MOTILAL OSWAL MOST mid - cap Research

Entertainment Network (India) Ltd.

STOCK INFO.	BLOOMBERG
BSE Sensex: 20693	ENIL.IN
S&P CNX: 6162	REUTERS CODE ENIL.BO

8 January 2014

Accumulate

Initiating Coverage ₹332

(₹ CRORES)

Y/E MARCH	FY13	FY14E	FY15E
Net sales	334	375	405
EBITDA	122	148	159
RPAT	68	87	96
BV/Share (Rs.)	105.4	121.8	139.6
Adj. EPS (Rs.)	14.3	18.2	20.1
EPS growth (%)	22%	27%	10%
P/E (x)	23.2	18.2	16.6
P/BV (x)	3.2	2.7	2.4
EV/EBITDA (x)	12.9	10.6	9.8
Div yld (x)	0.3%	0.5%	0.6%
ROE (%)	15%	16%	15%
RoCE (%)	19%	21%	20%

KEY FINANCIALS

Shares Outstanding (cr)	4.80
Market Cap. (₹cr)	1583
Market Cap. (US$ m)	254
Past 3 yrs Sales Growth (%)	-7%
Past 3 yrs NP Growth (%)	L2P

STOCK DATA

52-W High/Low Range (₹)	365/198
Major Shareholders (as of September 2013)	
Promoter	71.2
Non Promoter Corp Holding	17.2
Public & Others	11.7
Average Daily Turnover(6 months)	
Volume	24495
Value (₹cr)	0.58
1/6/12 Month Rel. Performance (%)	9/50/32
1/6/12 Month Abs. Performance (%)	7/56/37

Maximum Buy Price : ₹340

We recommend to Accumulate ENIL for a target of ₹400 (20xFY15E EPS)

ENIL is part of the Bennett, Coleman & Co Ltd group which has been publishing "The Times of India", "Economic Times" and regional variants since 1838. ENIL operates in 32 circles in India under the brand "Radio Midchi" with "Mirchi sun ne wale always khush" (Mirchi audience is always happy) tag line. The "Tikhi Mirchi" (spicy/hot chilli) attracts 34M listeners with it contemporary music offerring.

Radio industry has potential to grow 4x: The KPMG FICCI M&E 2013 report suggests a 16.6% CAGR in radio adspend over 2012-2017. Radio is devoid of subscription revenues and depends upon adspends. If radio advertising were to rise to half the global standards of 0.9xGDP, ENIL and the industry have potential to grow 4x.

TV ad-time restrictions and Elections to add to growth: TRAI regulations restrict TV Ad times to 10min of external ads. Some channels have already implemented this with a resultant sharp rise in ad rates given lower inventory. Hence, lower budget advertisers have shifted to cheaper mediums on TV, print and even radio. Radio will be a key beneficiary if this is fully implemented. Election advertising in the 4 recent state elections through Radio boosted revenues and should add to revenues in view of the upcoming Central elections.

Strongest player in the segment; The Times group advantage: ENIL enjoys market leadership in the radio space with revenue share of 33-35%. The Times Group network helps bring in advertisements given its association with 25000+ advertisers. The company has one of the strongest balance sheets in the industry with debt free status, cash of ₹300cr in its books. These factors will be important in expanding reach with more stations during the Phase-III Auctions.

Phase-III auctions will drive growth beyond 2016: Phase-III auctions are expected to be completed in 2014. Phase 3 will allow expansion to 100 stations. Given the cash on books and strong cashflow generation, ENIL will be able to easily fund the capex for Phase-III. Phase-III will allow strong growth beyond 2016, but will entail a one time large investment for the license, migration fee and capex.

Valuations & View: We estimate that ENIL will grow its revenues and PAT at 12% and 19% CAGR over FY13-FY15E. Growth beyond FY15E will depend upon Phase-III auctions which will be a key trigger in FY15E. We recommend to Accumulate the stock for a target of ₹400 (20xFY15E EPS)

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Entertainment Network (India) Ltd.- Financials & Valuation

INCOME STATEMENT (₹CRORE)

Y/E MARCH	FY11	FY12	FY13	FY14E	FY15E
Net Sales	**454**	**310**	**334**	**375**	**405**
growth (%)	*8%*	*-32%*	*8%*	*12%*	*8%*
Other Income	12	13	23	30	30
Total Income	**466**	**323**	**357**	**405**	**435**
Production expenses	52	23	17	19	20
License Fees	108	15	18	20	21
Staff Costs	75	65	74	78	83
Marketing expenses	27	55	66	74	80
Other Expenses	118	53	61	67	72
Total Expenditure	**380**	**211**	**235**	**258**	**276**
EBITDA	**87**	**112**	**122**	**148**	**159**
% of Net Sales	*19%*	*36%*	*36%*	*39%*	*39%*
Depreciation/Amortization	42	33	32	33	33
Finance Charges	4	0	0	0	0
PBT	**41**	**79**	**90**	**115**	**126**
Tax	23	23	22	28	30
PAT	**17**	**56**	**68**	**87**	**96**
growth (%)	*-212%*	*226%*	*22%*	*27%*	*10%*
PAT MARGIN (%)	**4%**	**17%**	**19%**	**21%**	**22%**

RATIOS

Y/E MARCH	FY11	FY12	FY13	FY14E	FY15E
Adjusted EPS(₹)	**3.6**	**11.7**	**14.3**	**18.2**	**20.1**
growth (%)	*-211%*	*230%*	*22%*	*27%*	*10%*
Cash EPS	12.4	18.6	21.0	25.2	27.0
Book Value	80.2	92.0	105.4	121.8	139.6
DPS	-	-	1.0	1.5	2.0
Payout (Incl. Div. Tax)	0%	0%	8%	10%	12%
Valuation (x)					
P/E	93.4	28.3	23.2	18.2	16.6
Cash P/E	26.7	17.9	15.8	13.2	12.3
Price/Book Value	4.1	3.6	3.2	2.7	2.4
EV/EBITDA	18.1	13.7	12.9	10.6	9.8
EV/Sales	3.5	5.0	4.7	4.2	3.9
Div. Yld	0.0%	0.0%	0.3%	0.5%	0.6%
Return Ratios (%)					
RoE	5%	14%	15%	16%	15%
RoCE	11%	19%	19%	21%	20%
Leverage (x)					
Debt/Equity (x)	-	-	-	-	-

