

JANUARY 22, 2013
RESULT

Coverage view: **Neutral**

Price (Rs): **232**

Target price (Rs): **260**

BSE-30: **20,102**

Firing on all cylinders on advertising recovery. DBCL reported strong 3QFY13 EBITDA at Rs1.23 bn (+18% yoy), above our Rs1.1 bn expectation, led by (1) robust 11% yoy advertising growth (complete festival season in 3QFY13 versus typical split between 2Q and 3Q) and (2) moderating cost inflation. 3QFY13 EBITDA margin increased to ~28% from ~21-23% in prior quarters but may not be the benchmark given seasonality; we model ~100 bps CAGR margin expansion to reach ~26% in FY2015E helped by reduced losses and maturity in new editions (Rs57 mn EBITDA losses in 3QFY13). BUY with 12-month forward fair value of Rs260 (unchanged); Rs2/share interim dividend.

Company data and valuation summary

DB Corp

Stock data

52-week range (Rs) (high,low) 245-181

Market Cap. (Rs bn) 42.5

Shareholding pattern (%)

Promoters 81.5

FIs 8.2

MFs 6.3

Price performance (%)

	1M	3M	12M
Absolute	4.7	3.8	25.5
Rel. to BSE-30	0.2	(3.5)	4.5

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	11.4	13.8	16.6
EPS growth (%)	3.3	21.5	20.2
P/E (X)	20.4	16.8	14.0
Sales (Rs bn)	15.8	18.0	20.7
Net profits (Rs bn)	2.1	2.5	3.0
EBITDA (Rs bn)	3.7	4.3	5.1
EV/EBITDA (X)	11.4	9.5	8.0
ROE (%)	21.6	24.1	26.8
Div. Yield (%)	2.6	3.4	4.3

Strong 3QFY13 driven by robust advertising growth, moderating cost inflation

► DBCL reported strong 3QFY13 EBITDA at Rs1.23 bn (+18% yoy), much above our Rs1.1 bn expectation; the positive variance was largely due to robust 11% yoy growth in advertising revenues helped by (1) complete festival season in 3QFY13 versus typical split between 2Q and 3Q as well as (2) favorable base. DB noted strong traction in both key local as well as national categories such as auto, durables, real estate, lifestyle as well as FMCG. Education and BFSI (against our expectation) were subdued but ad spends in these sectors typically peak in 4Q-1Q; we expect improved traction over time. However, auto volumes took a hit beyond festival season and it may not contribute incrementally going forward.

Firing on all cylinders but renewed expansion in FY2014E may cap margin gains

We have previously highlighted that operating margins of print media companies in general were adversely impacted by four factors in FY2012-1HFY13: (1) weak advertising, (2) sharp newsprint inflation (>15% yoy), (3) Rupee depreciation (also impact on ECB borrowings of print media companies) and (4) large new market expansion losses. The cost side (led by newsprint, Rupee and expansions) stabilized in 1HFY13 but recovery in advertising was needed to drive EBITDA margins, which reached ~28% in 3QFY13 from ~21-23% in prior quarters. However, we note (1) 3QFY13 EBITDA margins should not be seen as the benchmark given seasonality benefit and (2) renewed expansions may cap margin gains in FY2014E; we model ~100 bps CAGR margin expansion to reach ~26% levels in FY2015E, implying robust 20%+ PAT CAGR.

BUY with 12-month forward fair value of Rs260; Rs2/share interim dividend

DBCL is starting to fire on all cylinders: (1) advertising recovery, (2) moderating newsprint inflation (~5% yoy in 3QFY13) and (3) reduced expansion losses. The turnaround from weak macro-environment (advertising, newsprint, Rs/US\$) exaggerated by the timing of new market expansions (1HFY13, just before the downturn) is complete now. Retain BUY with 12-month forward fair value of Rs260 (unchanged). DBCL's fundamentals remained intact even in the stress-case scenario given robust cash flows and balance sheet; DBCL paid Rs5/share dividend in FY2012 and has announced Rs2/share interim dividend in FY2013E.

