

ACCUMULATE

CMP* Rs222

Target Price Rs250

Stock Info

Sector Print Media

Market Cap (Rs cr) 4,069

52 Week High/Low 310/193

Avg. Daily Volume (3m, '000) 154

Avg. Daily Value (3m, cr) 3.6

Dividend Yield (%) 1.7

Sensex 16,786

Nifty 5,050

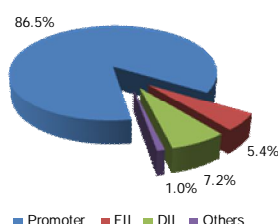
BSE Code 533156

NSE Code DBCORP

Stock Performance

(%)	DB Corp	Nifty
1-Week	6.9	(1.6)
1-month	0.2	(1.6)
1-year	(19.5)	(17.2)

Shareholding Pattern (%)



Stock Price Chart



Note: *CMP as on October 21, 2011

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Ad-revenue growth slows down; factored in our numbers

Key highlights of the result

- **Top-line increases by 17.6% yoy driven by ad and circulation revenue:** DB Corp (DBCL) reported a top-line growth of 17.6% yoy driven by 15.9% yoy growth in consolidated advertisement revenue (radio ad-revenue stood at Rs12.7cr) and 13% yoy growth in the circulation revenue (aided by new edition launches in the Marathi region; we estimate revenue contribution of ~Rs5-6cr from the *Divya Marathi* for FY2012). On a sequential basis, while the circulation revenue grew by 5.8% driven by an increase in circulation volume as the company launched another edition in Maharashtra (Jalgaon), the advertisement revenue came in lower by 3.4% indicating a sluggish macro advertisement environment.
- **Gross margin contraction continued for second consecutive quarter:** Increase in circulation volume and firm newsprint prices has yet again resulted in a gross margin contraction of significant 525bp yoy/172bp qoq. Domestic newsprint prices have remained firm for past two quarters despite a decline of 1-2% in the newsprint prices internationally. Other operational costs, like staff cost (up 209bp yoy/108bp qoq), SG&A expense (up 179bp yoy/209bp qoq) and operating expense (up 68bp yoy/169bp qoq) too registered an increase, resulting in operating margin contraction of 981bp yoy/657bp qoq.
- **High interest and depreciation costs impact earnings:** DBCL reported a PAT de-growth of ~37% yoy/34% qoq, impacted by lower margins, higher depreciation (up 15.7% yoy/5.6% qoq), higher interest expense (up 77.7% yoy/149% qoq), and lower other income (down 38.9% yoy/46.6% qoq).

Outlook and Valuation

DB Corp posted a decline in the advertisement revenue this quarter indicating a sluggish macro advertisement revenue environment, which was expected. While we had modeled such advertisement revenue vagaries, post the 2QFY2012 results we tweak our revenue numbers further by 1-2% over FY2012-13E. Over FY2011-13E, we peg a 13.7% and 3.7% CAGR in ad-revenue and circulation revenue respectively. Aggressive expansion into new territories coupled with high newsprint cost (on account of higher price and increased volume) poses pressure on the company's margins (for 2HFY2012, we expect the company to maintain an average operating margin between 25-26%) and will impact DBCL's future earnings. At CMP of Rs222, DB Corp is trading at 16x FY2013E consolidated EPS of Rs14.3 which is reasonable. **We recommend an Accumulate on the stock with a revised target price of Rs250 (Rs282 earlier) indicating a potential upside of ~13% from the current levels.**

Risks to the view

- Slowdown in Indian GDP and high inflation will impact the ad-revenue
- Lower than anticipated revenue traction from new editions
- Higher than anticipated strength in newsprint prices

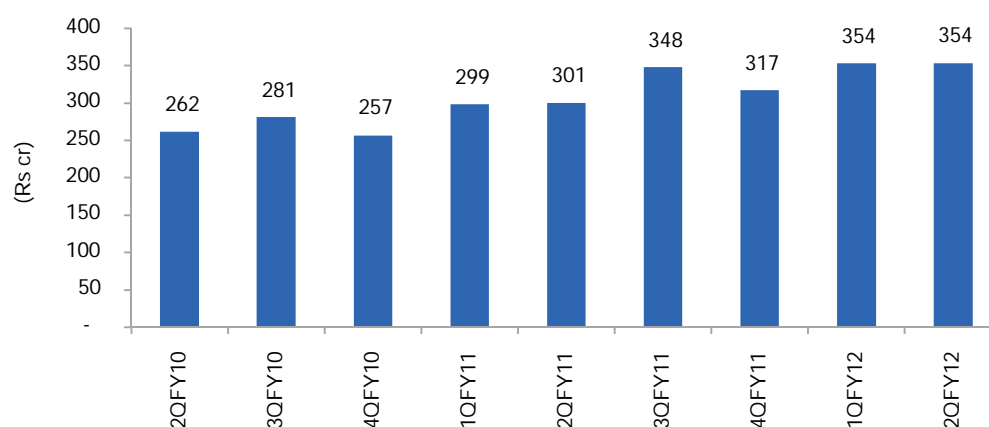
Year End	Net Revenues		EBITDA		Net income (reported)		RoaE	RoCE	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2010	1,051	10.7	331	31.5	183	283.9	40.3	30.7	10.0	22.3	12.7
FY2011	1,251	19.1	389	31.1	258	41.4	35.0	31.8	14.1	15.7	10.6
FY2012E	1,398	11.8	354	25.3	210	(18.8)	23.6	25.4	11.5	19.4	11.5
FY2013E	1,561	11.6	431	27.6	255	21.3	24.7	28.0	13.9	16.0	9.2

