

DB Corp

Earnings outlook improves

Ad growth revival pushes margins up

DB Corp reported better than estimated results for Q3FY13, with revenue growth of 11%, EBITDA margin at 27.2% and robust earnings growth of 28% YoY. While operating spend was in-line, first double digit ad revenue growth in five quarters surprised positively, led by base correction as modest ad growth cycle completes a years, strong retail ad growth in festival season and improving yields in emerging markets. The management sounded optimistic on ad growth momentum to sustain, citing billing trends post festival season, while also expected margins to remain strong on stable newsprint prices, tight cost controls and moderating losses in emerging market editions.

Ad growth; margins looking up

We believe that while the base trends favorable from here on, trends during Q4FY13E would be a better reflection of likely ad growth in FY14E. Still, we believe that DB Corp is likely to keep most of the EBITDA margin improvement seen in Q3FY13, driven by expectations of single digit ad growth in legacy markets, muted circulation growth as the company ruled out entering new markets and losses from emerging markets trending lower, as the company completes first year of operations and starts seeing better ad yields while circulation stabilizes at current levels. The combined effect of these three factors is likely to allow DB Corp to gain an estimated 230bps in EBITDA margin during FY13E-FY15E period, thus aiding an earnings CAGR of 23%.

Valuation – maintain cautious stance

While the aggressive expansion in new markets led margin concerns that made us go negative on the stock price are now receding, the valuation at ~14X FY15E earnings too (even after factoring in a revival in ad growth), isn't encouraging enough to turn bullish. We roll over our EPS into FY15E and value DB Corp at INR260 based on 15x FY15E earnings. We maintain our 'Accumulate' rating, with the belief that the earnings growth is likely to return steadily and expansion plans will be measured.

Rating : Accumulate

Target Price : INR260

Upside : 11%

CMP : INR235 (as on 22 January 2013)

Key data*

Bloomberg /Reuters Code	DBCL IN/DBCL.BO
Current /Dil. Shares O/S (mn)	183/183
Mkt Cap (INRbn/US\$m)	43/805
Daily Vol. (3M NSE Avg.)	44,174
Face Value (INR)	10

1 US\$ = INR53.7

Source: Bloomberg; * As on 22 January 2013

Price & Volume



Source: Bloomberg

Share holding (%)	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Promoter	86.4	86.4	81.5	81.5
Institutional Investors	9.5	9.5	14.5	15.6
Other Investors	3.1	3.1	3.1	2.1
General Public	1.0	1.0	1.0	0.9

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	6.3	16.5	19.4
DB Corp	7.7	16.6	27.5
Hindustan Media Ventures	19.2	26.7	18.8
JagranPrakashan	3.8	23.6	10.3
HT Media	1.8	15.4	(15.8)

Source: Bloomberg

Y/E March (INR mn)	Q3FY13	Q3FY12	Q2FY13	YoY(%)	QoQ(%)	Q3FY13E	Variance (%)
Net Sales	4,389	3,956	3,784	11.0	16.0	4,192	4.7
Operating Expenses	3,197	2,937	2,923	8.8	9.4	3,188	0.3
% of Sales	72.8	74.3	77.2	(142) bps	(440) bps	76.0	(320) bps
EBITDA	1,192	1,018	861	17.1	38.4	1,005	18.7
EBITDA Margins (%)	27.2	25.7	22.8	142 bps	440 bps	24.0	320 bps
Other Income (Net)	38	25	38	54.5	1.5	38	1.5
Interest	19	81	19	(76.9)	(1.7)	19	(1.7)
Depreciation	151	134	143	12.3	5.3	148	2.1
PBT	1,061	828	736	28.1	44.0	875	21.2
Tax	352	271	251	29.8	40.7	263	34.2
Effective Tax Rate (%)	33.2	32.8	34.0	44 bps	(79) bps	30.0	323 bps
Reported PAT	708	557	486	27.3	45.8	613	15.6
NPM (%)	16.1	14.1	12.8	207 bps	329 bps	14.6	152 bps
MI	2	3	(1)			(1)	
Adjusted PAT	707	554	486	27.6	45.3	613	15.2