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Interim results of DB Corp (DBCL), March fiscal year-ends (Rs mn)

	3QFY13	3QFY13E	3QFY12	2QFY13	chg (%)			9MFY13	9MFY12	chg (%)
					3QFY13E	3QFY12	2QFY13			
Total revenues	4,389	4,300	3,949	3,784	2	11	16	11,942	10,995	9
Advertising revenues	3,184	3,150	2,872	2,636	1	11	21	8,521	8,199	4
Circulation revenues	729	700	630	698	4	16	4	2,083	1,799	16
Other revenues	476	450	447	450	6	7	6	1,338	997	34
Total expenditure	(3,161)	(3,200)	(2,910)	(2,970)	(1)	9	6	(9,057)	(8,201)	10
Raw material costs	(1,447)	(1,450)	(1,350)	(1,330)	(0)	7	9	(4,109)	(3,779)	9
Employee expenses	(724)	(750)	(631)	(697)	(3)	15	4	(2,103)	(1,819)	16
Other expenses	(990)	(1,000)	(929)	(943)	(1)	7	5	(2,845)	(2,602)	9
EBITDA	1,228	1,100	1,038	814	12	18	51	2,885	2,795	3
Operating margin (%)	28.0	25.6	26.3	21.5				24.2	25.4	
Other income	38	50	32	38	(23)	20	2	122	118	3
Interest expense	(55)	(50)	(108)	28	9	(49)	(294)	(123)	(214)	(43)
D&A expenses	(151)	(150)	(134)	(143)	1	12	5	(430)	(375)	14
PBT	1,060	950	828	736	12	28	44	2,455	2,324	6
Extraordinaries	-	-	-	-				-	-	
Tax provision	(352)	(325)	(271)	(251)	8	30	41	(825)	(753)	10
Minority interest	(2)	-	(3)	1				(1)	(4)	
Adjusted PAT	706	625	554	486	13	28	45	1,629	1,567	4
Reported PAT	706	625	554	486	13	28	45	1,629	1,567	4
Tax rate (%)	33.2	34.2	32.8	34.0				33.6	32.4	
EPS (Rs/share)	3.9	3.4	3.0	2.7	13	28	45	8.9	8.6	3

Source: Company data, Kotak Institutional Equities estimates

- ▶ DBCL noted improved traction in both yields and volumes and highlighted that both contributed almost evenly to the 11% yoy growth in 3QFY13. DBCL's overall realizations were likely helped by increasing maturity of new markets (Jharkhand, Maharashtra) since ad yields/rates typically remain depressed in a weak environment and initial ad recovery is also volumes-driven. Our discussions with a media buyer recently indicated recognition of impact being made by Divya Marathi in Maharashtra.
- ▶ However, DBCL surprisingly noted continued strong growth in local advertising versus muted national advertising, with the share of local in DBCL's advertising having increased to 64% from 60% yoy. This is surprising in light of traction in autos, durables and FMCG advertising noted previously. DBCL noted (1) autos and durables advertising driven by local dealers of national firms (which they later get reimbursed) and (2) regional FMCG starting to advertise heavily in local media, to explain the differential.
- ▶ DBCL also reported strong 16% yoy growth in circulation revenues led by counter-cyclical increase in cover prices across legacy markets, though the cycle may be coming to an end. Cover prices also increased in new markets of Jharkhand and Maharashtra, from very low levels, on renewal of subscriptions after one year of operation.
- ▶ DBCL reported robust 7% yoy and 9% qoq increase in RM costs. However, we believe the increase needs to be seen in context of volume-led 11% yoy growth in advertising, which necessitated higher pagination levels (had been reduced somewhat previously) and hence, higher newsprint consumption. Newsprint price inflation of ~5% yoy was due to lower 42 gsm newsprint consumption, which is priced higher than standard 45 gsm newsprint but allows for more pages/Kg of newsprint.
- ▶ Employee expenses increased 15% yoy given the hiring done during the course of the year to support new launches as well as annual increments in 1QFY13; DBCL likely also paid bonus to low-level employees during festival season.