BALANCE SHEET (₹CRORE)

Y/E MARCH	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	48	48	48	48	48
Reserve & Surplus	335	391	455	533	618
Shareholders' Funds	**382**	**438**	**502**	**581**	**665**
Net deferred tax	9	10	4	0	0
Other Liabilities	3	4	5	5	5
Liabilities	**394**	**452**	**511**	**586**	**670**
Net Block	**181**	**150**	**120**	**77**	**44**
CWIP	0	0	0	10	10
Investments	87	184	315	415	530
Current Assets	**174**	**167**	**134**	**150**	**159**
Sundry Debtors	113	93	99	112	121
Cash and Bank Balances	16	45	12	16	16
Loans and Advances	45	29	22	22	22
Current Liabilities & Provisions	76	69	78	85	92
Net current assets	**97**	**98**	**56**	**64**	**67**
Misc expenses	97	98	56	64	67
Other Assets	29	21	19	19	19
Application of Funds	**395**	**452**	**511**	**586**	**670**

CASH FLOW STATEMENT (₹CRORE)

Y/E MARCH	FY11	FY12	FY13	FY14E	FY15E
PBT before EO items	41	79	90	115	126
Add : Depreciation	42	33	32	33	33
Interest	4	0	0	0	0
(Inc)/Dec in WC	46	29	9	(5)	(2)
Others	(117)	(24)	(45)	(33)	(32)
CF from Operating activities	***16***	***117***	***86***	***111***	***125***
(Inc)/Dec in Fixed assets	(28)	(2)	(3)	0	0
Others	(4)	10	14	0	0
CF from Investing activities	**(72)**	**(88)**	**(118)**	**(100)**	**(115)**
Inc/(Dec) in debt	(57)	0	0	0	0
Dividend paid	0	0	(5)	(7)	(10)
Less: Interest paid	(4)	(0)	(0)	0	0
Others	100	0	5	0	0
CF from financing activities	**52**	**0**	**(0)**	**(7)**	**(10)**
Inc/(Dec) in cash	**(5)**	**29**	**(32)**	**3**	**0**
Add: Beginning balance	20	16	45	13	16
Closing Balance	**16**	**45**	**13**	**16**	**16**

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Disclosure of Interest Statement	Entertainment Network (India) Ltd.
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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Result Update

May 25, 2017

Rating matrix		
Rating	:	Buy
Target	:	₹ 860
Target Period	:	12 months
Potential Upside	:	14%

What's changed?	
Target	Changed from ₹ 850 to ₹ 860
EPS FY18E	Changed from ₹ 17.5 to ₹ 17.1
EPS FY19E	Changed from ₹ 22.9 to ₹ 25.2
Rating	Changed from Hold to Buy

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	165.5	147.2	12.4	150.6	9.8
EBITDA	35.2	38.5	-8.7	38.1	-7.7
EBITDA (%)	21.3	26.2	-492 bps	25.3	-405 bps
PAT	13.8	20.2	-31.6	16.4	-16.0

Key financials

₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	508.6	556.5	655.4	764.3
EBITDA	159.4	125.9	173.6	219.6
Net Profit	100.0	55.2	81.3	120.2
EPS (₹)	21.0	11.6	17.1	25.2

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	35.9	65.0	44.1	29.8
Target P/E	41.0	74.3	50.4	34.1
EV / EBITDA	22.9	28.6	20.1	15.4
P/BV	4.4	4.2	3.8	3.4
RoNW	12.4	6.4	8.7	11.5
RoCE	13.9	9.3	12.8	16.3

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	₹ 3527.6 Crore
Total Debt (FY17)	₹ 123.2 Crore
Cash & Liquid Investments(FY17)	₹ 110.7 Crore
EV (₹ Crore)	₹ 3540.1 Crore
52 week H/L	905 / 612
Equity capital	47.7
Face value	10.0

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Entertainment Network (ENTNET) ₹ 752

Poised for healthy growth ahead

- Revenues came in at ₹ 165.5 crore (up 12.4% YoY) higher than our estimates of ₹ 148.3 crore, owing to superior growth in the non radio business (36% YoY) and incremental revenues from newly launched channels (₹ 15.9 crore for Q4FY17). Core radio stations reported 2.7% YoY decline owing to the after-effects of demonetisation
- EBITDA came in at ₹ 35.2 crore, lower than expectations of ₹ 40.3 crore owing to higher marketing & administrative expenses from newly launched stations. Hence, margins came in lower-than-expectations at 21.3% vs. our estimate of 27.2%
- PAT came in at ₹ 13.8 crore, lower than expectations of ₹ 18.1 crore owing to misses on the margins and higher depreciation and interest cost, albeit partly offset by lower tax expenses

Non radio business boosts growth in Q4FY17

ENIL is a leading player in the radio industry with a portfolio of 73 stations (including Phase III (batch I and II) stations & four Oye FM stations) (currently 49 stations operational). During the quarter, the legacy radio station revenues witnessed 2.7% YoY decline owing to the after-effects of demonetisation, which impacted companies across sectors. However, newly launched channels contributed ₹ 15.9 crore (~10% of the topline), thereby aiding topline growth. Furthermore, the non-radio business (~30% of topline), witnessed stellar 36% YoY growth boosting revenue growth. We expect new stations ramp up and ENIL's increased focus on non-radio business to drive topline growth in the next two or three years. We factor in 16.9% (FY17-19E) CAGR in ad revenues to ₹ 750.3 crore.

