

DB Corp.

Announces foray into Maharashtra

Management announces foray into Maharashtra with a Marathi daily: DB Corp has announced its entry into Maharashtra with a Marathi daily while postponing its entry into Bihar till the end of FY2012. This has come as a surprise, though it is a positive development due to the following reasons: 1) Maharashtra is the third largest state with an average GDP growth rate of 14.5%, 2) per capita income of the state stands at a healthy ₹79,515, 3) the state has a high literacy rate of 77% and a penetration gap of 71%, and 4) the state ad-market is estimated at ~₹700cr (excl. Mumbai) and growing at 15% per annum.

About the launch: Maharashtra is a lucrative market in terms of advertisement with an ad-market of ~₹700cr compared to Bihar, which has an ad market of ~₹200cr and is under penetrated as well. Maharashtra's top-three Marathi dailies viz., *Lokmat*, *Sakal* and *Pudhari* have an average issue readership (AIR) of ~0.8cr, 0.5cr and 0.3cr, respectively (Source: IRS Survey Q3 2010). While management refrained from giving details about the launch strategy and numbers, we expect DB Corp to command ad market share of ~2% and garner net revenues of ~₹22cr in FY2012 in Maharashtra. However, the edition(s) are likely to drag down the company's operating profit. We estimate combined operating loss for the Jharkhand and Maharashtra editions at ~₹37cr in FY2012.

Outlook and Valuation: We are enthused with the news that DB Corp's ad-focused business model would benefit from the larger ad-market in Maharashtra vis-a-vis Bihar. We have however, not factored the launch into our numbers as we await more details. Nonetheless, we re-iterate our confidence on management's track record of successful new launches (launched the Gujarati paper, *Divya Bhaskar* in 2003, which became number one on the first day of its launch). However, we remain cautious on the company's pace of the launch. At the CMP of ₹251, DBCL is trading at 17.1x FY2013E consolidated EPS of ₹17. **We maintain a Buy on the stock with a Target Price of ₹358 based on 21x FY2013E earnings.** Downside risks to our estimates include – 1) sharp rise in newsprint prices, 2) intensifying competition, and 3) higher-than-expected losses/increase in breakeven period of its new launches.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net sales	1,051	1,225	1,393	1,587
% chg	10.7	16.6	13.8	13.9
Net profit	183	242	265	315
% chg	283.9	32.3	9.6	18.8
EBITDA (%)	31.5	33.3	32.0	32.7
EPS (₹)	9.9	13.1	14.3	17.0
P/E (x)	26.3	19.4	17.1	14.6
P/BV (x)	7.3	5.9	4.8	3.9
RoE (%)	40.3	33.0	29.1	28.1
RoCE (%)	30.7	33.2	32.0	32.8
EV/Sales (x)	4.7	4.0	3.4	2.9
EV/EBITDA (x)	14.9	12.0	10.6	8.8

Source: Company, Angel Research

BUY

CMP	₹251
Target Price	₹358

Investment Period	15 Months
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Stock Info	
Sector	Media
Market Cap (₹ cr)	4,643
Beta	0.6
52 Week High / Low	307/223
Avg. Daily Volume	26,581
Face Value (₹)	10
BSE Sensex	18,008
Nifty	5,396
Reuters code	DBCL.BO
Bloomberg code	DBCL@IN

Shareholding Pattern (%)	
Promoters	86.3
MF / Banks / Indian Fls	3.7
FII / NRIs / OCBs	8.8
Indian Public / Others	1.2

Abs. (%)	3m	1yr	3yr
Sensex	(13.8)	11.0	(3.5)
DB Corp ^	(7.4)	4.1	-

Note: ^ DBCL listed on 6th Jan, 2010

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Exhibit 1: New launches to drag EBITDA by ~₹37cr in FY2011E

	FY2012E	FY2013E
Maharashtra matrix		
Ad market size (₹cr)	805	926
Growth (%)	15.0	15.0
Advertising revenue (₹ cr)	16.1	40.3
Market share (%)	2.0	4.3
Copies per day (mn)	0.3	0.7
No. of Copies sold per year (mn)	80.9	241.4
Avg. Realisation per copy	0.7	0.7
Circulation revenue (₹ cr)	5.4	17.6
Maharashtra and Jharkhand matrix		
Advertising revenue (₹ cr)	27.1	52.5
Circulation revenue (₹ cr)	7.3	19.6
Total Revenue (₹ cr)	34.4	72.1
Total RM cost (₹cr)	46.5	90.3
Opex (₹cr)	25.0	35.0
Total Expenses (₹ cr)	71.5	125.3
EBITDA	(37.1)	(53.2)

