DB Corp Ltd. (DBCL) – Strong play in the Indian print media sector…

21st May, 2011

NSE/BSE Code	DBCORP/533151
Promoter's holding	**86.1%**
FV	**Rs. 10**
Equity Capital (Rs in mn)	**1,832.83**
Market Capitalization (Rs in mn)	**44,170**
52 week high/low	**Rs. 307 (25TH Oct, 2010)/Rs.225 (25th May, 2010)**
CMP	**Rs. 241**
Target Price	**Rs. 281**
Upside	**17%**

D B Corp Ltd. is India's leading print media company that publishes seven newspapers with 59 editions, 135 sub-editions in three languages (Hindi, Gujarati and English) across 13 states in India. Its flagship newspapers Dainik Bhaskar (in Hindi) established in 1958, Divya Bhaskar and Saurashtra Samachar (in Gujarati) have a combined average daily readership of 17.9 million, making it most widely read newspaper groups in India with presence in Madhya Pradesh, Chhattisgarh, Rajasthan, Haryana, Punjab, Chandigarh, Himachal Pradesh, Uttrakhand, Delhi, Gujarat, Maharashtra, Jharkhand and Jammu. The company's Q4FY11 results were also impressive on the topline front, witnessing yoy growth of 23.4%. The company's revenues are expected to grow at a much faster rate as compared to its peers. This is on account of its strong positioning in the local language space in key Tier-II/III cities, which also indicates an uptick in advertising revenue. At CMP, the stock currently trades at a P/E of 16x at FY12EPS.

We believe that the company deserves a premium valuation as it is well placed to tap the opportunity presented by Indian Print Media Sector. With due consideration to factors like a) established brands and leadership in key markets, b) strong distribution network as compared to peers, d) buoyant advertising revenue supported by local advertising, e) Marathi Edition launch by May 2011 end and Bihar edition to be launched in FY12, we recommend a 'BUY' with a target price of Rs. 281(18x at estimated FY12 EPS) for investors with a six-nine months horizon. We at Ajcon, believe that, DB Corp's stock price may appreciate by over 100% in three years considering the dynamics of the sector and the leadership enjoyed by the company in key regional markets.

FINANCIAL SUMMARY

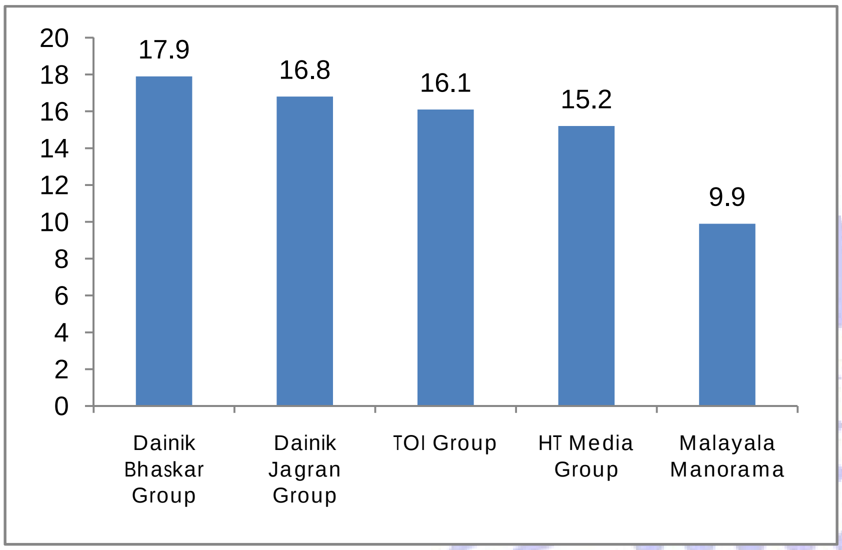
Particulars	FY10	FY11	FY12E
Net sales	**10,630**	**12,652**	**14,930**
Operating Profit	**3,429**	**4,030**	**4,391**
OPM (%)	***32.3***	***31.4***	***29.4***
Other Income	112	142	142
Depreciation	(378)	(433)	(445)
Interest	(357)	(153)	(174)
PBT	**2,806**	**3,586**	**3,915**
Tax	(1,057)	(1,000)	(1,091)
Minorities	80	(3)	-
PAT	**1,828**	**2,584**	**2,823**
PAT (%)	***16.4***	***20.4***	***18.9***
Outstanding shares (mn)	**182**	**183**	**183**
EPS	**10.1**	**14.1**	**15.4**
P/E(x)	**24**	**17**	**16**
ROE(%)	**28.2**	**30.6**	**29.7**
ROCE(%)	**30.6**	**32.1**	**32.7**