Margins to improve as new stations break even from H2FY18 onwards

The newer channel launches as well as demonetisation impact led to a sharp decline in margins to 22.6% in FY17. During Q4FY17, overall EBITDA was impacted by heavy marketing expenses incurred towards new station launches and lower operating leverage owing to lower ad revenues. The company reiterated new stations breakeven cycle of six to eight quarters as they achieve increase in capacity utilisation and higher ad yields. It also said peak potential margins of second frequencies would be up to 45-50%. Furthermore, the company aims to improve the non-radio business margins to ~30% from current levels of low double digits over the next 3-5 years. Considering the above-mentioned factors, we expect margins to inch up to 26.5% & 28.7% in FY18E & FY19E, respectively, aided by the new stations breakeven as well as ad growth recovery.

Key beneficiary of expanding reach of radio; upgrade to BUY

Radio, as a segment in the Indian media sector, is likely to outpace its peers such as television, print owing to expanding reach and higher leverage in terms of pricing. The segment is likely to report 16-18% revenue growth over the next three to five years. We also reiterate that ENIL, being a leader, is expected to be a key beneficiary of the expanding reach of the radio. While the new channel launches in phase III are expected to pressurise margins in H1FY8E, a gradual recovery would be seen from H2FY18E onwards. The company's focus on improving the profitability of the non-radio business is also heartening. Therefore, we upgrade the recommendation on ENIL to **BUY** with a DCF-based target price of ₹ 860.

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	Q3FY17	YoY (%)	QoQ (%)	Comments
Revenue	165.5	148.3	147.2	150.6	12.4	9.8	The topline beat was led by superior performance of the non radio business, which grew ~36% YoY
Other Income	5.1	5.0	0.7	4.8	627.0	6.7	
Marketing Expenses	47.6	34.1	41.2	33.9	15.5	40.2	The company has incurred huge marketing expenses towards promotion of its new radio stations
Administrative Expenses	41.4	31.2	30.9	34.1	33.9	21.3	
License Fee	9.4	7.9	6.4	8.8	47.0	6.3	
Employee Expenses	24.6	28.2	25.1	28.8	-2.0	-14.6	
Other Expenses	7.3	6.7	5.1	6.9	44.0	7.1	
EBITDA	35.2	40.3	38.5	38.1	-8.7	-7.7	
EBITDA Margin (%)	21.3	27.2	26.2	25.3	-492 bps	-405 bps	New stations incurred losses in the quarter owing to huge marketing costs being incurred therein, dragging down overall EBITDA
Depreciation	16.4	15.5	8.9	14.7	84.6	11.4	
Interest	5.0	3.3	0.0	4.1	NA	21.0	
Total Tax	5.0	8.5	10.1	7.6	-50.4	-33.7	
PAT	13.8	18.1	20.2	16.4	-31.6	-16.0	PAT was lower owing to misses on margins and higher depreciation & interest cost, albeit partly offset by lower tax expenses
Key Metrics							
Op. Revenue growth	18.6%	6.4%	13.4%	6.2%	38.2	200.8	
Rate/Slot	368.0	331.4	295.4	368.0	24.6	0.0	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	649.6	655.4	0.9	744.2	764.3	2.7	We largely maintain our estimates. The slight increase in topline is owing to Q4FY17 beat
EBITDA	175.5	173.6	-1.1	212.3	219.6	3.5	
EBITDA Margin (%)	27.0	26.5	-51 bps	28.5	28.7	24 bps	We expect new stations to start hitting break-even levels from H2FY18E onwards leading to an expansion in margins
PAT	83.6	81.3	-2.7	109.2	120.2	10.1	
EPS (₹)	17.5	17.1	-2.5	22.9	25.2	10.1	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier	
	FY16	FY17E	FY18E	FY19E	FY17E	FY18E
Op. Revenue growth	14%	12%	17%	16%	19%	15%
Rate/Slot	288.4	318.1	369.7	431.9	346.8	393.0

Source: Company, ICICIdirect.com Research

Enjoys strong presence in top revenue contributing cities

ENIL bought 17 frequencies in batch 1 of Phase III auction incurring an outlay of ₹ 339.2 crore. Nine out of the 17 were second frequencies and third in case of Hyderabad. The company also won 21 new licenses in the recently concluded Batch 2 of Phase III auctions for an outlay of ₹ 51.4 crore (funded from debt). All these phase III licenses have tenure of 15 years from the date of operationalisation of such licenses.

Post the Phase III auction, it is well placed to capitalise on its leadership and presence of second frequencies in nine of the top 13 cities (contributing ~75% of industry revenues) as well as enter untapped markets. ENIL now has a portfolio of 73 stations (including newly bagged phase III stations and four Oye FM stations) with over 30% market share, making it a proxy play on exponential growth in the radio industry.

The newly launched phase III channels are getting a lot of traction, with some second frequencies in existing cities, commanding a premium rate over old channels and some coming in at par with incumbents. The company expects strong growth from new channels in coming quarters, as utilisation rates increase further.

During the quarter, legacy radio stations revenues witnessed 2.7% YoY decline owing to the after-effects of demonetisation, which has adversely impacted companies across sectors. However, the newly launched channels contributed ₹ 15.9 crore in Q4FY17 (₹ 30.7 crore for FY17), thereby aiding topline growth. Furthermore, the non-radio business (~30% of topline), witnessed stellar 36% YoY growth boosting revenue growth.

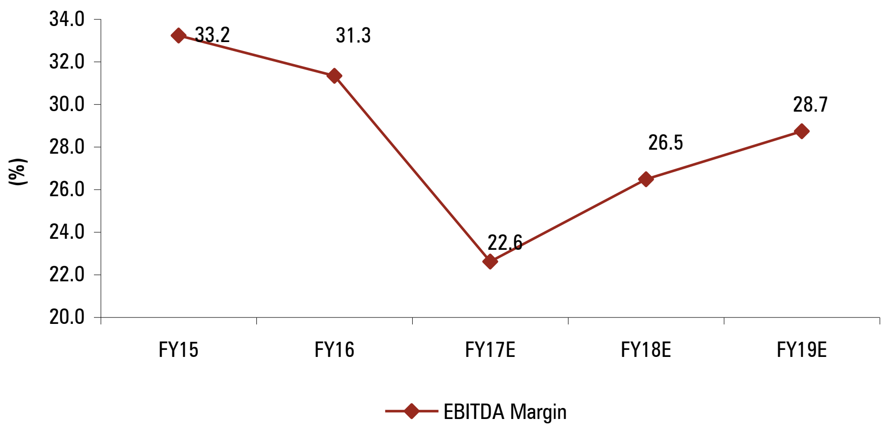
We expect new stations ramp up as well as ENIL's increased focus on non-radio business to drive topline growth in the next two or three years. We factor in 16.9% (FY17-19E) CAGR in ad revenues to ₹ 750.3 crore.

