

ACCUMULATE

CMP*	Rs323
Target Price	Rs360

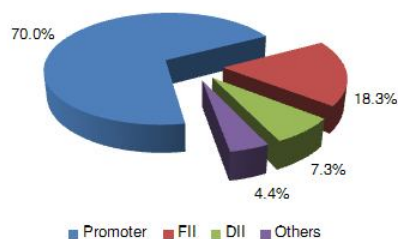
Stock Info

Sector	Print Media
Market Cap (Rs cr)	5,929
52 Week High/Low	358/226
Avg. Daily Volume (3m, '000)	97
Avg. Daily Value (3m, cr)	3.0
Dividend Yield (%)	2.2
Sensex	25,642
Nifty	7,664
BSE Code	533156
NSE Code	DBCORP

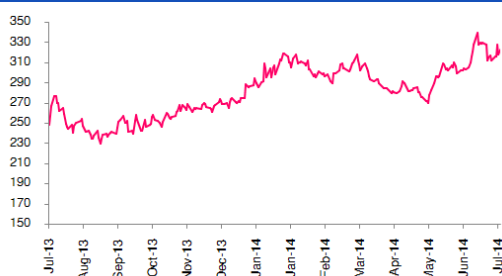
Stock Performance

(%)	DB CORP	NIFTY
1-week	3.3	2.7
1-month	6.8	1.4
1-year	30.1	26.9

Shareholding Pattern (%)



Stock Price Chart



*Note: CMP as on July 18, 2014

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Depreciation expense increases on new Company Act

Key highlights of the result

■ **Advertisement volume decline, growth primarily yield driven:** DB Corp (DBCL) reported ~9% yoy growth in its consolidated revenue driven by ~7% yoy growth in advertisement revenue (entirely yield improvement) and ~15% yoy growth in circulation revenue (~11% yield improvement). For the quarter, the company recorded a potential loss of ~Rs13cr yoy in government advertisement; excluding the government ad-spending; on a like-to-like basis the ad-revenue for DBCL was up 10-11% yoy. The contribution of local to national advertisement was equal this quarter, with Education, Automobile, Real Estate and Lifestyle being the top contributors. Radio continued to report strong double-digit advertisement revenue of ~20% yoy to ~Rs21cr (~Rs17cr).

DBCL's circulation volume rose by ~4% yoy driven by an improvement in its circulation base in the cities of Jharkhand (it has become the largest circulated daily with 1.7 lakh copies) and Ahmedabad (despite stiff competition from Bennett Coleman group, DBCL has increased its circulation by 30,000 copies). Moreover, the company has taken ~12% yoy cover price increase (across geographies to mitigate high cost of newsprint prices) and has an average cover price of Rs3.9/copy with average realization of Rs1.9/copy.

■ **Gross margins contraction impacts OPM:** The OPM of the consolidated entity contracted by ~205bp yoy, primarily owing to gross margin contraction of 239bp yoy. Gross margin contraction was due to – (1) high revenue base of last year (ad-revenue in 1QFY2014 was up by ~20% yoy), and (2) ~10% yoy rise in the newsprint price to Rs37,200/tonne (Rs33,200/tonne in 1QFY2014). However, sequentially the newsprint price for the company has slightly softened (newsprint in 4QFY2014 was Rs37,900/tonne). The management expects the newsprint costs to soften further, going forward. High operating expense (ex-newsprint costs) on yoy was accrued due to new editions of Bihar, Akola and Amravati.

■ **Change in Company Act, 2010 results in incremental Rs4.5cr of depreciation expense:** Owing to a change in the Company Act, 2010 (viz., the tenure of the depreciation calculated on the assets owned by the company has been reduced), depreciation expense of the company has increased by ~29% yoy. This expense increase will recur in the ensuing quarters. However, despite increase in depreciation expense and margin contraction, earnings for the company increased by ~4% yoy aided by lower interest expense and higher other income.

Outlook and Valuation

Post 1QFY2015 results, we have tweaked our numbers slightly to account for – (1) low advertisement income, as weak monsoons may be an overhang to discretionary spending, (2) cost savings, as the company leverages its existing assets for its various business segments, and (3) ~30% yoy increase in depreciation expense accruing from change in Company Act 2010. **We retain our positive view on the stock and recommend an Accumulate with a Target Price of Rs360.**

Risks to the view

- Lower-than-anticipated advertisement revenue may impact our estimates
- Higher-than- anticipated increase in newsprint prices will impact our estimates