- ▶ DBCL reported strong traction in both mature and emerging edition financials. Mature editions reported 9% yoy growth but only 8% yoy EBITDA growth; robust advertising likely necessitated higher pagination/newsprint consumption; EBITDA margins at ~33% were robust. Emerging editions reported 66% yoy decline in EBITDA losses on 32% yoy revenue growth, with stable costs providing operating leverage.

DBCL's breakdown of financials, 1QFY12-3QFY13 (Rs mn)

	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	yoy (%)
DBCL standalone								
Revenues	3,526	3,515	3,914	3,577	3,756	3,741	4,387	12
EBITDA	1,025	782	1,020	777	870	875	1,245	22
Margin (%)	29	22	26	22	23	23	28	
MyFM radio								
Revenues	124	127	157	146	140	153	192	22
EBITDA	17	11	44	52	30	46	74	68
Margin (%)	14	9	28	36	21	30	39	
Mature editions								
Revenues	3,183	3,086	3,381	3,085	3,175	3,135	3,698	9
EBITDA	1,181	1,002	1,141	923	961	928	1,227	8
Margin (%)	37	32	34	30	30	30	33	
Emerging editions								
Revenues	219	302	376	346	441	453	497	32
EBITDA	(173)	(231)	(165)	(198)	(121)	(99)	(57)	(66)
Margin (%)	(79)	(76)	(44)	(57)	(27)	(22)	(11)	
Emerging/Mature EBITDA (%)	14	23	14	20	12	10	4	
Expenses	392	533	541	544	562	552	554	2

Source: Company data, Kotak Institutional Equities

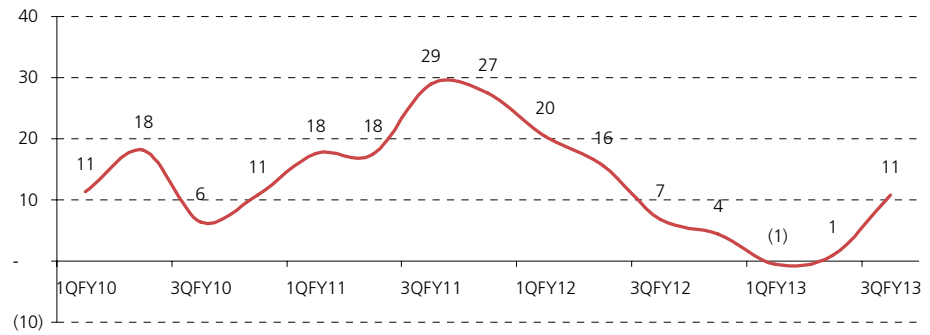
- ▶ DBCL's balance sheet was marginally weaker versus expectations, given marginal accrual to net cash despite strong PAT. (1) The company spent Rs380 mn to acquire 100% stake in its subsidiaries but Rs150 mn tax benefit will flow after the demerger. (2) Debtor levels increased due to (a) festival season jump (90-day credit period to national advertisers) and (b) settlement of DAVP/Government advertising at year-end.

Balance sheet of DBCL, FY2011-9MFY13 (Rs mn)

	FY2011	FY2012	1QFY13	1HFY13	9MFY13
Sources of funds					
Share capital	1,833	1,833	1,833	1,833	1,834
Reserves and surplus	6,456	7,757	7,880	8,372	8,656
Minority interest	4	15	15	15	12
Borrowings	2,011	2,131	2,200	1,794	1,505
Cash and balances	(1,727)	(1,884)	(1,301)	(880)	(594)
Net investments	(163)	(460)	(460)	(445)	(827)
Deferred tax	695	746	754	753	740
Total	9,109	10,138	10,921	11,442	11,326
Application of funds					
Net fixed assets	7,091	7,933	8,047	7,893	8,353
Inventories	728	1,186	1,421	1,430	1,425
Sundry debtors	2,401	2,480	3,151	2,928	3,513
Loans and advances	1,326	1,395	1,399	1,437	1,384
Other current assets	114	106	92	638	405
Trade payables	(762)	(1,084)	(1,245)	(998)	(1,141)
Other liabilities	(1,248)	(1,358)	(1,399)	(1,664)	(1,956)
Other provisions	(541)	(520)	(545)	(222)	(657)
Total	9,109	10,138	10,921	11,442	11,326

