Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Entertainment Network (India) (ENIL IN)

Rating: BUY | CMP: Rs635 | TP: Rs836

November 5, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	**BUY**		**BUY**	
Target Price	**836**		**843**	
Sales (Rs. m)	6,153	7,104	6,153	7,104
% Chng.			-	-
EBITDA (Rs. m)	1,514	2,003	1,606	2,018
% Chng.			*(5.7)*	*(0.7)*
EPS (Rs.)	12.0	19.2	13.1	19.4
% Chng.			*(8.6)*	*(1.3)*

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	5,558	5,371	6,153	7,104
EBITDA (Rs. m)	1,259	1,166	1,514	2,003
Margin (%)	*22.7*	*21.7*	*24.6*	*28.2*
PAT (Rs. m)	545	352	571	913
EPS (Rs.)	11.4	7.4	12.0	19.2
Gr. (%)	*(49.5)*	*(35.5)*	*62.5*	*59.8*
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	*0.2*	*0.2*	*0.2*	*0.2*
RoE (%)	*6.4*	*4.0*	*6.1*	*8.9*
RoCE (%)	*7.4*	*5.4*	*8.0*	*11.9*
EV/Sales (x)	5.4	5.5	4.7	3.9
EV/EBITDA (x)	24.0	25.4	19.1	13.7
PE (x)	55.6	86.1	53.0	33.1
P/BV (x)	3.5	3.4	3.2	3.0

Key Data	ENIL.BO | ENIL IN
52-W High / Low	Rs.840 / Rs.551
Sensex / Nifty	34,951 / 10,524
Market Cap	Rs.30bn/ $ 408m
Shares Outstanding	48m
3M Avg. Daily Value	Rs.20.34m

Shareholding Pattern (%)

Promoter's	71.15
Foreign	8.80
Domestic Institution	13.07
Public & Others	6.98
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.1)	(6.0)	(24.2)
Relative	(3.7)	(6.1)	(26.9)

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

Growth marred by delayed festive impact

Quick Pointers:

- Topline was subdued on account of deferment in festive season and de-growth in non-FCT business. Spillover of Rs120-140mn is expected in 3QFY19.
- Batch 1 stations reported revenues and EBITDA of Rs216mn and Rs24mn respectively. Batch 2 stations reported EBITDA loss of Rs15mn.

Entertainment Network India Ltd (ENIL's) topline declined 2.2% YoY to Rs1,225.3mn despite a favorable base (inventory volume was low in 2QFY18 due to self-imposed caps) on account of shift in festive season (revenue deferment of Rs120-140mn) to 3QFY19. The growth in radio business (ex of non-FCT) was 6.8% YoY and a bit of a disappointment considering Music Broadcast Ltd (MBL) reported 5.7% YoY growth on a normalized base. EBITDA margins declined 40 bps YoY to 22.3% due to 1) losses of Rs15mn on batch 2 stations 2) higher programming cost of Rs10mn (revenue is not fully recognized and cost is front loaded) 3) onetime cost of Rs4mn on some strategic non-FCT project and 4) barter revenue deferment of Rs6mn. We keep our revenue estimates unchanged given delayed festive impact and seasonality (~57-58% of total revenue is recognized in 2H due to back ended revenue accretion in the non-FCT business). However, we reduce our EBITDA estimates by 6% and 1% in FY19E and FY20E amid higher expected share of non-FCT business which is margin dilutive than traditional FCT business. We expect sales and PAT to grow at a CAGR of 15.0% and 61.2% over FY18-20E. We value the stock at 18.5x FY20 EBITDA of Rs2bn to arrive at per share value of Rs837 per share. Our DCF enabled per share value stands at Rs835 per share. We arrive at blended TP (50% weight to each methodology) of Rs836 per share. Maintain BUY

Topline to grow at a CAGR of 15% over FY18-20E: While top-line growth was subdued management guided for a 20% YoY growth in FY19E given the delayed festive impact and back ended revenue accretive nature of non-FCT business. Inventory utilization for 35 phase 2, 17 batch 1 and 21 batch 2 stations stood at 78%, 33% and 6% respectively in 2QFY19. We expect the utilization levels to rise gradually to 85% (phase 2), 40% (batch 1) and 20% (batch 2) in FY20E. Rise in utilization and calibrated price hikes is likely to drive top-line at a CAGR of 15% over FY18-20E.