Source: Company, Elara Securities Estimate

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY11	12,652	19.0	4,030	31.9	2,354	28.7	13.0	31.9	36.3	18.1	10.8
FY12	14,636	15.7	3,553	24.3	2,043	(13.2)	11.3	22.7	28.0	20.9	11.9
FY13E	15,783	7.8	3,576	22.7	2,068	1.2	11.4	19.6	24.2	20.6	11.6
FY14E	18,009	14.1	4,331	24.0	2,568	24.2	14.1	20.9	26.2	16.6	9.3
FY15E	20,590	14.3	5,147	25.0	3,146	22.5	17.3	21.8	27.4	13.6	7.4

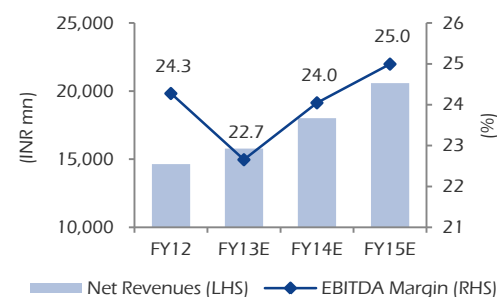
Source: Company, Elara Securities Estimates

Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY12	FY13E	FY14E	FY15E
Revenue	14,636	15,783	18,009	20,590
EBITDA	3,553	3,576	4,331	5,147
Non operating Income	115	166	206	295
OPBITDA	3,668	3,741	4,537	5,441
Depreciation & Amortization	506	552	610	662
EBIT	3,162	3,189	3,928	4,780
Interest Expenses	154	154	154	154
PBT	3,009	3,036	3,774	4,626
Taxes	963	952	1,183	1,449
Reported PAT	2,046	2,083	2,591	3,177
Net Minority Interest	2	16	23	31
Adjusted PAT	2,043	2,068	2,568	3,146
Balance Sheet (INR mn)	FY12	FY13E	FY14E	FY15E
Share Capital	1,815	1,815	1,815	1,815
Stock Options Outstanding	23	23	23	23
Reserves	7,942	9,486	11,402	13,751
Borrowings	1,707	1,707	1,707	1,707
Deferred Tax (Net)	609	609	609	609
Minority Interest	205	221	243	274
Total Liabilities	12,302	13,861	15,800	18,179
Gross Block	9,065	10,065	11,065	11,865
Accumulated Depreciation	2,201	2,753	3,363	4,025
Net Block	6,864	7,312	7,702	7,841
Capital Work In Progress	614	614	614	614
Investments	205	205	205	205
Net Working Capital	4,493	5,603	7,152	9,393
Miscellaneous Expenditure	126	126	126	126
Total Assets	12,302	13,861	15,800	18,179
Cash Flow Statement (INR mn)	FY12	FY13E	FY14E	FY15E
Cash profit adjusted for non cash items	2,590	2,623	3,148	3,698
Working Capital Changes	(328)	(131)	(327)	(385)
Operating Cash Flow	2,261	2,492	2,820	3,313
Capex	(600)	(1,000)	(1,000)	(800)
Free Cash Flow	1,661	1,492	1,820	2,513
Financing Cash Flow	(572)	(678)	(805)	(952)
Investing Cash Flow	(485)	(834)	(794)	(505)
Net change in Cash	1,205	980	1,222	1,856
Ratio Analysis	FY12	FY13E	FY14E	FY15E
Income Statement Ratios (%)				
Revenue Growth	15.7	7.8	14.1	14.3
EBITDA Growth	(11.8)	0.6	21.1	18.8
PAT Growth	(13.2)	1.2	24.2	22.5
EBITDA Margin	24.3	22.7	24.0	25.0
Net Margin	14.0	13.1	14.3	15.3
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.0)	(0.1)	(0.2)	(0.3)
ROE (%)	22.7	19.6	20.9	21.8
ROCE (%)	28.0	24.2	26.2	27.4
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	11.3	11.4	14.1	17.3
EPS Growth (%)	(13.2)	1.2	24.2	22.5
DPS (INR/Share)	2.3	2.3	2.8	3.5
P/E (x)	20.9	20.6	16.6	13.6
EV/EBITDA (x)	11.9	11.6	9.3	7.4
EV/Sales (x)	2.9	2.6	2.2	1.9
Price/Book (x)	4.4	3.8	3.2	2.7

