

## Company

25 March 2010 | 8 pages

# DB Corp (DBCL.BO)

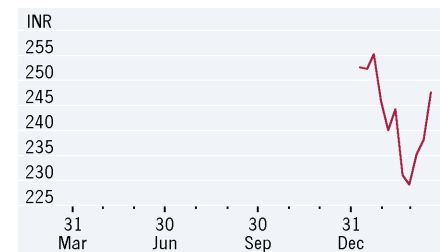
 Equity 

## Buy: Dawning into Bihar and Jharkhand

- What's New?** — DBCL announced plans to launch into Bihar, Jharkhand and Jammu. Strategically, we view the entry into these high-growth regional markets as a long-term positive. Near term, as the company would need to invest for penetration and market growth, we expect a marginal hit on the operating margins — management mentioned that EBITDA margins between ~29-32% are achievable and reiterated their 3-4 year breakeven guidance for all new launches.
- The Opportunity** — Per industry sources, current ad market size of Bihar & Jharkhand markets are ~Rs1.4-1.7bn & ~Rs0.4-0.6bn respectively, growing at a higher than industry avg. growth. We believe growth would be driven by an expansion in the market itself owing to increasing penetration (mgmt estimates penetration of only 18-20%) and robust ad market growth (Bihar has been witnessing higher GDP growth rates compared to national avg. in the recent past). Details on the market opportunity/readership of existing players are shown on Pg3.
- Launch Strategy** — The existing cover prices for the incumbents in these markets is ~Rs4, which is higher than prices of most newspapers in other Indian states and also DBCL's current ASP of ~Rs1.50. The premium pricing creates an opportunity for DBCL to break in. This coupled with low penetration levels makes the expansion into these states attractive. Management intends to have readership close to the existing No. 1 player in these markets over the near to medium term. The capex would be to the tune of Rs700-750m; with launch in 2 of the 3 markets before Oct 2010 and expanding over the next 2-3 years.
- Other Analyst Meet Takeaways** — (a) Ad volumes have picked up over the last 2 quarters; mgmt is revising ad rates upwards by ~10-12% w.e.f. April 1, 2010. Our current estimates (ex new launches) factor ~15% yoy ad revenue growth, driven by yield improvement; (b) Mgmt mentioned that newsprint prices between US\$600-625/t are manageable. Higher proportion of indigenous newsprint (~82% now, ~57% in FY06) & appreciating rupee should aid margins to some extent.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (25 Mar 10)	Rs263.50
Target price	Rs280.00
Expected share price return	6.3%
Expected dividend yield	0.4%
<b>Expected total return</b>	<b>6.6%</b>
Market Cap	Rs47,829M
	US\$1,053M

### Price Performance (RIC: DBCL.BO, BB: DBCL IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	759	4.50	37.2	58.6	20.2	39.3	0.2
2009A	477	2.83	-37.1	93.2	17.3	20.0	0.0
2010E	1,906	10.50	271.5	25.1	6.9	39.9	0.4
2011E	2,411	13.28	26.5	19.8	5.3	30.0	0.6
2012E	2,727	15.02	13.1	17.5	4.2	26.5	0.6