Margin expansion on the cards: While margins declined 40 bps predominantly due to higher programming cost and losses on batch 2 stations we expect blended EBITDA margin to expand to 24.6% and 28.2% in FY19E and FY20E respectively as 1) the margin profile of non-FCT business is improving (contribution margin of non-FCT expanded to 36.1% and is expected to even better in 2HFY19) 2) improved profitability of batch 1 stations (batch 1 stations reported an EBITDA of Rs24mn in 2QFY19 vis-à-vis a loss of Rs19mn in 2QFY18 and 3) networking nature of 21 batch 2 stations.

Exhibit 1: Q2FY19 Result Overview (Rs mn)

Standalone (Rs mn)	Q2FY19	Q2FY18	YoY gr.	Q1FY19	QoQ gr.
Net Sales	**1,225**	**1,253**	***-2.2%***	**1,216**	***0.8%***
Employee expenses	327	322	*1.5%*	331	*-1.1%*
As a % of sales	*26.7%*	*25.7%*		*27.2%*	
Programming & royalty expenses	86	63	*37.8%*	66	*30.2%*
As a % of sales	*7.1%*	*5.0%*		*5.5%*	
License fees	84	87	*-3.5%*	84	*0.1%*
As a % of sales	*6.9%*	*6.9%*		*6.9%*	
Marketing expenses	122	181	*-32.4%*	104	*17.1%*
As a % of sales	*10.0%*	*14.4%*		*8.6%*	
Other expenses	332	316	*5.1%*	347	*-4.3%*
As a % of sales	*27.1%*	*25.2%*		*28.5%*	
Expenditure	952	969	*-1.7%*	932	*2.1%*
EBITDA	**273**	**284**	***-3.9%***	**284**	***-3.6%***
EBITDA Margin	*22.3%*	*22.7%*		*23.3%*	
Depreciation	166	159	*4.4%*	152	*9.0%*
EBIT	**108**	**126**	***-14.4%***	**132**	***-18.2%***
EBIT Margin	*8.8%*	*10.0%*		*10.8%*	
Interest	11	13	*-12.8%*	9	*18.0%*
Other income	33	21	*59.1%*	28	*19.6%*
PBT	**130**	**134**	***-3.1%***	**150**	***-13.5%***
Tax	40	74	*-45.8%*	58	*-30.2%*
Tax Rate	*31.1%*	*55.6%*		*38.5%*	
Other comprehensive income	0.3	-0.3	*NM*	0.1	*420.0%*
PAT	**90**	**59**	***51.6%***	**92**	***-2.7%***
PAT Margin	*7.3%*	*4.7%*		*7.6%*	
EPS (Rs)	**1.9**	**1.3**	***50.5%***	**1.9**	***-2.5%***

Source: Company, PL

Conference Call Highlights

- Revenue deferment of Rs120-140mn is due to delayed festive season.
- Gross margin for non-FCT business was 36.1%, up 440 bps YoY. In 2HFY19, the margin is expected to be closer to 40%.
- Pricing for legacy stations was down by 1% YoY, while for phase 3 stations it was up by 1% YoY. In 2HFY19, it is highly unlikely that prices will be increased. Many big players have lost out by 10-15% in pricing.
- Last year ENIL did 70 concerts and the plan is to reach a similar number in FY19E.
- Topline and EBITDA is expected to grow by 20% YoY and 30% YoY respectively in FY19E.
- The traditional radio business (ex of non-FCT) grew by 6.8% YoY.
- Additional capex of Rs100-150mn will be incurred to set up balance 11 batch 2 stations.
- Impact on EBITDA due to shift in festive season is Rs72mn.
- Batch 2 stations are expected to break even in 18-24 months.

Exhibit 2: Revenue assumptions for 35 legacy stations

Particulars	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**
Inventory available (mn sec) in slots - Each slot is for 10 sec	16.9	16.9	16.9	16.9	16.9
Utilization level	83%	85%	87%	88%	90%
Inventory sold (mn sec) in slots	14.1	14.4	14.7	14.9	15.2
YoY growth	*4.1%*	*2.4%*	*2.4%*	*1.1%*	*2.3%*
Realization per slot per station (Rs)	344	362	381	401	423
YoY growth	*5.0%*	*5.1%*	*5.2%*	*5.3%*	*5.4%*
Total revenues (Rs mn)	**4,843.6**	**5,213.3**	**5,613.4**	**5,978.9**	**6,445.0**