Margins to witness recovery going ahead

We highlight ENIL has enjoyed industry leading EBITDA margins of 32-33% in the last three years on the back of leadership and higher utilisation of existing ad inventory. However, newer channel launches as well as demonetisation impact led to a sharp decline in margins to 22.6% in FY17. During Q4FY17, overall EBITDA was adversely impacted by heavy marketing expenses incurred towards new station launches and lower operating leverage owing to lower ad revenues. The company expects marketing to remain high for new channels as it intends to build the "Mirchi Love" brand strongly.

The company reiterated new stations breakeven cycle of six to eight quarters as they achieve increase in capacity utilisation and higher ad yields. It also said peak potential margins of second frequencies would be up to 45-50%. Furthermore, ENIL aims to improve the non-radio business margins to ~30% from current levels of low double digits. Considering the above-mentioned factors, we expect margins to inch up to 26.5% & 28.7% in FY18E & FY19E, respectively, aided by the breakeven of new stations as well as ad growth recovery.

Exhibit 1: EBITDA margins trend



Source: Company, ICICIdirect.com Research

Other highlights:

- The utilisation rate for the top eight stations was at ~118% while the remaining 24 stations were at ~91%. The utilisation level for new stations is 10-30% (~15% on an average) while the company also intends to achieve 10 minutes ad inventory in new channels to build brand preference
- The gross rate across the company's platform on a like to like basis was at ₹ 12000 in Q4FY17 (₹ 10727 in FY17)
- Though marketing spends towards the core 36 stations of the company would reduce, it intends to continue its marketing spends towards brand building of *Mirchi Love*. It will cause some impact on margins in the near future. However, we expect new channels to hit break-even in H2FY18
- In terms of its new frequencies, the company indicated that it is doing pretty well in Bangalore, Hyderabad and Chandigarh where listenership levels are as good as existing competitors
- The company has knocked-off four minutes of advertisement. Therefore, peak ad inventory now would be 18 minutes per hour vs. earlier levels of 22 minutes per hour.

Outlook & Valuation

ENIL being the largest and most profitable player in the radio industry is well placed to capitalise on leadership after the Phase III radio frequency auctions. Moreover, with a stark difference in advertisement rates (~₹ 12000 per 10 second slot for ENIL vs. ~₹ 120000 to a leading GEC) and wider reach than television, advertisement revenue for radio is expected to grow at a much more rapid pace. The segment is likely to report 16-18% revenue growth over the next three to five years.

While new channel launches in phase III are expected to pressurise margins in H1FY8E, a gradual recovery is expected to be seen from H2FY18E onwards. The company's focus on improving the profitability of the non-radio business is also heartening. Therefore, we upgrade the stock to **BUY** recommendation with a DCF-based target price of ₹ 860.

Exhibit 2: DCF valuations

Particulars	Amount
WACC	10.3%
Revenue CAGR over FY17 - FY24E	15.9%
PV of Cash Flow Till Terminal Year	1,018.8
Terminal Growth	4.0%
Present Value of terminal cash flow	3,091.9
PV of firm	4,110.7
Less: Net Debt	12.5
Total present value of the Equity	4,098.2
Number of Equity Shares outstanding	4.8
DCF - Target price (₹)	860

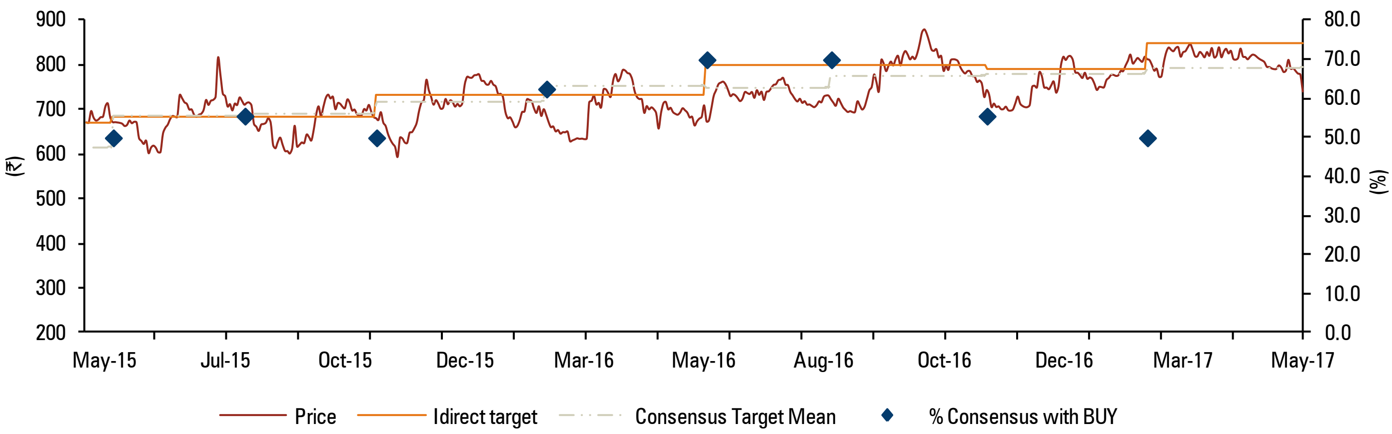
Source: Company, ICICIdirect.com Research

Exhibit 3: Valuations

	Sales (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	508.6	16.0	21.0	-5.6	35.9	22.9	12.4	13.9
FY17	556.5	9.4	11.6	-44.8	65.0	28.6	6.4	9.3
FY18E	655.4	17.8	17.1	47.4	44.1	20.1	8.7	12.8
FY19E	764.3	16.6	25.2	47.9	29.8	15.4	11.5	16.3