Exhibit 1: Quarterly performance (Consolidated)

(Rs cr)	2QFY12	2QFY11	%yoy	1QFY12	% qoq	1HFY12	1HFY11	% yoy
Net Sales	353.9	301.0	17.6	353.7	0.0	707.7	599.7	18.0
Consumption of RM	124.5	90.1	38.2	118.4	5.2	242.8	173.2	40.2
(% of sales)	35.2	29.9		33.5		34.3	28.9	
Operating expense	45.1	36.3	24.2	39.1	15.3	84.3	68.7	22.7
(% of sales)	12.8	12.1		11.1		11.9	11.5	
Staff Cost	61.3	45.9	33.7	57.5	6.7	118.8	86.9	36.7
(% of sales)	17.3	15.2		16.3		16.8	14.5	
SG&A	45.8	33.6	36.4	38.4	19.4	84.2	62.1	35.6
(% of sales)	12.9	11.2		10.9		11.9	10.4	
Total Expenditure	276.8	205.9	34.4	253.4	9.2	530.2	391.0	35.6
Operating profit	77.1	95.1	(18.9)	100.3	(23.1)	177.5	208.7	(15.0)
OPM (%)	21.8	31.6		28.4		25.1	34.8	
Interest	6.7	3.8	77.7	2.7	149.0	9.4	8.5	10.8
Depreciation	12.4	10.7	15.7	11.7	5.6	24.1	21.1	14.1
EBIT	58.1	80.7	(28.0)	85.9	(32.4)	144.0	179.1	(19.6)
Other income	2.0	3.2	(38.9)	3.7	(46.6)	5.6	7.5	(25.5)
PBT	60.0	83.9	(28.4)	89.6	(33.0)	149.6	186.7	(19.9)
Tax	19.7	19.9	(0.7)	28.4	(30.6)	48.2	51.0	(5.5)
Tax Rate (%)	32.9	23.7		31.7		32.2	27.3	
PAT (recurring)	40.3	64.0	(37.1)	61.2	(34.2)	101.4	135.7	(25.3)
PAT Margin (%)	11.4	21.3		17.3		14.3	22.6	
Ext. Income/(Expense)	-	-		-		-	-	
Minority Interest	(0.0)	(0.0)	0.0	(0.1)	(78.3)	(0.1)	(0.1)	61.5
PAT (reported)	40.3	64.0	(37.1)	61.1	(34.1)	101.3	135.7	(25.3)
EPS (Rs)	2.2	3.5	(37.1)	3.4	(34/1)	5.6	7.5	(25.3)

Source: Company, RSec Research

We tweak our top-line numbers for FY2012E and FY2013E. Peg 13.7% and 3.7% CAGR in advertisement and circulation revenue over FY2011-13E.

Exhibit 2: Net revenue is flat qoq; ad-revenue exhibits decline, circulation revenue rises