Source: Company, PL

Exhibit 3: Revenue assumptions of 17 batch 1 stations

Particulars	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**
Inventory available (mn sec) in slots - Each slot is for 10 sec	8.2	8.2	8.2	8.2	8.2
Utilization level	35%	40%	45%	50%	60%
Inventory sold (mn sec) in slots	2.9	3.3	3.7	4.1	4.9
YoY growth	*48.8%*	*14.3%*	*12.5%*	*11.1%*	*20.0%*
Realization per slot per station (Rs)	356	369	384	400	418
YoY growth	*3.5%*	*3.7%*	*4.0%*	*4.2%*	*4.5%*
Total revenues (Rs mn)	**1,024.6**	**1,214.2**	**1,420.7**	**1,644.8**	**2,062.6**

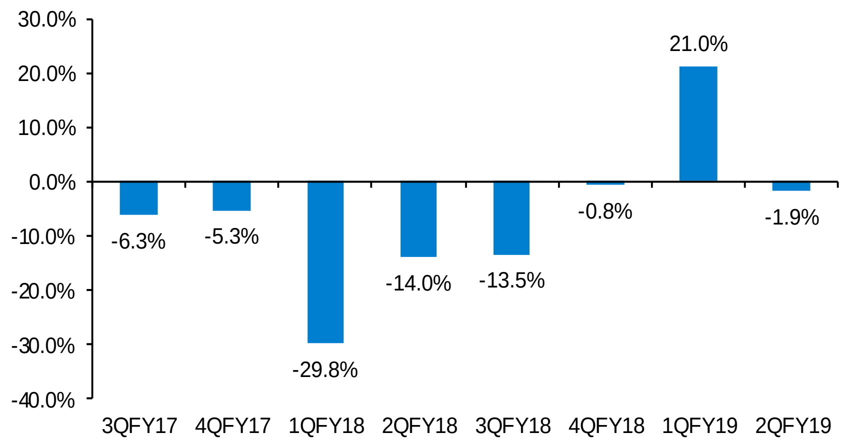
Source: Company, PL

Exhibit 4: Revenue assumptions for 21 batch 2 stations

Particulars	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**
Inventory available (mn sec) in slots - Each slot is for 10 sec	7.6	10.2	10.2	10.2	10.2
Utilization level	5%	20%	30%	40%	55%
Inventory sold (mn sec) in slots	0.4	2.0	3.0	4.1	5.6
YoY growth	*NA*	*433.3%*	*50.0%*	*33.3%*	*37.5%*
Realization per slot per station	120.0	125.4	130.7	135.9	141.1
YoY growth	*NA*	*4.5%*	*4.2%*	*4.0%*	*3.8%*
Total revenues	**45.7**	**254.9**	**398.4**	**552.5**	**788.5**