Source: Company, ICICIdirect.com Research

Recommendation history versus consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jul-10	Sells off event business to the parent - negative reaction in the stock - relatively cheaper valuations
Aug-10	Entertainment Network (India) Ltd approves appointment of Prashant Panday as whole-time director
Jul-11	Government approves Phase III radio auctions
Jun-12	India's largest FM station Radio Mirchi joins hands with a Dubai-based Cricket Radio to make it's ICC World Cup programming more interesting
Sep-13	I&B Minister Manish Tewari announces the government is set to unveil e-auction process for Phase III auctions
Apr-14	Phase III auction talks kick start with renewed focus
Feb-15	TV Today's board approves selling off of its radio stations to ENIL
Jun-15	The I&B approves ENIL's purchase of four of TV Today's radio stations
Jul-15	Phase III auctions finally begin for 135 stations in its first phase
Sep-15	Buys 17 frequencies in the auction by incurring an outlay of ₹ 339.2 crore. Nine out of the 17 are second frequencies and third for Hyderabad
Mar-16	Launches a new radio station in Guwahati
H1FY17	Launches radio stations in Bangalore (second frequency - Hindi music based), Cochin, Hyderabad

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bennett Coleman & Co., Ltd.	31-Mar-17	0.71	33.9	0.0
2	Ruane, Cunniff & Goldfarb, Inc.	31-Mar-17	0.06	2.8	0.0
3	Amansa Capital Pte Ltd.	31-Mar-17	0.06	2.8	0.0
4	PineBridge Investments Asia Limited	30-Jun-16	0.02	1.2	1.1
5	PineBridge Investments Asset Management Company (Ind	31-Mar-17	0.02	1.2	0.0
6	State Bank of India	31-Mar-17	0.02	0.9	-0.8
7	IDFC Asset Management Company Private Limited	28-Feb-17	0.02	0.8	0.0
8	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-17	0.01	0.4	0.0
9	ICICI Prudential Asset Management Co. Ltd.	28-Feb-17	0.01	0.4	0.0
10	L&T Investment Management Limited	28-Feb-17	0.00	0.1	0.1

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	71.15	71.15	71.15	71.15	71.15
FII	16.54	16.56	16.86	16.52	16.48
DII	2.12	2.34	2.36	2.42	3.56
Others	10.19	9.95	9.63	9.91	8.81

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Asset Management Company Ltd.	+0.62M	+0.05M	State Bank of India	-10.38M	-0.80M
L&T Investment Management Limited	+0.62M	+0.05M	Reliance Nippon Life Asset Management Limited	-0.44M	-0.04M
			Taurus Asset Management Co. Ltd.	-0.15M	-0.01M
			Axis Asset Management Company Limited	-0.14M	-0.01M
			LIC Mutual Fund Asset Management Company Ltd.	-0.01M	-0.00M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Total operating Income	508.6	556.5	655.4	764.3
Growth (%)	16.0	9.4	17.8	16.6
Production Cost	17.9	25.5	29.4	34.5
License Fee	26.2	33.4	37.0	41.3
Administrative Expenses	211.7	266.4	297.9	332.6
Employee Expenses	93.5	105.4	117.5	136.3
Total Operating Expenditure	349.3	430.6	481.8	544.7
EBITDA	159.4	125.9	173.6	219.6
Growth (%)	9.7	-21.0	37.9	26.5
Depreciation	36.3	53.6	62.3	65.0
Interest	0.0	13.6	10.0	6.3
Other Income	25.1	20.3	20.0	28.0
Exceptional Items	-	-	-	-
PBT	148.2	79.0	121.4	176.3
MI/PAT from associates	-	-	-	-
Total Tax	48.2	23.8	40.0	56.1
PAT	100.0	55.2	81.3	120.2
Growth (%)	-5.6	-44.8	47.4	47.9
EPS (₹)	21.0	11.6	17.1	25.2

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY18E
Profit after Tax	100.0	55.2	81.3	120.2
Add: Depreciation	36.3	53.6	62.3	65.0
Add: Interest Piad	0.0	13.6	10.0	6.3
(Inc)/dec in Current Assets	-41.8	-21.5	-36.5	-42.3
Inc/(dec) in CL and Provisions	2.7	30.0	49.6	32.7
CF from operating activities	97.2	130.8	166.6	181.9
(Inc)/dec in Investments	313.9	119.2	-50.0	-50.0
(Inc)/dec in Fixed Assets	-727.5	-108.0	-50.0	-50.0
Others	22.2	3.9	0.0	0.0
CF from investing activities	-391.3	15.1	-100.0	-100.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	250.1	-126.9	-40.0	-20.0
Interest paid	0.0	-13.6	-10.0	-6.3
Dividend outflow	-5.7	-5.7	-5.7	-5.7
Others	39.5	-0.5	0.5	0.0
CF from financing activities	283.8	-146.7	-55.2	-32.1
Net Cash flow	-10.3	-0.9	11.4	49.9
Opening Cash	14.3	4.0	3.2	14.6
Closing Cash	4.0	3.2	14.6	64.5