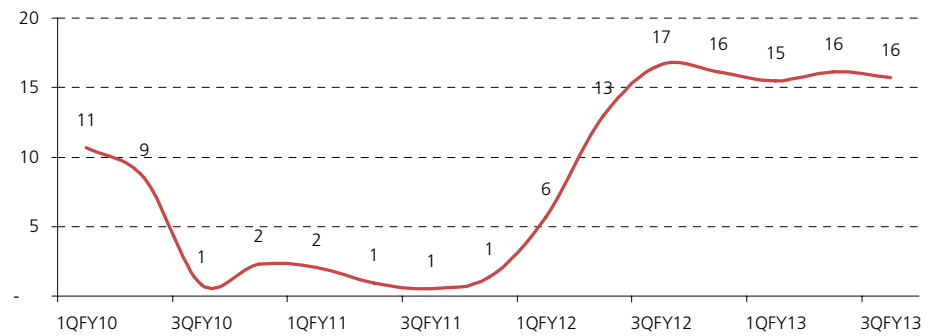
Source: Company data, Kotak Institutional Equities

Trends in advertising revenue growth of DBCL, 1QFY10-3QFY13 (%)



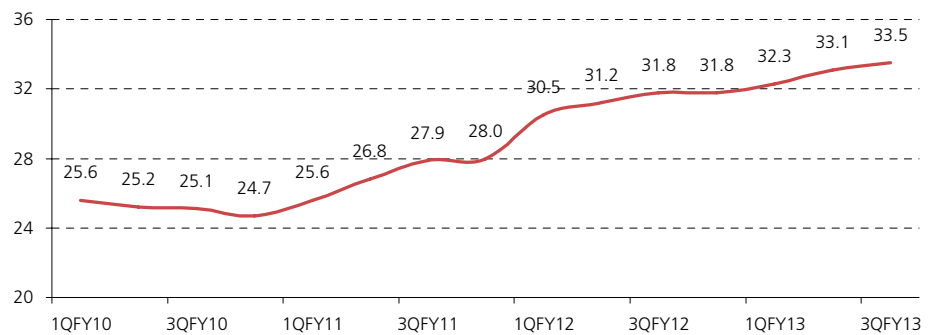
Source: Company data, Kotak Institutional Equities

Trends in circulation revenue growth of DBCL, 1QFY10-3QFY13 (%)



Source: Company data, Kotak Institutional Equities

Trends in effective newsprint price for DBCL, 1QFY10-3QFY13 (Rs/kg)



Source: Company data, Kotak Institutional Equities

Readership of DBCL across core/legacy and new markets (mn)

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	chg (%)
MP-Chattisgarh										
Dainik Bhaskar	4.2	4.3	4.6	4.7	4.8	4.9	4.8	4.7	4.7	(3)
DJ + Nai + Nav Dunia	1.9	2.0	2.2	2.4	2.4	2.4	2.3	2.4	2.3	(5)
Patrika Dainik	0.7	0.9	1.1	1.1	1.3	1.4	1.8	1.9	2.1	66
Hari Bhoomi	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	(6)
NavBharat	1.0	0.9	0.8	0.7	0.6	0.6	0.6	0.6	0.6	(0)
Rajasthan										
Rajasthan Patrika	6.8	7.1	7.0	6.9	6.8	6.8	6.7	6.7	6.6	(3)
Dainik Bhaskar	6.1	6.1	6.4	6.3	6.4	6.4	6.3	6.2	6.2	(3)
Dainik Navjyoti	0.4	0.4	0.4	0.5	0.6	0.6	0.5	0.5	0.5	(8)
Chandigarh-Punjab-Haryana										
Dainik Bhaskar	2.4	2.4	2.4	2.4	2.3	2.2	2.2	2.2	2.2	(4)
Punjab Kesari	2.1	2.1	2.1	2.0	2.0	1.9	2.0	2.1	2.1	6
Dainik Jagran	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.6	(3)
Gujarat										
Gujarat Samachar	4.5	4.5	4.4	4.4	4.4	4.5	4.4	4.5	4.5	1
Divya Bhaskar	3.7	3.8	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3
Sandesh Dainik	3.1	3.4	3.3	3.2	3.3	3.2	3.3	3.4	3.3	(0)
Jharkhand - new market (a)										
Hindi Hindustan	1.5	1.6	1.8	1.8	1.8	1.7	1.7	1.8	1.7	(3)
Prabhat Khabar	1.0	1.1	1.3	1.4	1.4	1.4	1.3	1.3	1.3	(2)
Dainik Jagran	0.8	0.8	0.9	0.9	1.0	1.0	1.0	0.9	0.9	(7)
Dainik Bhaskar	-	-	-	-	-	0.6	0.7	0.8	0.8	