Year End	Net Revenues		EBITDA		Net income (reported)		RoE	RoCE	EPS	Valuations (x)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2013	1,592	9.7	378	23.8	218	7.9	22.3	26.3	11.9	27.2	15.7
FY2014	1,860	16.8	500	26.9	307	40.6	28.2	33.4	16.7	19.3	11.9
FY2015E	2,089	12.3	583	27.9	344	12.2	27.9	34.6	18.8	17.2	10.1
FY2016E	2,372	13.6	688	29.0	413	19.9	29.0	36.9	22.5	14.4	8.5

Exhibit 1: Quarterly performance (Consolidated)

(Rs cr)	1QFY15	1QFY14	%yoy	4QFY14	% qoq	FY2014	FY2013	% yoy
Net Sales	489.2	449.4	8.9	454.2	7.7	1,859.8	1,592.3	16.8
Consumption of RM	166.3	142.1	17.1	167.5	(0.7)	632.3	544.6	16.1
(% of sales)	34.0	31.6		36.9		34.0	34.2	
Opex (incl. SG&A)	104.8	100.1	4.6	104.1	0.6	424.6	389.8	8.9
(% of sales)	21.4	22.3		22.9		22.8	24.5	
Staff Cost	83.5	74.4	12.3	77.9	7.2	302.5	279.5	8.2
(% of sales)	17.1	16.6		17.2		16.3	17.6	
Total Expenditure	354.6	316.6	12.0	349.5	1.5	1,359.5	1,213.8	12.0
Operating profit	134.6	132.8	1.3	104.6	28.6	500.3	378.5	32.2
OPM (%)	27.5	29.6		23.0		26.9	23.8	
Interest	1.6	2.5	(36.6)	1.4	11.0	7.5	10.5	(27.9)
Depreciation	20.4	15.8	29.1	16.5	23.6	64.2	58.1	10.6
EBIT	112.6	114.6	(1.7)	86.7	29.9	428.5	310.0	38.2
Other income	9.5	4.5	110.3	8.1	17.8	23.9	21.3	11.8
PBT	122.1	119.1	2.5	94.8	28.8	452.4	331.3	36.5
Tax	43.0	43.0	(0.0)	18.9	127.9	145.7	113.2	28.8
Tax Rate (%)	35.2	36.1		19.9		32.2	34.2	
PAT (recurring)	79.1	76.1	4.0	75.9	4.2	306.6	218.1	40.6
PAT Margin (%)	16.2	16.9		16.7		16.5	13.7	
Minority Interest	-	0.0		-		0.0	0.0	
PAT (reported)	79.1	76.1	4.0	75.9	4.2	306.6	218.1	40.6
FDEPS (Rs)	4.3	4.1	4.0	4.1	4.2	16.7	11.9	40.6

Source: Company, RSec Research

DBCL has increased the circulation of its Ahmedabad edition of Divya Bhaskar by 30,000 copies yoy and 8,000 copies qoq in the wake of increase in competitive intensity. With 1.7 lakh copies circulated in Jharkhand, the company is now the largest circulated daily in the state

Exhibit 2: Segmental performance

(Rs cr)	1QFY2015	1QFY2014	%yoy	4QFY2014	% qoq
Ad- Revenue (print)	347	325	6.5	319	8.8
Radio Revenue	21	17	19.7	22	(3.7)
Circulation Revenue	89	77	15.4	84	5.5
Others	33	30	12.1	30	10.7

Source: RSec Research, Company data

Exhibit 3: Edition-wise performance

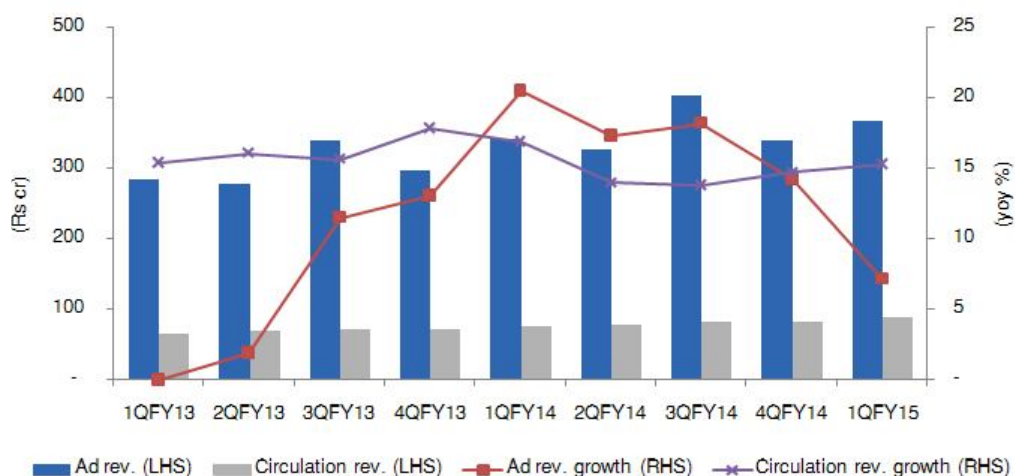
(Rs cr)	Mature Editions	Emerging Editions	Radio Business	DBCL Standalone
Total Revenue	418	54	21	499
EBITDA	146	(8)	7	144
% margin	34.8	-	35.1	28.9