Source: Company, Ajcon Research

Investment Rationale

Defining leadership, largest newspaper group in India: The company has a strong geographical presence in key markets of North, Central and Western India which is competitive advantage. By this virtue, today Dainik Bhaskar is the market leader in terms of readership in the daily newspaper segment in states like Madhya Pradesh, Chhattisgarh, Chandigarh and Haryana; having operated for more than three years. DBCL is the only media conglomerate that enjoys a leadership position in multiple states, in multiple languages and is a dominant player in all its major markets.

Leading the competition in Average daily readership



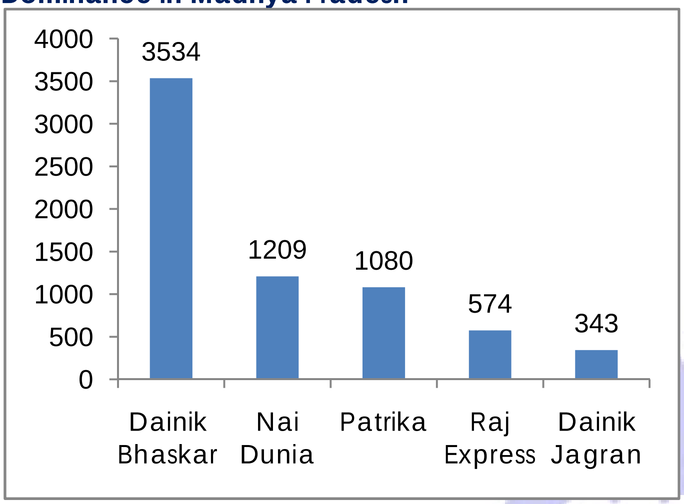
Source: IRS 10 Q4 AIR figs (mn)

Dainik BhaskarGroup		Dainik Jagran Group		Times of India Group		HT Media Group		Malayala Manorama Group	
Publication	**AIR**	**Publication**	**AIR**	**Publication**	**AIR**	**Publication**	**AIR**	**Publication**	**AIR**
Dainik Bhaskar	13,992	Dainik Jagran	16,066	The Times of India	7,424	Hindustan	11,452	Malayala Manorama	9,930
Divya Bhaskar	3,543	I Next	689	The Economic Times (English)	797	Hindustan Times	3,592		
Saurashtra Samachar	208			Maharashtra Times	1,088	Mint	199		
Business Bhaskar	38			Navbharat Times	2,579				
DNA	750			Vijay Karnataka	3,480				
DB Star	94			Mumbai Mirror	711				
				Ahmedabad Mirror	43				
Total	**18,625**	**Total**	**16,755**	**Total**	**16,079**	**Total**	**15,243**	**Total**	**9,930**

Source: IRS 10 Q4 AIR figs (000's)