Source: Company, RSec Research

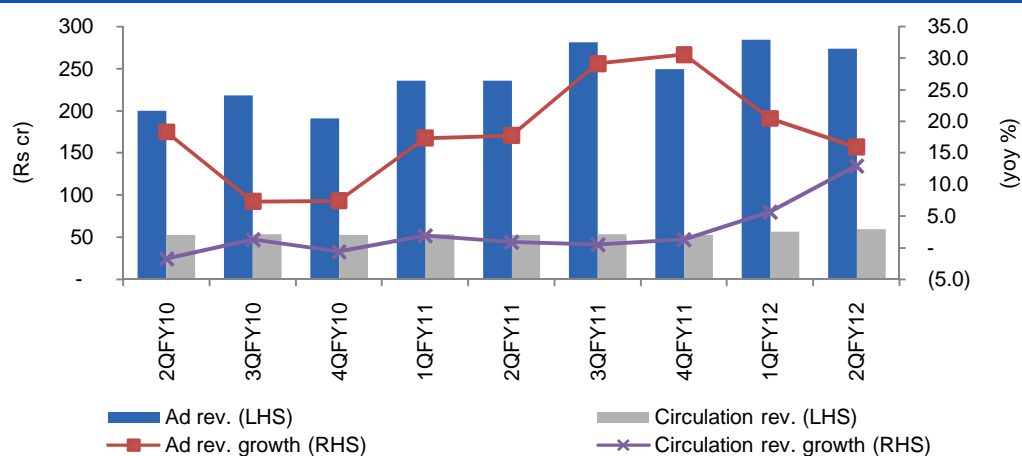
Maharashtra and Bihar/Jharkhand regions are expected to contribute Rs25-50cr in ad-revenue and Rs5-6cr in circulation revenue over FY2012-13E

Higher domestic newsprint price (domestic newsprint prices have remained firm for past two quarters despite a decline of 1-2% in the newsprint prices internationally), coupled with expansion in new territories resulting in higher operational costs have resulted in OPM contraction

Depreciation expense was up 15.7% yoy/5.6% qoq this quarter. For FY2012E, we expect depreciation expense to remain firm as the company invests in Capex during its expansion phase

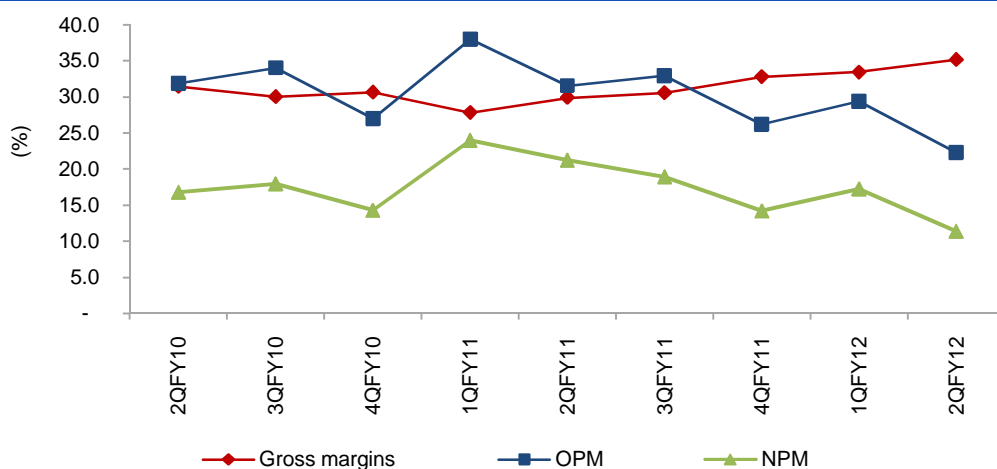
Interest expense is high this quarter as the company has booked a part of its Forex loss in this line item. DBCL has incurred Forex loss of -Rs6cr on exchange rate fluctuation in 2QFY2012

Exhibit 3: Aggressive expansion into new markets boosts circulation revenue



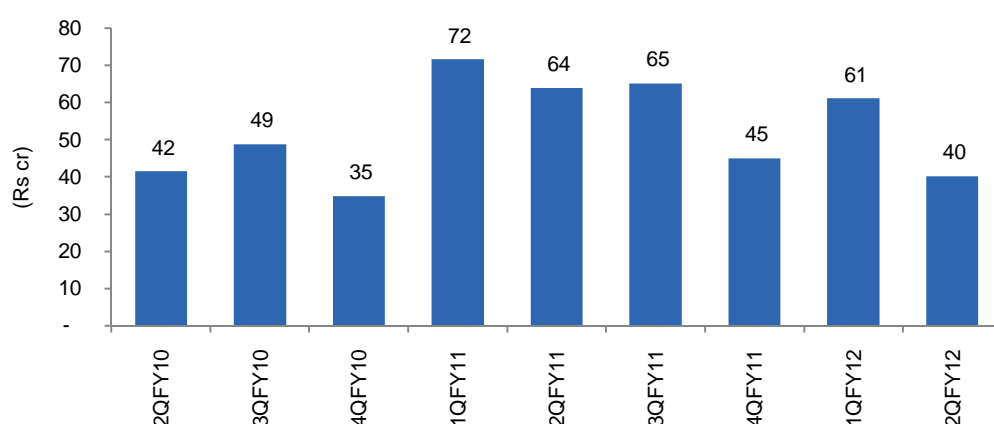
Source: Company, RSec Research

Exhibit 4: Gross margin continues upward march putting significant pressure on OPM