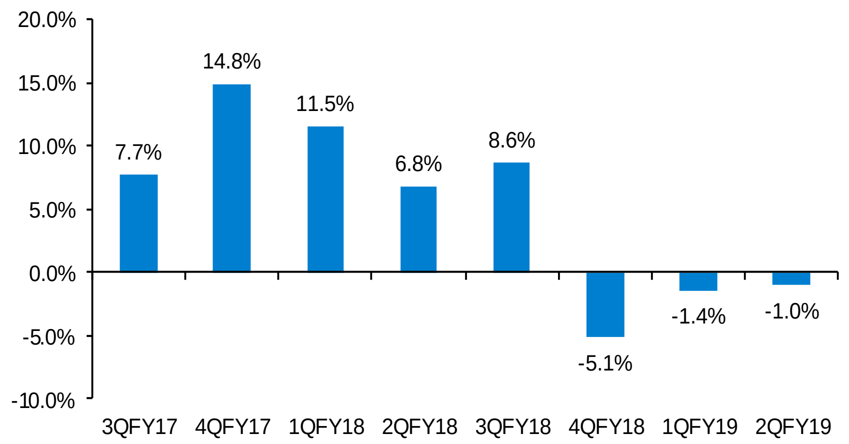
Source: Company, PL

Exhibit 5: Volume growth trend of 35 legacy stations



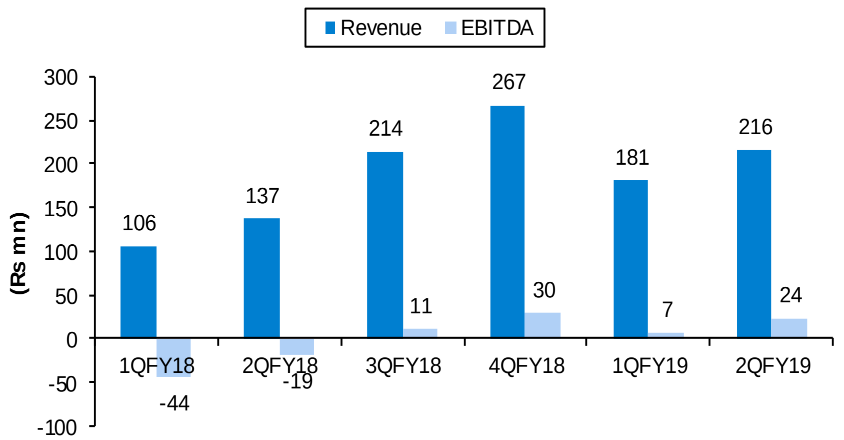
Source: Company, PL

Exhibit 6: Gross ER growth trend of 35 legacy stations



Source: Company, PL

Exhibit 7: Revenue & EBITDA trend of batch 1 stations



Source: Company, PL

Exhibit 8: Weighted average valuation table

Particulars (Rs)	Weight assigned	Target price	Weighted average target price
EV/EBITDA approach	50%	837	419
DCF approach	50%	835	417
Weighted average target price			**836**

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	**5,558**	**5,371**	**6,153**	**7,104**
YoY gr. (%)	*9.3*	*(3.4)*	*14.6*	*15.4*
Cost of Goods Sold	-	-	-	-
Gross Profit	5,558	5,371	6,153	7,104
Margin (%)	*100.0*	*100.0*	*100.0*	*100.0*
Employee Cost	1,054	1,185	1,292	1,456
Other Expenses	1,951	1,926	2,117	2,366
EBITDA	**1,259**	**1,166**	**1,514**	**2,003**
YoY gr. (%)	*(20.6)*	*(7.4)*	*29.8*	*32.3*
Margin (%)	*22.7*	*21.7*	*24.6*	*28.2*
Depreciation and Amortization	536	635	701	726
EBIT	**723**	**532**	**813**	**1,277**
Margin (%)	*13.0*	*9.9*	*13.2*	*18.0*
Net Interest	136	47	37	28
Other Income	196	88	117	135
Profit Before Tax	**783**	**615**	**893**	**1,384**
Margin (%)	*14.1*	*11.4*	*14.5*	*19.5*
Total Tax	238	263	321	470
Effective tax rate (%)	*30.4*	*42.8*	*36.0*	*34.0*
Profit after tax	**545**	**352**	**571**	**913**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**545**	**352**	**571**	**913**
YoY gr. (%)	*(49.5)*	*(35.5)*	*62.5*	*59.8*
Margin (%)	*9.8*	*6.5*	*9.3*	*12.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**545**	**352**	**571**	**913**
YoY gr. (%)	*(49.5)*	*(35.5)*	*62.5*	*59.8*
Margin (%)	*9.8*	*6.5*	*9.3*	*12.9*
Other Comprehensive Income	(5)	2	-	-
Total Comprehensive Income	540	353	571	913
Equity Shares O/s (m)	**48**	**48**	**48**	**48**
EPS (Rs)	**11.4**	**7.4**	**12.0**	**19.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	**8,029**	**8,246**	**9,150**	**9,278**
Tangibles	822	950	1,227	1,334
Intangibles	7,207	7,295	7,923	7,944
Acc: Dep / Amortization	**889**	**1,507**	**2,208**	**2,934**
Tangibles	228	364	535	707
Intangibles	660	1,143	1,673	2,227
Net fixed assets	**7,141**	**6,738**	**6,942**	**6,344**
Tangibles	594	586	692	627
Intangibles	6,547	6,152	6,250	5,717
Capital Work In Progress	664	626	-	-
Goodwill	5	5	5	5
Non-Current Investments	258	293	316	319
Net Deferred tax assets	(99)	(246)	(89)	(111)
Other Non-Current Assets	95	221	228	227
Current Assets				
Investments	1,075	1,553	1,772	1,772
Inventories	-	-	-	-
Trade receivables	1,622	1,702	1,854	2,044
Cash & Bank Balance	186	180	429	1,609
Other Current Assets	276	211	215	234
Total Assets	**11,352**	**11,552**	**11,785**	**12,577**
Equity				
Equity Share Capital	477	477	477	477
Other Equity	8,070	8,366	8,890	9,755
Total Networth	**8,547**	**8,843**	**9,366**	**10,232**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	89	92	98	109
Current Liabilities				
ST Debt / Current of LT Debt	1,232	1,040	790	540
Trade payables	1,116	1,049	1,144	1,258
Other current liabilities	270	284	297	328
Total Equity & Liabilities	**11,352**	**11,552**	**11,785**	**12,577**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	783	615	893	1,384
Add. Depreciation	536	635	701	726
Add. Interest	136	47	37	28
Less Financial Other Income	196	88	117	135
Add. Other	(145)	(117)	(148)	35
Op. profit before WC changes	1,310	1,180	1,483	2,173
Net Changes-WC	(72)	(52)	(56)	(66)
Direct tax	(195)	(150)	(321)	(470)
Net cash from Op. activities	**1,043**	**977**	**1,105**	**1,637**
Capital expenditures	(869)	(255)	(905)	(128)
Interest / Dividend Income	-	-	-	-
Others	1,389	(396)	407	-
Net Cash from Invt. activities	**520**	**(651)**	**(498)**	**(128)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	(250)	(250)
Dividend paid	(57)	(57)	(48)	(48)
Interest paid	0	(1)	(37)	(28)
Others	(1,482)	(274)	(23)	(3)
Net cash from Fin. activities	**(1,539)**	**(333)**	**(358)**	**(329)**
Net change in cash	**24**	**(6)**	**249**	**1,180**
Free Cash Flow	107	617	894	1,378