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	47.7	47.7	47.7	47.7
Reserve and Surplus	760.8	809.7	885.8	1,000.2
Total Shareholders funds	808.4	857.4	933.4	1,047.9
Total Debt	250.1	123.2	83.2	63.2
Others	5.8	9.7	9.7	9.7
Total Liabilities	1,064.4	990.3	1,026.4	1,120.9
Assets				
Gross Block	736.4	1,134.6	1,184.6	1,234.6
Less: Acc Depreciation	348.4	402.0	464.2	529.2
Net Block	388.0	732.6	720.4	705.4
Capital WIP	356.6	66.4	66.4	66.4
Total Fixed Assets	744.7	799.1	786.8	771.8
Investments	236.0	116.9	166.9	216.9
Inventory	-	-	-	-
Debtors	140.3	162.2	188.6	219.9
Loans and Advances	17.7	18.8	22.3	26.0
Other Current Assets	38.7	37.3	43.9	51.2
Cash	4.0	3.2	14.6	64.5
Total Current Assets	200.7	221.4	269.3	361.5
Creditors	80.0	111.6	131.5	153.3
Provisions	8.5	10.4	26.3	30.7
Other Current Liabilities	29.0	25.5	39.3	45.9
Total Current Liabilities	117.5	147.5	197.1	229.8
Net Current Assets	83.2	73.9	72.2	131.7
Other non Current Assets	0.0	0.0	0.0	0.0
Application of Funds	1,064.4	990.3	1,026.4	1,120.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	21.0	11.6	17.1	25.2
Cash EPS	28.6	22.8	30.1	38.8
BV	169.6	179.9	195.8	219.8
DPS	1.2	1.2	1.2	1.2
Cash Per Share	0.8	0.7	3.1	13.5
Operating Ratios (%)				
EBITDA Margin	31.3	22.6	26.5	28.7
PBT / Total Operating income	24.2	13.0	17.0	20.2
PAT Margin	19.7	9.9	12.4	15.7
Inventory days	0.0	0.0	0.0	0.0
Debtor days	100.7	106.4	105.0	105.0
Creditor days	57.4	73.2	73.2	73.2
Return Ratios (%)				
RoE	12.4	6.4	8.7	11.5
RoCE	13.9	9.3	12.8	16.3
RoIC	23.8	8.9	14.1	19.8
Valuation Ratios (x)				
P/E	35.9	65.0	44.1	29.8
EV / EBITDA	22.9	28.6	20.1	15.4
EV / Net Sales	7.2	6.5	5.3	4.4
Market Cap / Sales	7.0	6.4	5.5	4.7
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	1.6	1.0	0.5	0.3
Debt / Equity	0.3	0.1	0.1	0.1
Current Ratio	1.7	1.5	1.3	1.3
Quick Ratio	1.7	1.5	1.3	1.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Media)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY16	FY17E	FY18E	P/E (x) FY16	FY17E	FY18E	EV/EBITDA (x) FY16	FY17E	FY18E	RoCE (%) FY16	FY17E	FY18E	RoE (%) FY16	FY17E	FY18E
DB Corp (DBCORP)	362	395	Hold	6,657	20.4	22.5	26.3	17.8	16.1	13.8	12.5	10.2	9.1	32.2	31.1	31.5	23.5	22.6	22.6
DISH TV (DISHTV)	82	90	Hold	8,762	6.5	1.6	2.7	12.7	52.9	30.2	9.3	9.3	7.9	31.1	27.3	34.7	181.9	30.4	34.8
ENIL (ENTNET)	752	860	Buy	3,585	21.0	11.6	17.1	35.9	65.0	44.1	22.9	28.6	20.1	13.9	9.3	12.8	12.4	6.4	8.7
HT Media (HTMED)	80	75	Hold	1,862	7.5	7.3	6.7	10.7	10.9	11.9	6.3	8.6	7.9	11.0	10.9	9.4	8.3	7.6	6.6
Inox Leisure (INOX)	286	325	Buy	2,621	8.1	3.2	7.3	35.4	89.7	39.2	14.8	20.2	13.2	12.9	7.3	13.4	15.7	5.5	11.3
PVR (PVRLIM)	1,457	1,475	Buy	6,808	25.4	20.3	29.1	57.3	71.8	50.0	21.3	21.3	16.5	15.6	13.2	15.9	14.3	10.0	12.5
Sun TV (SUNTV)	790	930	Buy	31,128	23.2	26.7	29.7	34.1	29.6	26.6	16.8	15.8	13.8	36.1	39.1	41.0	24.9	27.3	28.5
TV Today (TVTNET)	255	315	Buy	1,521	15.8	17.0	21.2	16.1	15.0	12.0	9.3	8.5	6.8	27.6	25.1	26.9	17.7	16.6	17.8
ZEE Ent. (ZEEENT)	509	600	Buy	48,851	10.7	23.1	16.0	47.6	22.0	31.7	31.2	23.4	21.0	24.8	21.2	23.8	16.1	15.0	15.6

Source: Company, ICICIdirect.com Research

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Buy: >10%/15% for large caps/midcaps, respectively;
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Music Broadcast (MUSBRO)

₹ 340

Bet on expanding radio reach...

We met the management of Music Broadcast (MBL) to understand its growth prospects and plans ahead. It is one of the leading private FM radio broadcasters in India with the brand *Radio City*. The company has 39 frequencies currently, including eight stations acquired from Radio Mantra and 11 acquired via Phase III auctions. MBL's operating revenues, EBITDA grew at 21%, 29% CAGR in FY14-17 to ₹ 271.4 crore, ₹ 91.1 crore, respectively. Radio City posted a six year CAGR of ~12.1% vs. 9.1% by industry in advertising volumes. It indicated triggers such as incremental revenues from new stations and ability of the company to pass on rate hikes to the tune of 10-12% to aid overall revenues. The company expects its new stations to break even within two years. The management indicated it was in discussions with potential acquisition targets in some locations. The company would be distributing 80-90% of profit after accounting for the requisite maintenance capex (barring additional outlay in case of an acquisition) to enhance shareholder return.

New markets of Phase III to drive revenues, capitalise on radio growth

MBL has launched all Phase III stations in FY17 and would benefit from incremental revenues arising from new markets. The company focused on expanding its reach in the last auctions to be a relevant national radio player against a second frequency strategy by some of its competitors. The next phase of radio growth will stem from newly acquired stations. The management expects new stations to contribute 10-15% of the current topline. Coupled with 10-12% growth in core stations, the company expects overall revenues growth at 16-18% CAGR in the next couple of years. In our Jagran Prakashan estimates, we have factored in Music Broadcast revenues will grow at 15.3% CAGR in FY17-19E to ₹ 360.5 crore.

Strong leadership in key cities, leading player in radio space

Radio City is the first and oldest private FM radio broadcaster in India with over 15 years of expertise and a pan-India presence spanning 39 frequencies. As per RAM data, it has consistently been the No. 1 radio station in terms of average listenership share in Bengaluru and Mumbai with 24.1% and 17.2%, respectively, among private players. MBL is also present in 12 of the 15 most populated cities in India. The presence in key metros along with an expanded network in some key cities makes it a meaningful player in the eyes of advertisers.