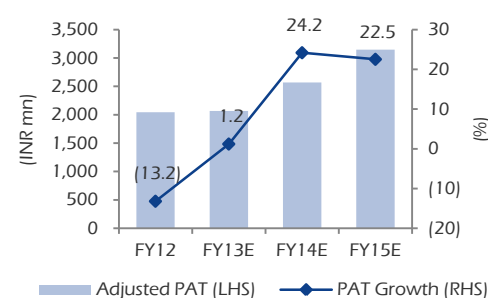
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



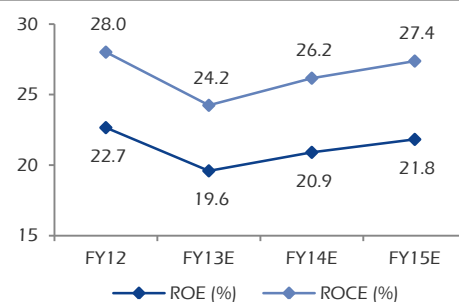
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



Source: Company, Elara Securities Estimate

Return ratios



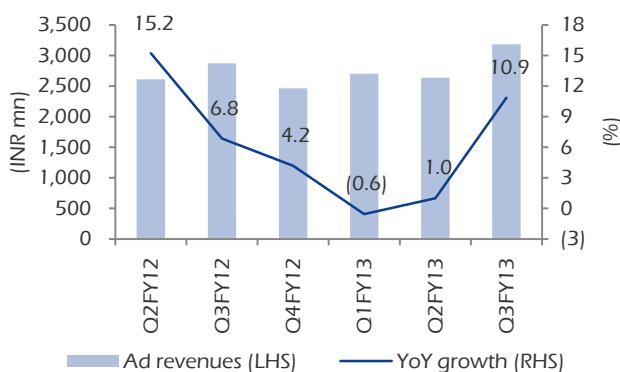
Source: Company, Elara Securities Estimate

Ad growth revival pushes margins up

DB Corp reported better than estimated revenue growth of 11% YoY, as its ad revenues recorded first double digit volume growth in four quarters on strong festival season spending and low base, leading to both operating margins and earnings coming in strong; on in-line operating spend. Key highlights;

- Ad revenues posted ahead of estimates growth of 11% YoY (v/s our expectations of high single digit growth), on low base and festival season (Gujarat elections?). While we were expecting ad growth revival both YoY and sequentially for DB Corp (and peers) in Q3FY13, double digit growth was ahead of expectations, implying strong ad spend during festival season
- Circulation revenues remained in-line, with 16% YoY growth on launch of new editions and selective cover price hikes, along with strong circulation growth in mature markets
- Operating expenditure posted 9% YoY growth, in-line with estimates on tight controls on other operating spend (also due to falling losses in emerging market editions)

Exhibit 1: Quarterly ad revenue growth trend



Source: Company

Exhibit 2: Revenue break-up Q3FY13

(INR mn)	Q3FY13	Q3FY12	Q2FY13	QoQ (%)	YoY(%)
Ad revenues	3,184	2,872	2,636	20.8	10.9
Circulation revenues	729	630	698	4.4	15.7
Radio revenues	191	157	153	25.0	21.8
Other operating revenues	285	297	297	(3.9)	(4.0)

Source: Company

- Newsprint costs grew by 7% YoY, lower than both ad and circulation revenue growth, implying stabilizing newsprint prices and tight cost controls on consumption
- Other operating spend too, remained in tight control with YoY growth of only 7%, despite having

forex loss of INR36mn, as losses from new markets slid down to INR56.5mn from INR98.3mn last quarter

- Higher than expected ad revenue growth allowed for strong EBITDA margin expansion, with margins by 142bps YoY, resulting in EBITDA growth of 17% YoY
- Lower interest costs and higher other income growth led to strong earnings growth of 28% YoY, ahead of estimated 11% growth

Exhibit 3: Key ratios as % of net sales

Key Ratios (as % of net sales)	Q3FY13	Q3FY12	bps change
Raw material	33.0	34.1	(116)
Staff Cost	16.5	15.9	54
Other Expenses	23.4	24.2	(80)
Margins (%)	Q3FY13	Q3FY12	bps change
EBITDA margin	27.2	25.7	142
EBIT margin	23.7	22.3	137
PAT margin	16.1	14.1	207

Source: Company

Ad growth; margins looking up

DB Corp's ad revenue growth, post remaining in pressure for the past four quarters, revived to double digits in Q3FY13 as the base got corrected and festival season saw improved spending. While ad revenues from national advertiser continue to remain under pressure, local advertisement (64% of total ad revenues) remained strong, aiding double digit growth for the quarter.