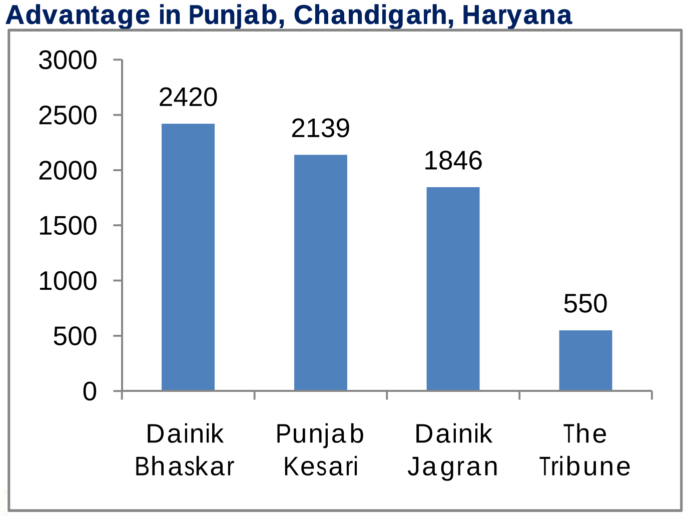
Dominance in regional markets……

Dominance in Madhya Pradesh



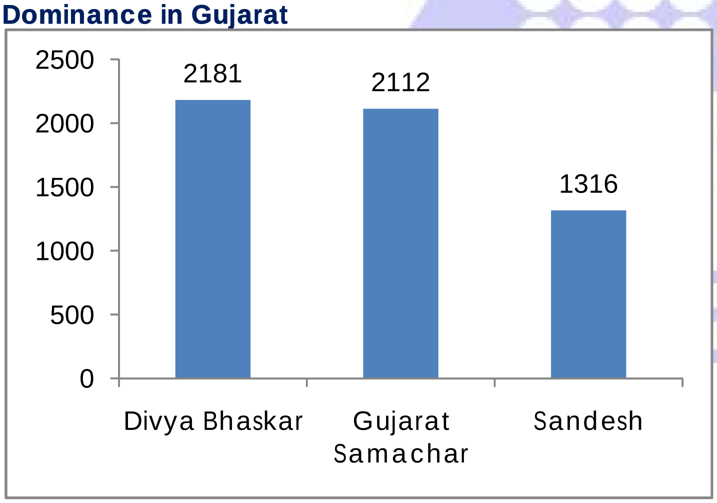
Source: IRS 10 Q4 AIR figs(000's)

Advantage in Punjab, Chandigarh, Haryana



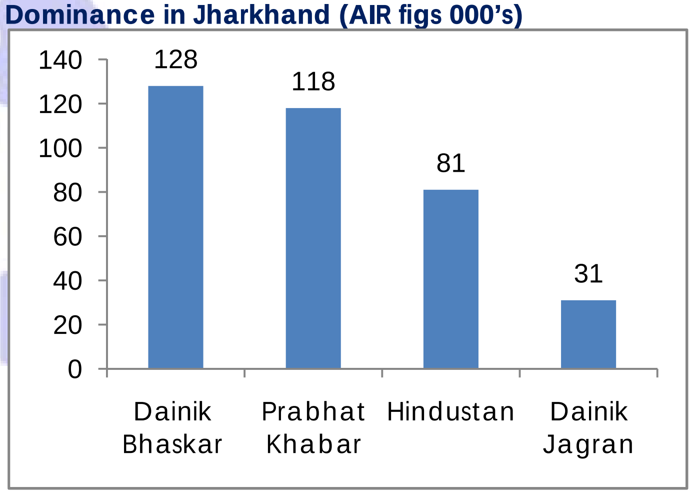
Source: IRS 10 Q4 AIR figs(000's)

Dominance in Gujarat



Source: IRS 10 Q4 AIR figs (000's)

Dominance in Jharkhand (AIR figs 000's)



Source: IMRB Survey 2010 initiated by DB Corp Ltd.

Strong distribution platform: DBCL manages and operates with ~ 3447 distributors, 22 sales offices ~ 515 bureau offices. This large scale platform helps in promotion & campaigns to launching new publications in the existing markets.

Buoyant contribution from advertising segment: The ad market is creating wonders for the company. Presently, ad revenue account for ~77% of revenue. Advertising revenue is well diversified with ~60% coming from local markets – growing at 1.5-2x market which compares favorably to peer Jagran. In Q4FY11, print advertising revenues witnessed yoy growth of 34.5%. In FY09, when advertising revenues were under pressure, the company witnessed advertising revenue growth of ~12 per cent, helped by regional advertising. The company's subscription revenue also grew by over 10 percent. Going ahead, we believe, the company is set to witness rising ad yields.