Strong financials, cash flows...

We believe the company with its strong capital allocation and robust earning growth potential remains a strong bet on the radio sector. At the current market price, the company is available at 29.6x FY19E earnings, which is at ~15% discount to ENIL.

Exhibit 1: Key Financials

₹ crore	FY13	FY14	FY15	FY16	FY17
Net Sales	138.1	154.2	200.8	225.5	271.4
EBITDA	33.9	42.4	62.3	78.2	91.1
PAT	11.6	24.3	47.1	27.6	36.5
P/E (x)	166.5	79.7	41.2	70.2	53.1
Price / Book (x)	NA	182.4	33.7	9.2	3.5
EV/EBITDA (x)	63.7	50.9	34.6	27.6	23.7
RoCE (%)	15.8	26.4	15.6	19.9	12.7
RoE (%)	NA	229.0	81.7	13.2	6.7

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key financials

₹ Crore	FY14	FY15	FY16	FY17
Net Sales	154.2	200.8	225.5	271.4
EBITDA	42.4	62.3	78.2	91.1
EBITDA Margin (%)	27.5	31.0	34.7	33.6
PAT	24.3	47.1	27.6	36.5
PAT Margin (%)	15.8	23.4	12.2	13.4

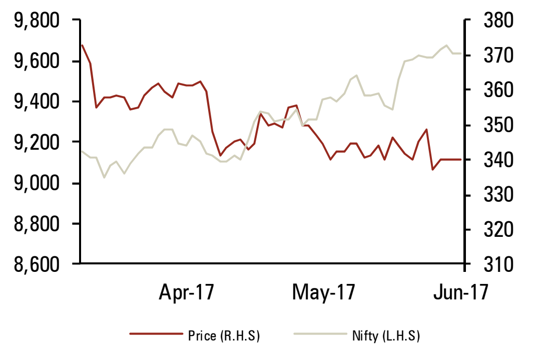
Valuation summary

(x)	FY14	FY15	FY16	FY17
P/E	79.7	41.2	70.2	53.1
EV/EBITDA	50.9	34.6	27.6	23.7
P/BV	182.4	33.7	9.2	3.5
RoCE	26.4	15.6	19.9	12.7
RoNW	229.0	81.7	13.2	6.7

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	1,937.6
Total Debt (FY17) (₹ Crore)	49.9
Cash (FY17) (₹ Crore)	267.9
EV (₹ Crore)	1,719.6
52 week H/L	415 / 334
Equity capital (₹ crore)	57.1
Face value	10.0

Price Chart



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Company Background

Music Broadcast is one of the leading private FM radio broadcasters in India and operates under the brand "Radio City". The company has grown its presence from four cities in 2001 to 39 as on FY17. These radio stations include eight "Radio Mantra Stations" transferred from SPML pursuant to the scheme of arrangement and 11 phase III new radio stations. Jagran Prakashan (JPL) acquired a majority shareholding in the company in 2015. The radio business was demerged into a separate entity pursuant to the scheme of arrangement.

The company is present in 12 of the top 15 cities in India by population. As on March 31, 2016, it reached out to over 49.60 million listeners in 23 cities covered by AZ Research. The company earns about 35% of its revenues from its top four cities for Delhi, Mumbai, Bangalore and Chennai. MBL has successfully migrated all its Phase II Radio City stations to the Phase III Policy and now enjoys an extended license period of 15 years. Moreover, under the Phase III regime, radio stations are permitted to carry news bulletins of AIR and also network their radio stations in all cities. In the past, it has networked its stations in Sangli, Nanded, Jalgaon, Sholapur and Akola in Maharashtra and operates it from a single hub at Ahmednagar. The company intends to use this experience to network some of its stations in other states as well while maintaining the localised feeds relating to any particular city.

Exhibit 2: Cities in which MBL possesses radio frequencies

Phase II		Phase III	Radio Mantra
Bangalore	Jaipur	Patna	Agra
Lucknow	Vadodra	Kanpur	Bareilly
Mumbai	Coimbatore	Madurai	Gorakhpur
New Delhi	Vizag	Nasik	Varanasi
Chennai	Admegnagar	Kolhapur	Jalandhar
Pune	Sholapur	Udaipur	Ranchi
Hyderabad	Sangli	Ajmer	Hisar
Ahmedabad	Nanded	Kota	Karnal
Surat	Jalgaon	Bikaner	
Nagpur		Jamshedpur	
Akola		Patiala	

Source: DRHP, ICICIdirect.com Research

In addition to the above stations, MBL has a sales alliance with ITM Software & Entertainment Pvt Ltd (ITM), which operates Suno Lemon 91.9 FM (Suno Lemon) in Gwalior and Ananda Offset Pvt Ltd (AOPL), which operates Friends 91.9 FM (Friends FM) in Kolkata. The company also operates online web radio on its web portal www.planetradiocity.com (Planet Radio City). The same was launched in 2010.

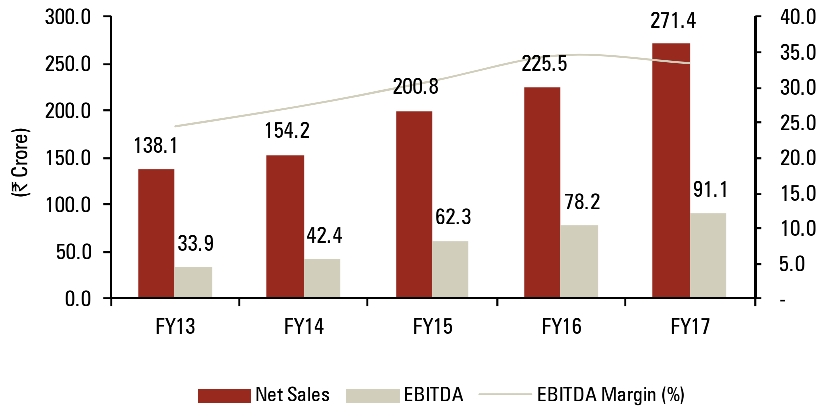
The company has certain popular in-house shows like *Love Guru* and *Kal Bhi Aaj Bhi* and pre-programming features like *Babber Sher* and *Joke Studio* in its repertoire. The company has maintained a strategy of de-risking its model from the risk of RJs leaving the show by promoting the shows in contrast to having any star RJs.