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	58.6	93.2	25.1	19.8	17.5
EV/EBITDA adjusted (x)	29.9	38.3	14.5	12.3	10.8
P/BV (x)	20.2	17.3	6.9	5.3	4.2
Dividend yield (%)	0.2	0.0	0.4	0.6	0.6
<b>Per Share Data (Rs)</b>					
EPS adjusted	4.50	2.83	10.50	13.28	15.02
EPS reported	4.50	2.83	10.50	13.28	15.02
BVPS	13.02	15.27	38.42	49.99	63.30
DPS	0.50	0.00	1.00	1.50	1.50
<b>Profit &amp; Loss (RsM)</b>					
Net sales	8,506	9,490	10,514	11,956	13,502
Operating expenses	-7,018	-8,426	-7,419	-8,468	-9,623
<b>EBIT</b>	<b>1,488</b>	<b>1,063</b>	<b>3,095</b>	<b>3,489</b>	<b>3,879</b>
Net interest expense	-281	-402	-295	-48	62
Non-operating/exceptionals	121	120	129	166	196
<b>Pre-tax profit</b>	<b>1,328</b>	<b>782</b>	<b>2,930</b>	<b>3,607</b>	<b>4,137</b>
Tax	-630	-423	-1,099	-1,226	-1,407
Extraord./Min.Int./Pref.div.	61	118	74	31	-4
<b>Reported net income</b>	<b>759</b>	<b>477</b>	<b>1,906</b>	<b>2,411</b>	<b>2,727</b>
Adjusted earnings	759	477	1,906	2,411	2,727
Adjusted EBITDA	1,709	1,353	3,516	3,921	4,336
<b>Growth Rates (%)</b>					
Sales	27.9	11.6	10.8	13.7	12.9
EBIT adjusted	105.2	-28.5	191.1	12.7	11.2
EBITDA adjusted	102.3	-20.8	159.8	11.5	10.6
EPS adjusted	37.2	-37.1	271.5	26.5	13.1
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>2,267</b>	<b>1,437</b>	<b>2,194</b>	<b>2,328</b>	<b>2,623</b>
Depreciation/amortization	220	290	421	433	457
Net working capital	1,057	342	-297	-398	-303
<b>Investing cash flow</b>	<b>-1,330</b>	<b>-3,773</b>	<b>-769</b>	<b>-693</b>	<b>-881</b>
Capital expenditure	-1,079	-3,138	-604	-811	-1,140
Acquisitions/disposals	0	0	0	0	0
<b>Financing cash flow</b>	<b>-328</b>	<b>1,980</b>	<b>-8</b>	<b>-1,560</b>	<b>-1,310</b>
Borrowings	-341	2,195	-2,500	-1,250	-1,000
Dividends paid	-99	0	-207	-310	-310
<b>Change in cash</b>	<b>609</b>	<b>-356</b>	<b>1,416</b>	<b>75</b>	<b>431</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>7,936</b>	<b>10,914</b>	<b>12,794</b>	<b>13,836</b>	<b>15,519</b>
Cash & cash equivalent	808	452	1,868	1,943	2,374
Accounts receivable	1,755	1,774	1,959	2,293	2,589
Net fixed assets	3,623	6,471	6,655	7,033	7,715
<b>Total liabilities</b>	<b>5,497</b>	<b>8,213</b>	<b>5,696</b>	<b>4,637</b>	<b>3,904</b>
Accounts payable	0	0	0	0	0
Total Debt	3,436	5,631	3,131	1,881	881
<b>Shareholders' funds</b>	<b>2,439</b>	<b>2,701</b>	<b>7,098</b>	<b>9,199</b>	<b>11,615</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	20.1	14.3	33.4	32.8	32.1
ROE adjusted	39.3	20.0	39.9	30.0	26.5
ROIC adjusted	15.8	9.6	24.1	25.4	25.3
Net debt to equity	107.8	191.8	17.8	-0.7	-12.9
Total debt to capital	58.5	67.6	30.6	17.0	7.1

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## Bihar and Jharkhand Opportunity

Figure 1. Bihar and Jharkhand Market Opportunity

	Bihar	Jharkhand
Population (m)	95	30
Literacy	52%	59%
Target Population above 12 years (m)	66	22
Population that can read Hindi (m)	33	12
Any Hindi Daily Readership (m)	6	2
Penetration Gap	18%	20%

Source: Company Reports

Figure 2. Bihar: Average Daily Readership

(000's)	R1 2008	R2 2008	R1 2009	R2 2009
Any Hindi Daily	5971	5979	5781	5847
Hindustan	4384	4564	4336	4331
Aj	417	365	275	284
Dainik Jagran	2756	2505	2410	2382

Source: IRS, Company Reports

Figure 3. Bihar: Total Readership

(000's)	R1 2008	R2 2008	R1 2009	R2 2009
Any Hindi Daily	14870	15483	15800	16569
Hindustan	12572	13343	13037	13272
Aj	2344	1997	1807	1923
Dainik Jagran	10638	9843	9548	9919

Source: IRS, Company Reports

Figure 4. Jharkhand: Average Daily Readership

(000's)	R1 2008	R2 2008	R1 2009	R2 2009
Any Hindi Daily	2327	2359	2448	2408
Hindustan	1164	1216	1253	1196
Dainik Jagran	851	869	794	776
Prabhat Khabhar	966	923	981	1003

Source: IRS, Company Reports

Figure 5. Jharkhand: Total Readership

(000's)	R1 2008	R2 2008	R1 2009	R2 2009
Any Hindi Daily	5376	5815	5977	6026
Hindustan	3138	3543	3764	3917
Dainik Jagran	2777	3071	2910	2973
Prabhat Khabhar	3015	3025	2988	3139

