



DB Corp – Q4FY11 update

20th May, 2011

CMP: 240

Target price: 281

Upside: 17.1%

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)

Source: Company. Ajcon Research

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)

Source: Company. Ajcon Research

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 22.65 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%.

Key highlights - Q4FY11

- 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) 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.

- 3) 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 current quarter.

Outlook and Recommendation

The company’s Q4FY11 results were impressive on the topline front. However, the company faced pressure on the margin front on account of newsprint cost. The company’s revenue 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 17x at FY11EPS.

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, we recommend a ‘BUY’ with a target price of Rs. 281(19x at estimated FY12 EPS) for investors with a six-nine months horizon.

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