Notes:

(a) DBCL's Jharkhand presense is only partially considered.

Source: Indian Readership Survey, Kotak Institutional Equities

AIR of Marathi dailies in the Maharashtra ex-Mumbai-Pune market ('000)

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	yoy (%)
Maharashtra ex-Mumbai-Pune										
Lokmat Dainik	6,101	6,455	6,222	6,036	6,202	6,033	6,152	6,033	6,040	(3)
Daily Sakal	3,018	3,363	3,360	3,298	3,224	3,093	3,134	3,107	3,127	(3)
Pudhari	2,006	2,040	1,975	1,942	1,879	1,837	1,894	1,860	1,816	(3)
Punya Nagri	1,933	1,803	1,709	1,577	1,512	1,471	1,550	1,502	1,528	1
Maharashtra Times	166	125	118	87	79	113	178	198	251	218
Divya Marathi	-	-	-	-	-	-	-	-	695	
MAH cities ex-Mumbai-Pune										
Lokmat Dainik	970	982	940	964	974	981	980	952	970	(0)
Daily Sakal	311	335	348	358	361	363	402	427	442	22
Pudhari	205	199	185	187	182	181	178	182	171	(6)
Punya Nagri	248	230	221	208	195	175	172	176	165	(15)
Maharashtra Times	34	27	31	22	19	51	68	81	112	489
Divya Marathi	-	-	-	-	-	-	-	-	314	

Source: Indian Readership Survey, Kotak Institutional Equities

Valuation of Indian print media companies, FY2010-14E

	EV	EBITDA (Rs bn)					EV/EBITDA (X)				
	(Rs bn)	2010	2011	2012	2013E	2014E	2010	2011	2012	2013E	2014E
JAGP	36	2.8	3.6	3.2	3.5	3.9	12.6	10.0	11.2	10.3	9.1
JAGP (adjusted)	36	2.8	3.6	3.2	3.6	4.0	12.6	10.0	11.2	9.9	8.9
DBCL	41	3.4	4.0	3.5	3.7	4.3	12.1	10.3	11.9	11.3	9.5
DBCL (adjusted)	41	3.4	4.2	4.2	4.3	4.7	12.1	9.8	9.9	9.7	8.7
HMVL	9	0.8	0.9	1.0	1.2	1.4	11.0	10.4	9.7	7.9	6.8
HTML	22	2.5	3.2	2.8	2.8	3.5	9.0	7.1	7.9	8.0	6.3
HTML (adjusted)	22	2.5	3.1	2.6	2.5	3.2	9.0	7.3	8.5	8.8	6.9

	Price	EPS (Rs/share)					P/E (X)				
	(Rs)	2010	2011	2012	2013E	2014E	2010	2011	2012	2013E	2014E
JAGP	110	5.8	6.7	5.6	5.9	7.1	18.8	16.3	19.4	18.7	15.5
JAGP (adjusted)	110	5.8	6.7	5.6	6.1	7.3	18.8	16.3	19.4	18.1	15.1
DBCL	232	10.6	12.9	11.0	11.4	13.8	21.8	18.0	21.0	20.4	16.8
DBCL (adjusted)	232	10.6	13.6	13.3	13.3	15.0	21.8	17.1	17.5	17.5	15.4
HMVL	150	7.9	8.2	8.9	11.1	12.1	19.0	18.3	16.8	13.5	12.4
HTML	106	5.8	7.7	7.0	7.0	8.8	18.2	13.8	15.1	15.1	12.1