Source: IRS, Company Reports

## DB Corp

### Company description

DB Corp (DBCL) is one of India's leading publishing houses, with newspapers cumulatively commanding the highest readership in the country (average daily readership of 15.5m). The company benefits from a strong position in key non-metro markets like Madhya Pradesh, Chattisgarh, Rajasthan, Gujarat, Punjab and Haryana. In total, it publishes seven newspapers, 48 newspaper editions and around 130 sub-editions in three languages (Hindi, Gujarati and English) in 11 Indian states. The company has interests in radio under the MY FM brand, operating in 17 FM radio stations across mini metros and small towns. Another subsidiary, I Media Corp provides exposure to internet and short messaging service (SMS) portals.

### Investment strategy

We rate DBCL Buy/Low Risk (1L) with a target price of Rs280. The company is well placed in key regional markets, growing at a faster pace than the industry average. Superior execution skills, localization of content/advertising and scale result in strong competitive positioning. We expect 79% PAT CAGR over FY09E-12E, backed by multiple growth drivers. Strong growth in the Indian advertising market on strong economic growth, sustainable ad rate hikes, and breakeven of maturing editions are significant drivers. With newsprint prices still ~30% off peak levels, margins have rebounded sharply - we expect ~33% EBITDA margin in FY10. In FY11, we expect stable operating margins as we

think healthy advertising growth (~15% YoY), better cost controls and positive contribution from newer editions should be able to offset newsprint increase.

## **Valuation**

Our Rs280 target price is based on 21x FY11E EPS, at a premium to the Asian peer average. Strong franchise, presence in growth markets and advertising upturn should help DBCL sustain premium valuations. Asian publishing companies trade at a FY11E P/E of ~15x with 3-year earnings CAGR (FY09-12E) of 2%. Our P/E target multiple of 21x FY11E earnings for DBCL seems reasonable given its ~75% EPS CAGR (FY09-12E). The Indian print media companies trade at 11-22x FY11E P/E based on consensus earnings estimates. Given its good visibility on revenues and a good track record of earnings, we believe earnings-based valuations are the best way to value DBCL.

## **Risks**

The stock has a limited trading history and thus our quantitative risk-rating system, which tracks 260-day share price volatility, suggests a Speculative risk rating. However, we assign a Low risk rating given its solid positioning in high growth regional print markets. The company enjoys a relatively stable revenue/earnings growth profile with a comfortable balance sheet. Key downside risks to our target price are: 1) escalation in newsprint prices could affect gross margins; 2) slowing economic activity in India would lead to a decline in ad industry revenues, hitting DBCL's revenues and profitability; 3) increased competition in any of DBCL's key markets and inability to break into newer markets could lead to more sales promotions/discounts; 4) Rupee depreciation could have an adverse impact as ~20% of the newsprint is imported and USD denominated.

# Appendix A-1

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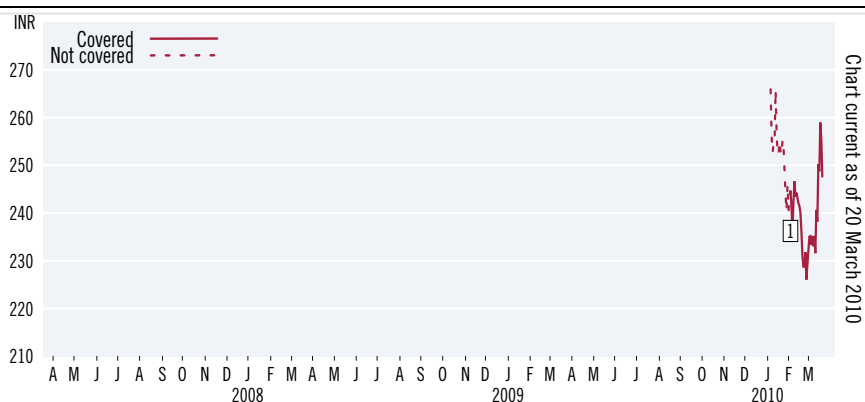
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Analyst: Surendra Goyal, CFA  
Covered since February 3 2010



Date	Rating	Target Price	Closing Price
1 3-Feb-10	*1L	*280.00	244.70

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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