The management sounded optimistic on ad growth remaining in double digits for the coming quarters, citing billing trends seen in post festival season months. However, we believe that while the base trends favorable from here on, trends during Q4FY13E would be a better reflection of likely ad growth in FY14E, as retail ad growth momentum may subside unexpectedly, in the same manner as it rose sharply, probably due to higher optimism during festival season.

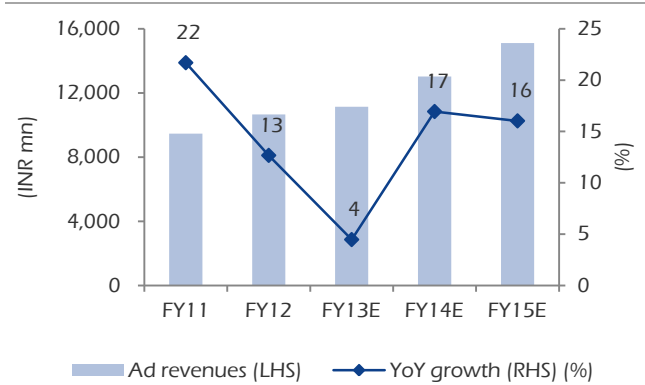
Still, we believe that DB Corp is likely to keep most of the EBITDA margin improvement seen in Q3FY13, driven by;

- Ad growth is likely to remain in high single digits in FY14E given expected elevated momentum in pre-election year, along with reasonable base and consolidation in newly entered markets
- Circulation growth from here on is unlikely to remain as strong as seen in FY12-FY13E as the company ruled out entering new markets in FY14E and also mentioned economies in paper usage, which provided for tight newsprint costs (up 7% YoY) a trend, we believe, is likely to sustain

- Losses from emerging markets are likely to trend lower as seen during the last three quarters, as the company completes first year of operations and starts seeing better ad yields while circulation stabilizes at current levels

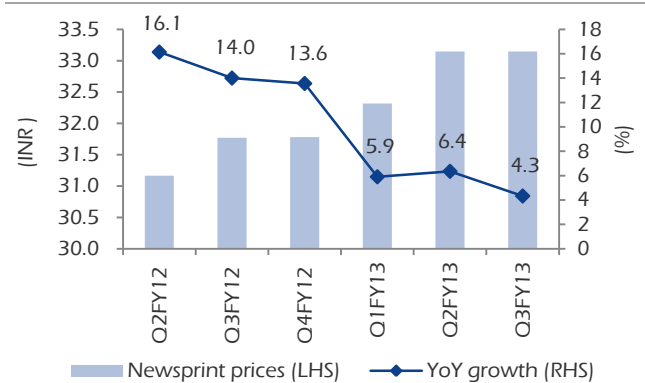
The combined effect of the above three factors is likely to allow DB Corp to gain an estimated 230bps in EBITDA margin during FY13E-FY15E period, thus aiding an earnings CAGR of 23%.

Exhibit 4: DB Corp ad revenue growth forecast



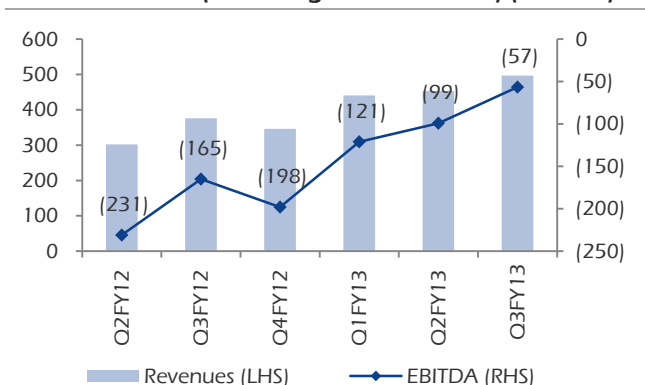
Source: Company, Elara Securities Research