Source: Company, RSec Research

Exhibit 5: High depreciation cost coupled with declining margins impact recurring PAT



Source: Company, RSec Research

Profit & Loss Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Gross sales	1,051	1,251	1,398	1,561
Less: Excise duty	-	-	-	-
Net Sales	1,051	1,251	1,398	1,561
Total operating income	1,051	1,251	1,398	1,561
% chg	10.7	19.1	11.8	11.6
Total Expenditure	720	862	1,044	1,130
EBITDA	331	389	354	431
% chg	144.2	17.6	(8.9)	21.8
(% of Net Sales)	31.5	31.1	25.3	27.6
Depre. & Amortization	38	43	52	63
EBIT	293	345	302	368
(% of Net Sales)	27.9	27.6	21.6	23.6
Interest (net)	25	1	4	5
Other Income	12	14	15	17
(% of PBT)	4.4	4.0	4.9	4.5
PBT (reported)	281	359	313	380
(% change)	258.9	27.8	(12.6)	21.3
Tax	106	98	103	126
Tax rate (%)	37.6	27.4	33.0	33.0
PAT (recurring)	175	260	210	255
Ext. Exp./ (Income)	0	2	-	-
Minority interest (MI)	(8)	0.3	-	-
PAT (reported)	183	258	210	255
% chg	283.9	41.4	(18.8)	21.3
(% of Net Sales)	17.4	20.8	15.0	16.3
Basic EPS (Rs)	10.1	14.1	11.5	13.9
Fully Diluted EPS (Rs)	10.0	14.1	11.5	13.9
% chg	283.9	41.4	(18.8)	21.3

Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS				
Equity Share Capital	182	183	183	183
Share Capital suspense a/c	1	3	-	-
Reserves & Surplus	466	643	765	930
Shareholders Funds	649	829	948	1,113
Minority Interest	4	0	0	0
Total Loans	321	237	222	207
Deferred Tax Liability	61	69	69	69
Total Liabilities	1,035	1,136	1,240	1,390
APPLICATION OF FUNDS				
Gross Block	660	783	874	975
Less: Acc. Depreciation	112	149	201	264
Net Block	547	634	673	711
Capital Work-in-Progress	61	68	74	83
Goodwill	39	33	33	33
Investments	21	16	16	16
Current Assets	561	592	674	790
Cash	193	173	220	294
Loans & Advances	103	106	106	109
Other	266	313	348	386
Current liabilities	207	219	242	254
Net Current Assets	354	373	432	535
Mis. Exp. not written off	13	11	11	11
Total Assets	1,035	1,136	1,240	1,390

Cash Flow Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	281	359	313	380
Depreciation	38	43	52	63
Change in Working Capital	(14)	(37)	(9)	(28)
Interest / Dividend (Net)	25	1	4	5
Direct taxes paid	101	91	103	126
Others	2	(2)	(6)	(1)
Cash Flow from Operations	229	273	251	293
(Inc.)/ Dec. in Fixed Assets	(38)	(130)	(97)	(110)
(Inc.)/ Dec. in Investments	3	4.22	-	-
Cash Flow from Investing	(34)	(126)	(97)	(110)
Issue of Equity	251	2	-	-
Inc./(Dec.) in loans	(242)	(84)	(15)	(15)
Dividend Paid (Incl. Tax)	42	85	88	90
Interest / Dividend (Net)	13	1	4	5
Cash Flow from Financing	(48)	(167)	(106)	(110)
Inc./(Dec.) in Cash	147	(20)	47	74
Opening Cash balances	45	193	173	220
Closing Cash balances	193	173	220	294

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)				
P/E (on FDEPS)	22.3	15.7	19.4	16.0
P/CEPS	18.3	13.5	15.5	12.8
P/BV	6.2	4.9	4.3	3.7
Dividend yield (%)	0.9	1.8	1.8	1.9
EV/Sales	4.0	3.3	2.9	2.6
EV/EBITDA	12.7	10.6	11.5	9.2
EV / Total Assets	4.1	3.6	3.3	2.9
Per Share Data (Rs)				
EPS (Basic)	10.1	14.1	11.5	13.9
EPS (fully diluted)	10.0	14.1	11.5	13.9
Cash EPS	12.2	16.5	14.3	17.4
DPS	2.0	4.0	4.1	4.2
Book Value	35.7	45.2	51.7	60.7
Returns (%)				
RoCE	30.7	31.8	25.4	28.0
RoE	40.3	35.0	23.6	24.7
Turnover ratios (x)				
Asset Turnover	1.6	1.6	1.6	1.6
Inventory / Sales (days)	25	21	19	17
Receivables (days)	67	70	72	73
Payables (days)	59	48	48	45
WCC (days)	56	58	55	56

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