Source: Angel Research

Exhibit 2: AIR of Marathi dailies

Publications ('000)	1Q2010	2Q2010	ror %	3Q2010	ror %
Lokmat	7,361	7,402	0.6	7,809	5.5
Daily Sakal	4,092	4,202	2.7	4,639	10.4
Pudhari	2,623	2,596	(1.0)	2,661	2.5
Punya Nagari	2,222	2,184	(1.7)	2,062	(5.6)
Maharashtra Times	1,121	1,150	2.6	1,124	(2.3)
Deshonatti	978	1,006	2.9	920	(8.5)
Loksatta	1,073	1,092	1.8	1,099	0.6
Daily Deshdoot	339	306	(9.7)	272	(11.1)

Source: IRS 3Q2010, Angel Research

Exhibit 3: Peer Valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)			EV/Sales (x)			RoE (%)			CAGR#	
						FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	Sales	PAT
HT Media	Buy	3,463	147	175	18.8	19.7	17.2	15.2	2.1	1.7	1.5	16.7	16.4	15.9	16.7	16.5
Jagran	Buy	3,718	123	185	50.0	18.2	16.1	13.3	3.4	3.0	2.7	31.9	33.1	36.3	13.7	16.6
DB Corp	Buy	4,643	251	358	42.6	19.4	17.1	14.6	4.0	3.4	2.9	32.7	29.7	28.3	15.4	21.7

Source: Company, Angel Research; Note: # CAGR for the period FY2010-13E

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Gross sales	949	1,051	1,225	1,393	1,587
Less: Excise duty	-	-	-	-	-
Net sales	949	1,051	1,225	1,393	1,587
Total operating income	949	1,051	1,225	1,393	1,587
% chg	11.6	10.7	16.6	13.8	13.9
Total expenditure	814	720	817	948	1,068
Cost of materials	407	328	355	410	457
SG&A expenses	266	249	295	348	396
Personnel	133	132	154	176	201
Others	7	12	12	13	14
EBITDA	135	331	408	446	519
% chg	(20.8)	144.2	23.4	9.3	16.5
(% of Net sales)	14.3	31.5	33.3	32.0	32.7
Depreciation & amortisation	29	38	46	57	68
EBIT	106	293	362	388	451
% chg	(28.5)	175.2	23.6	7.3	16.2
(% of Net sales)	11.2	27.9	29.5	27.9	28.4
Interest & other charges	40	25	14	3	(8)
Other income	12	12	14	16	18
(% of PBT)	15.3	4.4	3.8	4.0	3.8
Share in profit of associates	-	-	-	-	-
Recurring PBT	78	281	361	402	478
% chg	(41.1)	258.9	28.7	11.3	18.8
Prior Period & extraordinary expense/(Inc.)	0	0	-	-	-
PBT (reported)	78	280	361	402	478
Tax	42	106	119	137	162
(% of PBT)	54.1	37.6	33.0	34.0	34.0
PAT (reported)	36	175	242	265	315
Add: Share of earnings of associate	-	-	-	-	-
Less: Minority interest (MI)	(12)	(8)	-	-	-
PAT after MI (reported)	48	183	242	265	315
ADJ. PAT	48	183	242	265	315
% chg	(37.1)	283.5	32.2	9.6	18.8
(% of Net Sales)	5.0	17.4	19.8	19.0	19.9
Basic EPS (₹)	2.8	10.1	13.1	14.3	17.0
Fully diluted EPS (₹)	2.6	9.9	13.1	14.3	17.0
% chg	(37.3)	283.9	32.3	9.6	18.8