Source: RSec Research, Company data

Advertisement revenue was completely yield driven. The company has discontinued advertisement bundling for its print and radio businesses

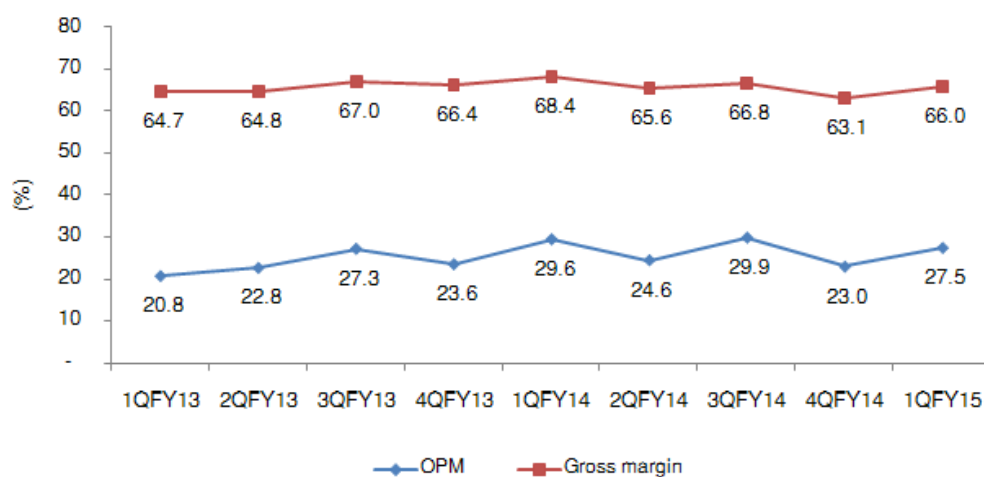
High base of 1QFY2014 coupled with ~10% yoy increase in newsprint price has resulted in gross margin contraction for the company

Exhibit 4: Top-line growth trend



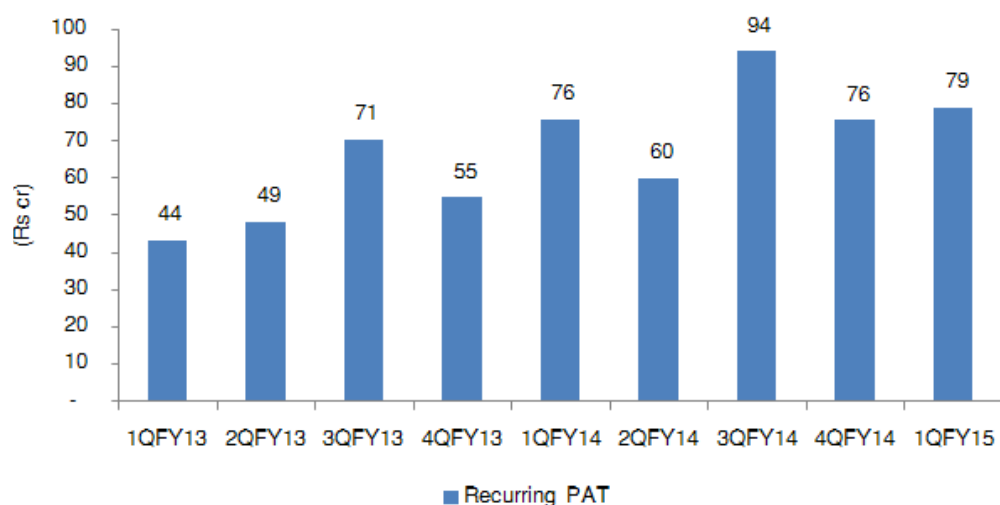
Source: Company, RSec Research

Exhibit 5: Gross margin contraction impacts OPM



Source: Company, RSec Research

Exhibit 6: Earnings trend



Source: Company, RSec Research

Profit & Loss Statement (consolidated)