	Readership (mn)					EV/Reader (X)				
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
JAGP	19.2	19.1	19.0	19.1	18.9	1,859	1,865	1,872	1,866	1,885
DBCL	18.0	18.8	18.6	18.5	19.1	2,298	2,203	2,225	2,234	2,169
HMVL	12.0	12.0	12.0	12.2	12.2	768	765	765	758	755
Discount (%)						63	62	63	63	63

Notes:

- (a) Adjusted for near-term turnaround and operating losses in Mid-Day as well as Nai Dunia.
 (b) Adjusted for near-term startup expenses and operating losses in Jharkhand and Maharashtra.
 (c) Adjusted for 22% minority interest in subsidiary HMVL post IPO in October-2010.

Source: Company data, Indian Readership Survey, Kotak Institutional Equities estimates

Financial summary of DB Corp Limited, FY2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit model								
Net sales	8,627	9,610	10,630	12,652	14,515	15,834	18,050	20,708
EBITDA	1,829	1,461	3,430	4,031	3,465	3,659	4,346	5,075
Other income	116	109	112	142	139	195	209	248
Interest	(397)	(510)	(357)	(153)	(92)	(226)	(201)	(151)
Depreciation	(220)	(290)	(378)	(433)	(506)	(564)	(620)	(678)
Pretax profits	1,328	770	2,806	3,587	3,006	3,064	3,734	4,493
Extraordinary items	8	—	—	222	—	—	—	—
Current tax	(560)	(377)	(841)	(1,119)	(932)	(921)	(1,133)	(1,409)
Deferred taxation	(70)	(47)	(216)	(102)	(51)	(65)	(74)	(44)
Net income	706	346	1,749	2,588	2,023	2,078	2,527	3,041
Adjusted net income	763	464	1,828	2,363	2,021	2,088	2,536	3,048
Earnings per share (Rs)	4.5	2.8	10.6	12.9	11.0	11.4	13.8	16.6
Balance sheet								
Total equity	2,198	2,577	6,487	8,289	9,271	10,087	10,926	11,852
Deferred taxation liability	346	393	609	695	746	811	885	929
Total borrowings	3,436	5,631	3,207	2,082	2,100	2,100	2,100	2,100
Current liabilities	1,714	2,189	2,073	2,479	3,320	3,405	3,930	4,511
Total capital	7,936	10,914	12,420	13,548	15,452	16,409	17,837	19,380
Cash	808	452	1,951	1,731	1,896	2,432	2,783	3,423
Other current assets	3,404	3,536	3,664	4,187	5,069	5,291	5,921	6,662
Total fixed assets	3,623	6,471	6,475	7,358	7,933	8,132	8,579	8,741
Investments	68	238	205	163	460	460	460	460
Miscellaneous expenditure	33	217	126	110	94	94	94	94
Total assets	7,936	10,914	12,420	13,548	15,452	16,409	17,837	19,380
Free cash flow								
Operating cash flow, excl. working c	1,556	1,016	2,566	3,297	2,662	2,739	3,214	3,666
Working capital changes	674	122	(174)	(556)	(421)	(136)	(106)	(160)
Capital expenditure	(1,081)	(2,966)	(603)	(1,433)	(1,227)	(762)	(1,067)	(840)
Income from investments	113	109	111	142	116	195	209	248
Free cash flow	1,262	(1,718)	1,899	1,450	1,130	2,035	2,249	2,914
Ratios (%)								
Debt/equity	135	190	45	23	21	19	18	16
Net debt/equity	103	174	18	4	2	(3)	(6)	(10)
ROAE (%)	34	17	36	29	21	20	22	25
ROACE (%)	15	7	23	26	20	20	23	26

Source: Company data, Kotak Institutional Equities estimates