Q4FY11 update

(Rs m)	Q4 FY11	Q4 FY10	% yoy	Q3 FY11	% qoq
Net sales	**3,174**	**2,572**	23.4	**3,482**	(8.9)
Material costs	(1,042)	(789)	32.1	(1,065)	(2.2)
Personnel costs	(492)	(360)	36.5	(485)	1.5
General admin expenses	(226)	(167)	34.9	(205)	9.9
Selling and Distribution expenses	(210)	(181)	16.4	(194)	8.5
Other overheads	(408)	(379)	7.6	(386)	5.8
Operating profit	**796**	**695**	14.4	**1,148**	(30.7)
OPM (%)	***25.1***	***27.0***	***-196 bps***	***33.0***	***-789 bps***
Depreciation	(111)	(105)	6.5	(110)	1.1
Interest	(34)	(87)	(60.8)	(34)	0.1
Other income	36	44	(16.6)	30	21.1
PBT	**687**	**547**	25.5	**1,034**	(33.6)
Tax	(235)	(197)	19.3	(382)	(38.3)
Effective tax rate (%)	***34.3***	***36.1***	**-**	***36.9***	**-**
Other provisions / minority etc	(1)	17	(107.9)	7	-
PAT	**450**	**367**	22.6	**659**	(31.8)
PAT margin (%)	***14.2***	***14.3***	***-9 bps***	***18.9***	***-476 bps***
Reported PAT	**450**	**367**	22.6	**659**	(31.8)
Equity capital	**1,833**	**1,815**	1.0	**1,815**	1.0
FV (Rs.)	**10**	**10**	-	**10**	-
No. of outstanding shares (mn)	**183**	**182**	1.0	**182**	-
EPS for the quarter	**2.46**	**2.02**	21.4	**3.63**	(32.4)
Ann. EPS (Rs)	9.8	8.1	21.4	14.5	(32.4)

Revenue breakup (Rs. in mn)

Revenue	Q4FY11	Q4FY10	yoy (%)	Q3FY11	qoq (%)
Advertising	*2,490*	*1,907*	*30.6*	*2,688*	*(7.4)*
Circulation	*534*	*527*	*1.3*	*540*	*(1.1)*
Radio	*133*	*103*	*29.5*	*129*	*(3.1)*

Q4FY11 result update

The company's consolidated revenues witnessed yoy growth of 23.4% to touch Rs. 3,174 mn in Q4FY11. This was mainly on account of the following factors:

a) Print advertising revenues clocking 34.5% growth on yoy basis owing to impressive performance of all major sectors like Automobiles, Education, Lifestyle, BFSI and Healthcare.

b) Radio business witnessed an impressive yoy revenue growth of 41.7% to touch Rs. 133.1 mn. EBITDA margin in the Radio business stood at 30%.

According to the management, ~50% of the 26% ad – revenue growth in FY11 was on account of change in mix by reducing the discount between coloured and black & white ads.

DB Corp's operating performance in Q4FY11 was strong. Operating profit grew by 14.4% on yoy basis to touch Rs. 796 mn in Q4FY11. This takes into account, DB Corp's pre marketing and survey related expenses of around Rs. 43 mn in FY11 for Jharkhand, Maharashtra and Bihar which have been booked in the revenue account, instead of capitalizing or deferring the outlay for future quarters, considering the long term impact of these expenditures.

OPMs witnessed a decline of 196 bps on account of higher raw material cost. Material cost as a percentage of net sales increased by 216 bps to touch 32.8% of net sales. On a qoq basis, OPMs witnessed a significant decline of 789 bps.

PAT grew by 22.7% to touch Rs. 450 mn in Q4FY11. This was mainly on account of reduced interest cost by 60.85% on yoy basis. PAT margins stood at 14.2%.