Financials

MBL's operating revenues and EBITDA have grown at 21% and 29% CAGR to ₹ 271.4 crore and ₹ 91.1 crore, respectively, in FY14-17. In our Jagran Prakashan estimates, we have factored in Music Broadcast's revenues will grow at 15.3% CAGR to ₹ 360.5 crore. With the company having 85% of total operating costs of a fixed nature, post the launch of new stations, incremental revenues will bring in additional operating leverage. We expect profitability growth to outpace earnings growth.

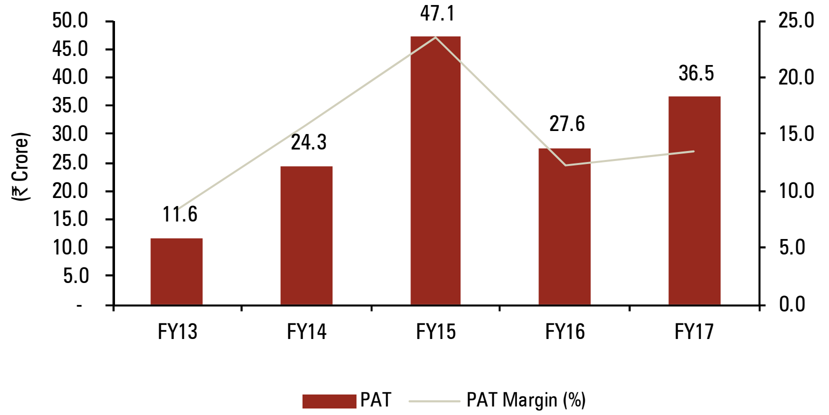
The company had net proceeds of ₹ 382 crore from the IPO, which MBL has used towards redemption of NCDs. As a result, post the IPO the company has emerged with a stronger balance sheet situation with a reduction in consolidated gross debt from ₹ 223 crore in FY16 to ₹ 150 crore in FY17 and a net debt to equity ratio of -0.3x.

Exhibit 3: Revenue and EBITDA trajectory



Source: DRHP, ICICIdirect.com Research

Exhibit 4: PAT and PAT margin trend



Source: DRHP, ICICIdirect.com Research

Financial Summary

Exhibit 5: Profit and Loss Statement

(₹ Crore)	FY12	FY13	FY14	FY15	FY16	FY17
Revenue from operations	122.2	138.1	154.2	200.8	225.5	271.4
Total Revenues	122.2	138.1	154.2	200.8	225.5	271.4
License fees	6.8	7.5	8.2	9.5	17.2	19.2
Employee benefits expense	29.8	34.6	36.3	43.0	51.1	65.2
Other expenses	59.6	62.1	67.3	86.0	79.0	95.9
Total Operating Expenditure	96.2	104.2	111.8	138.5	147.3	180.3
EBITDA	26.0	33.9	42.4	62.3	78.2	91.1
EBITDA Margin (%)	21.3	24.5	27.5	31.0	34.7	33.6
Other Income	2.6	2.4	3.1	6.7	14.7	4.4
Interest	6.8	4.8	5.7	6.2	20.7	19.0
Depreciation	23.5	19.9	15.5	15.7	16.7	19.7
Exceptional Items	0.5	-	-	-	13.6	-
PBT	(2.2)	11.6	24.3	47.1	41.9	56.8
Total Tax	-	-	-	-	14.3	20.3
Net Profit / (Loss)	(2.2)	11.6	24.3	47.1	27.6	36.5

Exhibit 6: Balance Sheet

(₹ Crore)	FY12	FY13	FY14	FY15	FY16	FY17
Equity Capital	38.9	38.9	38.9	38.9	42.0	57.1
Reserves and surplus	-65.6	-52.6	-28.3	18.7	168.0	491.1
Total Shareholders Funds	-26.7	-13.7	10.6	57.6	210.0	548.2
Total debt	139.3	118.0	103.2	284.8	172.8	49.9
Sources of Funds	112.6	104.3	113.8	342.4	382.8	598.1
Assets						
Total Fixed Assets	60.9	43.5	31.9	19.0	296.0	311.6
Long-term loans and advances	31.9	32.0	35.5	234.1	18.0	15.8
Debtors	62.4	64.5	62.8	77.2	76.3	81.7
Current investments	0.0	0.0	0.0	0.0	14.7	26.7
Cash and bank balances	12.3	22.0	33.9	54.3	15.9	267.9
Other current assets	1.2	0.5	1.1	3.4	16.1	19.3
Total Current Assets	76.0	87.0	97.9	134.9	123.0	395.6
Creditors	28.6	29.2	23.1	33.9	22.3	32.9
Provisions	1.9	2.3	2.6	3.6	5.3	6.9
Current liabilities	37.7	34.9	30.5	17.8	79.4	123.4
Total current liabilities	68.2	66.5	56.2	55.3	107.0	163.2
Net Current Assets	7.8	20.5	41.7	79.6	16.0	232.4
Other non-current assets	12.0	8.3	4.6	9.7	52.8	38.3
Application of Funds	112.6	104.3	113.8	342.4	382.8	598.1

Exhibit 7: Key Ratios

Year End March	FY12	FY13	FY14	FY15	FY16	FY17
Valuation						
P/E	NA	166.5	79.7	41.2	70.2	53.1
EV/EBITDA	83.0	63.7	50.9	34.6	27.6	23.7
P/BV	NA	NA	182.4	33.7	9.2	3.5
Operating Ratios						
EBITDA Margin	21.3	24.5	27.5	31.0	34.7	33.6
PAT Margin	-1.8	8.4	15.8	23.4	12.2	13.4
Return Ratios						
RoE (%)	NA	NA	229.0	81.7	13.2	6.7
RoCE (%)	4.6	15.8	26.4	15.6	19.9	12.7

Source: DRHP, ICICIdirect.com Research

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