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	11.4	7.4	12.0	19.2
CEPS	22.7	20.7	26.7	34.4
BVPS	179.3	185.5	196.5	214.6
FCF	2.2	12.9	18.8	28.9
DPS	1.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	7.4	5.4	8.0	11.9
ROIC	11.1	10.1	12.8	15.9
RoE	6.4	4.0	6.1	8.9
Balance Sheet				
Net Debt : Equity (x)	-	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	33	44	42	40
Valuation(x)				
PER	55.6	86.1	53.0	33.1
P/B	3.5	3.4	3.2	3.0
P/CEPS	22.3	20.4	26.3	33.8
EV/EBITDA	24.0	25.4	19.1	13.7
EV/Sales	5.4	5.5	4.7	3.9
Dividend Yield (%)	0.2	0.2	0.2	0.2

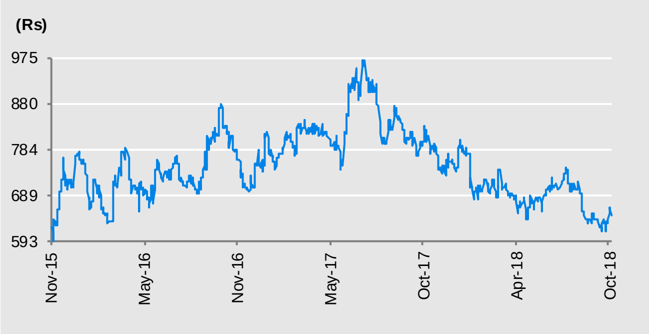
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	**1,479**	**1,594**	**1,216**	**1,225**
YoY gr. (%)	*(1.8)*	*(3.5)*	*16.4*	*(2.2)*
Raw Material Expenses	-	-	-	-
Gross Profit	1,479	1,594	1,216	1,225
Margin (%)	*100.0*	*100.0*	*100.0*	*100.0*
EBITDA	**356**	**354**	**284**	**273**
YoY gr. (%)	*(6.7)*	*0.6*	*65.0*	*(3.9)*
Margin (%)	*24.1*	*22.2*	*23.3*	*22.3*
Depreciation / Depletion	161	158	152	166
EBIT	**195**	**196**	**132**	**108**
Margin (%)	*13.2*	*12.3*	*10.8*	*8.8*
Net Interest	12	10	9	11
Other Income	18	27	28	33
Profit before Tax	**201**	**213**	**150**	**130**
Margin (%)	*13.6*	*13.3*	*12.3*	*10.6*
Total Tax	70	96	58	40
Effective tax rate (%)	*34.9*	*45.0*	*38.5*	*31.1*
Profit after Tax	**131**	**117**	**92**	**89**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**131**	**117**	**92**	**89**
YoY gr. (%)	*(19.8)*	*(15.2)*	*107.3*	*50.2*
Margin (%)	*8.8*	*7.3*	*7.6*	*7.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**131**	**117**	**92**	**89**
YoY gr. (%)	*(19.8)*	*(15.2)*	*107.3*	*50.2*
Margin (%)	*8.8*	*7.3*	*7.6*	*7.3*
Other Comprehensive Income	2	1	-	-
Total Comprehensive Income	**132**	**118**	**92**	**90**
Avg. Shares O/s (m)	48	48	48	48
EPS (Rs)	**2.7**	**2.5**	**1.9**	**1.9**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-May-18	NR	-	664
2	11-Sep-18	BUY	843	645
3	5-Oct-18	BUY	843	640

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	BUY	843	640
3	Music Broadcast	BUY	394	328
4	Navneet Education	BUY	150	111
5	Zee Media Corporation	BUY	39	26

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Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209
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