Exhibit 5: Quarterly newsprint prices growth trend



Source: Company

Exhibit 6: Revenues and EBITDA from emerging market editions (including new launches) (INR mn)



Source: Company

Valuation – maintain ‘Accumulate’

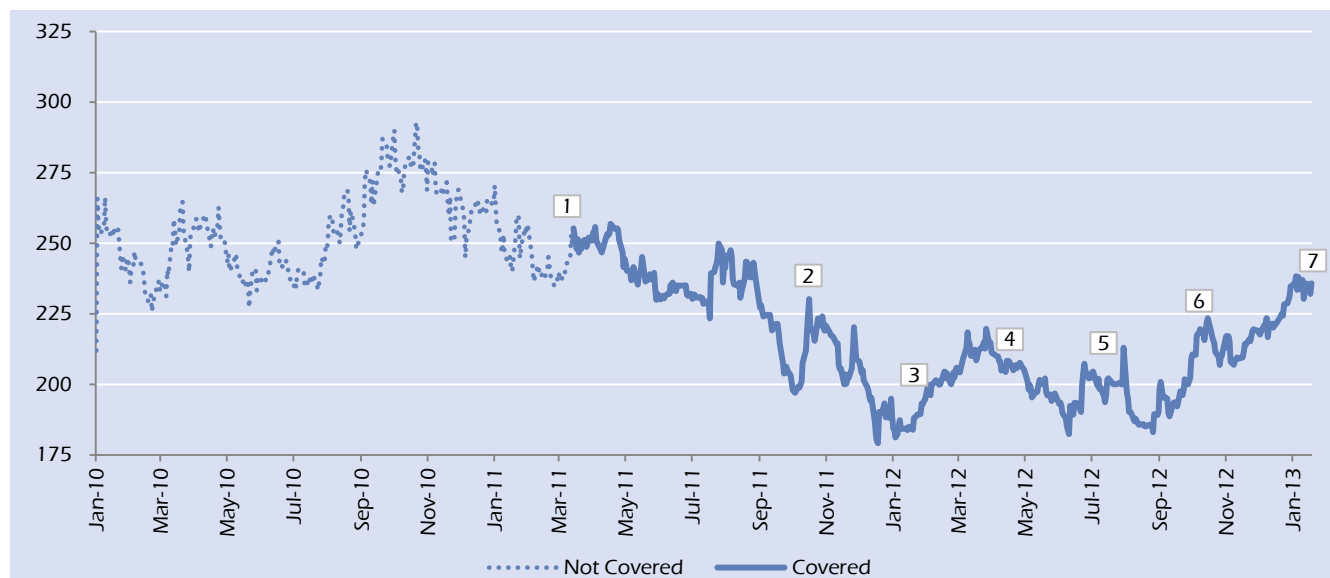
DB Corp’s stock price has remained under pressure, largely due to negative earnings growth since it launched its first edition in Jharkhand, a trend we expected to continue. While we had been negative on the stock price in our initiation, the current levels are pricing in most of the risks. Currently, the stock trades at ~14x FY15E earnings, which we believe is slightly in premium zone, limiting upsides, but provides an opportunity to gain reasonably once ad growth returns in the regional print media space. We roll over our EPS into FY15E and value DB Corp at INR260 based on 15x FY15E earnings. We maintain our ‘Accumulate’ rating, with the belief that the earnings growth is likely to return steadily and expansion plans will be measured.

Exhibit 7: Valuation summary

(INR mn)	FY13E	FY14E	FY15E
Recurring PAT (average)	2,068	2,568	3,146
YoY growth (%)	1	24	23
Target PE Multiple (x)		15	15
PAT FY15E			3,146
Target market cap			47,193
No. of shares (mn)			182
Target share price (INR)			260
CMP (INR)			235
% upside			10.6

Source: Company, Elara Securities Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	18-Mar-2011	Reduce	INR254	INR255
2	21-Oct-2011	Reduce	INR230	INR221
3	24-Jan-2012	Accumulate	INR210	INR188
4	07-May-2012	Accumulate	INR221	INR201
5	20-Jul-2012	Accumulate	INR216	INR202
6	19-Oct-2012	Accumulate	INR236	INR222
7	22-Jan-2013	Accumulate	INR260	INR235

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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