid)	(1,146)	(28)	(39)	(25)
Interest paid	(45)	(25)	(38)	(29)
Dividend (incl tax)	—	—	—	—
Other fin activities	(138)	—	—	—
CF from financing (c)	1,371	(53)	(77)	(54)
Net chg in cash (a+b+c)	88	176	500	1,179
Opening balance	269	357	533	1,034
Closing balance	357	533	1,034	2,212

Balance sheet (Rs mn)

Y/E 31 March	2011	2012E	2013E	2014E
Net fixed assets	1,686	1,923	2,145	2,335
Investments	1,890	1,992	2,083	2,176
Current assets	1,754	2,678	3,602	4,990
Inventories	242	305	327	379
Sundry debtors	773	1,106	1,356	1,393
Cash & bank balance	361	533	1,034	2,212
Loans & advances	318	593	717	829
Other current assets	59	141	168	177
Total assets	5,329	6,593	7,830	9,502
Net worth	3,056	4,036	5,047	6,376
Share capital	734	734	734	734
Reserves & surplus	2,322	3,302	4,313	5,642
Minority interest	—	—	—	—
Total debt	205	177	138	113
Secured loans	205	177	138	113
Unsecured loans	—	—	—	—
Current liabilities & prov	1,299	1,605	1,865	2,224
Current liabilities	1,182	1,493	1,739	2,075
Provisions	117	112	126	149
Net deferred tax liab	36	41	47	54
Total liabilities	5,329	6,593	7,830	9,501

Key ratios

Y/E 31 March	2011	2012E	2013E	2014E
Valuation ratios				
PE (x)	16.2	12.3	11.2	8.1
CEPS (Rs)	8.8	12.8	13.9	18.6
PCE (x)	14.3	9.9	9.1	6.8
BVPS (Rs)	42	55	69	87
Price/Book (x)	3.0	2.3	1.8	1.5
EV/EBITDA (x)	9.4	7.9	6.5	4.1
EV/Revenue (x)	1.7	1.5	1.2	0.9
Dividend yield (%)	—	—	—	—
Cash flow yield (%)	(13.8)	2.5	6.2	13.3
Performance ratios				
Raw material to sales (%)	42.5	41.5	41.6	40.5
SGA to sales (%)	—	—	—	—
Effective tax rate (%)	29.6	29.0	30.6	30.8
PAT margin (%)	10.1	12.4	12.1	14.4
DPS (Rs)	—	—	—	—
Dividend payout ratio (%)	—	—	—	—
Return ratios				
RoE avg (%)	33.1	21.2	18.2	20.1
RoCE avg (%)	20.2	19.0	18.6	21.0
Fixed asset turnover (x)	3.3	3.4	3.4	3.5
Working capital ratios				
Inventory (days)	—	—	—	—
Payable (days)	—	—	—	—
Receivable (days)	53	66	72	64
Working capital (days)	53	66	72	64
Leverage ratios				
Interest cost (%)	5.6	12.8	24.2	22.8
Net debt/equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Interest coverage (x)	18.6	38.2	28.8	53.0