FY11 update

Profit and Loss (Rs. mn)

Particulars	FY11	FY10	% yoy
Net sales	**12,652**	**10,630**	19.0
(Inc)/Decrease in cost	1	0	-
Material costs	(3,839)	(3,279)	17.1
Personnel costs	(1,846)	(1,318)	40.0
General admin expenses	(782)	(566)	38.2
Selling and Distribution expenses	(676)	(601)	12.5
Other overheads	(1,480)	(1,437)	3.0
Operating profit	**4,031**	**3,429**	17.5
OPM (%)	***31.9***	***32.3***	***-40 bps***
Depreciation	(433)	(378)	14.4
Interest	(153)	(357)	(57.1)
Other income	142	112	27.1
PBT	**3,587**	**2,806**	27.8
Tax	(1,000)	(1,057)	(5.4)
Effective tax rate (%)	***27.9***	***37.7***	***(26.0)***
Other provisions / minority etc	(3)	80	(103.3)
Adjusted PAT	**2,585**	**1,828**	41.4
Adj. PAT margin (%)	***20.4***	***17.2***	***323 bps***
Equity capital	**1,833**	**1,815**	1.0
FV (Rs.)	**10**	**10**	-
No. of outstanding shares (mn)	**183**	**182**	1.0
EPS for the year	**14.10**	**10.07**	40.0

Balance sheet (Rs. mn)

Particulars	FY11	FY10
Sources of Funds		
Equity Capital	1,833	1,815
Stock Options Outstanding	29	13
Reserves	6,691	5,476
Deferred Tax Liability	695	609
Borrowings	2,372	2,970
Total	**11,620**	**10,883**
Application of Funds		
Net Fixed Assets	7,332	5,675
Investments	520	911
Current Assets		
Inventories	728	722
Debtors	2,386	1,835
Loans and Advances	1,055	1,669
Cash/Bank	1,622	1,869
Current Liabilities	(1,633)	(1,539)
Provisions	(540)	(385)
Misc. Expenditure	109.8	125.7
Total	**11,620**	**10,883**

FY11 update

The company witnessed yoy growth in revenues of 19% to touch Rs. 12,652 in FY11. This was mainly contributed by yoy increase of 28.9% in Print Advertising revenues (including onetime Net Election Billing of around Rs. 225 mn in FY10).

OPMs witnessed a decline of 40 bps to touch 31.9% in FY11. OPMs take into account the company's pre marketing and survey related expenses of around Rs. 163 mn in FY11 for Jammu, Jharkhand, Maharashtra and Bihar which have been booked in the revenue account, instead of capitalizing or deferring the outlay for future quarters, considering the long term impact of these expenditures. Print Business Mature editions OPMs stood at 38% in FY11.

Key highlights - FY11

1) DBCL has maintained its leadership position in Madhya Pradesh, Chattisgarh, Haryana, Chandigarh, Rajasthan (Urban), Punjab (Major cities) and Gujarat (Circulation).

    a) In Madhya Pradesh, Dainik Bhaskar is in a ruling position with a market share of more than three-times over its nearest competitor.

    b) In Jaipur, the company has a lead of 46% over nearest competitor and is ahead in urban readership in Rajasthan over the closest competitor.

    c) In Chandigarh, Punjab, Haryana (CPH) Dainik Bhaskar enjoys a lead of 13% over nearest competitor in overall CPH with a front position of 96% in Chandigarh. In Gujarat, Bhaskar maintains a strong position in key markets and reflects a lead of 22 % over its nearest competitor in Ahmedabad.

2) Extends its India footprint to cover 13 states through 59 editions and 135 sub editions.

3) The company has announced plans to expand its operations in Maharashtra state with launch of New Edition, named Dainik Divya Marathi, on 29th May 2011 from Aurangabad city – foray marks DBCL's extension to 4th language Marathi, in addition to Hindi, Gujarati and English. The company also expects to launch this edition in Nashik soon.

4) Radio Business Demerger – the Company's Radio business division has been demerged from its subsidiary Synergy Media Entertainment Ltd (SMEL) and merged with Parent Company DBCL in Q4FY11.

Disclaimer

This document has been prepared by Ajcon Global Services Ltd and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.