Y/E March (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
Gross sales	1,592	1,860	2,089	2,372
Less: Excise duty	-	-	-	-
Net Sales	1,592	1,860	2,089	2,372
Total operating income	1,592	1,860	2,089	2,372
% chg	9.7	16.8	12.3	13.6
Total Expenditure	1,214	1,359	1,506	1,684
EBITDA	378	500	583	688
% chg	12.5	32.2	16.5	18.1
(% of Net Sales)	23.8	26.9	27.9	29.0
Depre. & Amortization	58	64	84	89
EBIT	320	436	499	599
(% of Net Sales)	20.1	23.4	23.9	25.2
Interest	10	8	7	6
Other Income	21	24	29	33
(% of PBT)	6.4	5.3	5.6	5.3
PBT (reported)	331	452	522	625
(% change)	10.2	36.5	15.3	19.9
Tax	113	146	177	213
Tax rate (%)	34.2	32.2	34.0	34.0
PAT (recurring)	218	307	344	413
Ext. Exp./ (Income)	-	-	-	-
Minority interest (MI)	(0)	(0)	-	-
PAT (reported)	218	307	344	413
% chg	7.9	40.6	12.2	19.9
(% of Net Sales)	13.7	16.5	16.5	17.4
Basic EPS (Rs)	11.9	16.7	18.8	22.5
Fully Diluted EPS (Rs)	11.9	16.7	18.8	22.5
% chg	7.9	40.6	12.2	19.9

Balance Sheet (consolidated)

Y/E March (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
SOURCES OF FUNDS				
Equity Share Capital	183	183	183	183
Reserves & Surplus	846	963	1,136	1,346
Shareholders Funds	1,029	1,147	1,320	1,529
Minority Interest	1	-	-	-
Total Loans	137	126	115	104
Deferred Tax Liability	83	89	89	89
Total Liabilities	1,251	1,362	1,524	1,722
APPLICATION OF FUNDS				
Gross Block	1,001	1,116	1,251	1,421
Less: Acc. Depreciation	238	291	374	464
Net Block	763	825	877	957
Capital Work-in-Progress	7	2	9	10
Intangible Assets	68	25	25	25
Investments	81	72	92	112
Current Assets	714	845	965	1,105
Cash	128	113	153	187
Loans & Advances	148	230	272	308
Other	438	501	541	610
Current liabilities	382	408	444	488
Net Current Assets	332	437	520	617
Mis. Exp. not written off	-	-	-	-
Total Assets	1,251	1,362	1,524	1,722

Cash Flow Statement

Y/E March (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
Profit before tax	331	452	522	625
Depreciation	58	64	84	89
Change in Working Capital	(76)	(112)	(48)	(74)
Interest / Dividend (Net)	10	8	7	6
Direct taxes paid	(113)	(146)	(177)	(213)
Others	(10)	(7)	3	11
Cash Flow from Operations	200	259	390	446
(Inc.)/ Dec. in Fixed Assets	(57)	(110)	(142)	(171)
(Inc.)/ Dec. in Investments	(35)	8	(20)	(20)
Cash Flow from Investing	(91)	(101)	(162)	(191)
Issue of Equity	1	3	-	-
Inc./ (Dec.) in loans	(43)	(11)	(11)	(11)
Dividend Paid (Incl. Tax)	(118)	(156)	(171)	(203)
Interest / Dividend (Net)	(10)	(8)	(7)	(6)
Cash Flow from Financing	(169)	(172)	(189)	(221)
Inc./ (Dec.) in Cash	(61)	(14)	39	34
Opening Cash balances	188	128	113	153
Closing Cash balances	128	113	153	187

Key Ratios

Y/E March	FY2013	FY2014	FY2015E	FY2016E
Valuation Ratio (x)				
P/E (on FDEPS)	27.2	19.3	17.2	14.4
P/CEPS	21.5	16.0	13.9	11.8
P/BV	5.8	5.2	4.5	3.9
Dividend yield (%)	1.7	2.2	2.5	2.9
EV/Sales	3.7	3.2	2.8	2.5
EV/EBITDA	15.7	11.9	10.1	8.5
EV / Total Assets	4.7	4.4	3.9	3.4
Per Share Data (Rs)				
EPS (Basic)	11.9	16.7	18.8	22.5
EPS (fully diluted)	11.9	16.7	18.8	22.5
Cash EPS	15.1	20.2	23.3	27.4
DPS	5.5	7.3	8.0	9.5
Book Value	56.1	62.5	71.9	83.3
Returns (%)				
RoCE	26.3	33.4	34.6	36.9
RoE	22.3	28.2	27.9	29.0
Turnover ratios (x)				
Asset Turnover	1.6	1.7	1.7	1.7
Inventory / Sales (days)	30	34	30	30
Receivables (days)	71	64	64	64
Payables (days)	66	59	55	52
WCC (days)	47	63	64	66

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