

DB Corporation Limited

₹248



Proven capability key trigger

BUY

DB Corp reported strong Q1FY11 results, above our expectations, backed by higher advertising volume and better price yields reflected in 18% y-o-y growth in advertising revenues. In addition cost efficiencies with better inventory management, lower interest cost and higher other income is reflected in strong bottom-line growth. The company is well set to launch its services in under penetrated markets of Bihar and Jharkhand which will drive its long term growth.

**Robust growth in top line and earnings:** DB Corp reported strong growth in Q1FY11 revenues supported by 18% y-o-y and 24% q-o-q growth in advertising revenues to ₹235.7 crore. Circulation revenues registered flat growth of 1.9% y-o-y and q-o-q to ₹53.7 crore as the growth in circulation volumes was partially mitigated by drop in cover prices. Radio business reported better run rate per month with optimum inventory utilization of ~69%. Out of 18% y-o-y growth in advertising segment, 90% was contributed by volume and balanced 10% through better yield. National advertisers accounted for 42% of the total ad volumes, reflecting an increase post economic growth.

EBITDA margins improved 228 bps y-o-y to 38% mainly due to higher price realization along with better inventory management. News print cost also remained flat at ₹ 25,629/MT in Q1FY11 Vs ₹ 25,644/MT in Q1FY10 and cost reduction initiatives undertaken by the company. Better operating performance coupled with lower interest cost (debt-equity of 0.3), higher other income (+84% y-o-y to ₹4.3 crore) up lower effective tax rate of 34% in Q1FY11 Vs 39% in Q1FY10, reflected in robust 35% y-o-y growth at the bottom line.

**Valuations & Views:** We expect DB Corp to register higher growth compared to its peers due to its strong presence in 11 states and proven track record of successfully penetrating new geographical areas. Jharkhand where the company has launched its editions in Ranchi has become a leading player in terms of circulation, which opens avenues for ad growth. DB Corp's strategies to grab subscribers offer it a substantial opportunity in advertisement front. At CMP of ₹ 248, the stock is trading at 17.2x FY11E EPS of ₹ 14.4 and 14.5x FY12 P/E EPS of ₹17.2. Based on our SOTP valuation, at current levels we reiterate our BUY rating on the stock with 12-month target price of ₹ 310, representing an upside of 25%.

#### Key Financials

| Particulars (₹ in crore) | FY09   | FY10   | FY11E  | FY12E  |
|--------------------------|--------|--------|--------|--------|
| Revenues                 | 961    | 1063   | 1276.5 | 1471.5 |
| EBITDA                   | 147.3  | 342.9  | 442.6  | 513.5  |
| Net Profit               | 47.6   | 182.8  | 261.4  | 311    |
| EPS                      | 2.6    | 10.1   | 14.4   | 17.1   |
| EV/EBITDA                | 31.3   | 13.5   | 10.4   | 9.0    |
| P/E                      | 95.5   | 24.6   | 17.2   | 14.5   |
| ROE                      | 14.70% | 28.70% | 31.40% | 29.50% |

Source: Company, KRC Research

Price Outlook (₹):

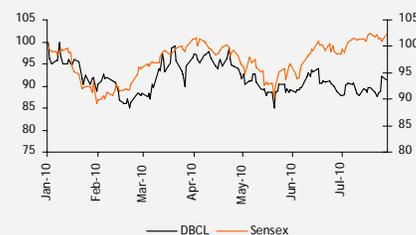
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| Market Data       | September 1, 2010 |
|-------------------|-------------------|
| Shares outs (Cr)  | 18.15             |
| Equity Cap (₹ Cr) | 181.5             |
| Mkt Cap (₹ Cr)    | 4881              |
| 52 Wk H/L (₹)     | 276/201           |
| Avg Vol (1yr avg) | 2,14,147          |
| Face Value (₹)    | 10.0              |
| Bloomberg Code    | DBCL. IN          |

#### Market Info:

|        |       |
|--------|-------|
| SENSEX | 18205 |
| NIFTY  | 5471  |

#### Price Performance



#### Share Holding pattern (%)

| Particulars   | 30-Jun | 31-Mar | Chg   |
|---------------|--------|--------|-------|
| Promoters     | 86.34  | 86.35  | -0.01 |
| Institutions  | 2.74   | 2.54   | 0.20  |
| FII           | 4.76   | 5.00   | -0.24 |
| Public/Others | 6.16   | 6.11   | 0.05  |
| Total         | 100.0  | 100.0  | NA    |

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