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
SOURCES OF FUNDS					
Equity share capital	169	182	185	185	185
Share capital suspense account	-	1	-	-	-
Reserves & surplus	89	466	633	820	1,053
Shareholders funds	258	649	818	1,005	1,238
Minority interest	12	4	4	4	4
Total loans	563	321	263	213	163
Deferred tax liability	39	61	61	61	61
Total liabilities	872	1,035	1,146	1,284	1,467
APPLICATION OF FUNDS					
Gross block	413	660	768	820	907
Less: Acc. depreciation	81	112	158	216	284
Net block	331	547	609	604	623
Capital work-in-progress	271	61	115	123	136
Goodwill	45	39	39	39	39
Investments	24	21	21	21	21
Current assets	399	561	598	755	930
Cash	45	195	184	295	410
Loans & advances	105	101	110	118	133
Other	248	266	303	342	387
Current liabilities	219	207	248	270	294
Net current assets	180	354	350	485	636
Mis. Exp. not written off	22	13	13	13	13
Total assets	872	1,035	1,146	1,284	1,467

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Profit before tax	78	281	361	402	478
Depreciation	29	38	46	57	68
Change in working capital	13	(11)	(5)	(21)	(34)
Interest /dividend (Net)	30	25	14	3	(8)
Direct taxes paid	36	101	119	137	162
Others	(16)	2	(3)	(4)	(2)
Cash Flow from Operations	98	232	294	300	339
(Inc.)/ Dec. in fixed assets	(295)	(38)	(162)	(60)	(100)
(Inc.)/ Dec. in investments	(18)	3	-	-	-
Cash flow from Investing	(313)	(34)	(162)	(60)	(100)
Issue of equity	(1)	251	5	-	-
Inc./(Dec.) in loans	219	(242)	(58)	(50)	(50)
Dividend paid (Incl. Tax)	10	42	76	78	82
Interest / dividend (Net)	29	13	14	3	(8)
Cash Flow from Financing	180	(48)	(143)	(130)	(124)
Inc./(Dec.) in cash	(36)	150	(11)	110	115
Opening Cash balances	81	45	195	184	295
Closing Cash balances	45	195	184	295	410

Key ratios

Y/E March	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	101.0	25.4	19.4	17.1	14.6
P/CEPS	57.3	20.6	16.3	14.2	12.1
P/BV	17.0	7.0	5.7	4.6	3.7
Dividend yield (%)	0.2	0.8	1.3	1.4	1.5
EV/Sales	5.6	4.7	4.0	3.4	2.9
EV/EBITDA	39.4	14.9	12.0	10.6	8.8
EV/Total Assets	6.1	4.8	4.3	3.7	3.1
Per Share Data (₹)					
EPS (Basic)	2.8	10.1	13.1	14.3	17.0
EPS (fully diluted)	2.6	9.9	13.1	14.3	17.0
Cash EPS	4.5	12.2	15.6	17.4	20.7
DPS	0.5	2.0	3.5	3.6	3.8
Book Value	15.3	35.7	44.2	54.3	66.9
DuPont Analysis					
EBIT margin	11.2	27.9	29.5	27.9	28.4
Tax retention ratio	0.5	0.6	0.7	0.7	0.7
Asset turnover (x)	1.4	1.3	1.4	1.4	1.6
RoIC (Post-tax)	7.1	21.9	26.9	26.3	29.1
Cost of Debt (Post Tax)	0.1	0.0	0.0	0.0	(0.0)
Leverage (x)	1.5	1.0	0.1	(0.0)	(0.2)
Operating RoE	18.1	44.6	30.0	25.9	24.5
Returns (%)					
RoCE	14.2	30.7	33.2	32.0	32.8
Angel RoIC (Pre-tax)	12.9	34.9	37.6	39.3	42.7
RoE	20.0	40.3	32.7	29.7	28.3
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.3	1.6	1.6	1.7	1.8
Inventory/Sales (days)	27	25	23	24	26
Receivables (days)	68	67	68	65	63
Payables (days)	70	59	55	54	52
Working Cap. cycle (ex-cash) (days)	52	55	49	50	52
Solvency ratios (x)					
Net debt to equity	1.9	0.2	0.1	(0.1)	(0.2)
Net debt to EBITDA	3.7	0.3	0.1	(0.2)	(0.5)
Interest Coverage (EBIT/Interest)	2.6	11.9	25.0	151.6	(54.7)

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Disclosure of Interest Statement

DB Corp.

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	