

Music Broadcast

BUY

1 + 1 > 2

Music Broadcast (MBL's) 4QFY19 was in-line. Key highlight is MBL's audacious acquisition of Reliance Broadcast Network (RBNL's) for Rs 10.5bn viz. 12.3x FY19E EBITDA. The multiple is in-line with MBL's current valuation; fair in our view. MBL's current EV is Rs 14bn (Mcap Rs 16.2bn). It would tantamount to acquisition of RBNL's brand 'Big FMs' 40 radio stations vs. 39 of MBL.

We foresee the acquisition to be positive from both strategic and financial perspective. It could potentially boost MBL's EPS by -4/+25/+46% in FY21/22/23E. We aren't building the upside from acquisition. BUY with a TP of Rs 78 (25x FY21E FCFE).

HIGHLIGHTS OF THE QUARTER

- 4QFY19 highlights:** MBL's 4QFY19 revenue/EBITDA /PAT grew by 7.8/16.8/12.9% YoY and FY19 with 8.9/16.6/19.1%. FY19 revenue growth was bit soft.
- Acquisition of 'Big FM' – bold but beautiful:** MBL has made a brave move of acquiring Big FM. It is equivalent to its size in terms of number of stations and ~78/75/74% of its own revenue/EBITDA/EV.
- EPS accretion – 25/46%:** Since 'RBNL' would be a leveraged buyout for MBL with established operations, we foresee it to be EPS accretive from second year of operations. It could potentially add 25/46% to MBL's FY22/23E EPS. Refer our detailed

Consolidated Financial Summary

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19P	FY20E	FY21E
Net Sales	819	759	7.8	870	(5.9)	2,714	2,982	3,247	3,569	3,921
EBITDA	320	274	16.8	286	11.8	913	971	1,132	1,302	1,470
RPAT	184	163	12.9	164	12.0	367	517	616	746	848
REPS (Rs)	0.64	0.57	12.9	0.57	12.0	1.29	1.81	2.23	2.70	3.07
P/E (x)						45.7	32.4	26.4	21.8	19.1
EV / EBITDA (x)						16.2	14.9	12.6	10.7	9.2
RoE (%)						10.9	9.0	10.2	11.9	12.6

Source: Company, HDFC sec Inst Research

working on pg 4. Industry tailwinds (8-10% revenue growth) and flawless execution (likely) is inevitable for this. Upsurge in adoption of OTT music platforms is key structural risk for the industry.

- MBL's capital structure to improve significantly:** MBL's balance sheet is highly unlevered with net C&CE of ~Rs 2bn and a robust FCF of ~Rs 1bn p.a. (FY20-22 avg). This is besides FCF of ~Rs 1bn of Big FM. Thus the capital structure of MBL will improve with net debt/EBITDA at ~3x. Refer table on pg 5.
- Strategic benefits:** (1) Increased geographic footprint. Dual frequency in top 10 out of 13 cities. (2) With consolidation, increased pricing power for industry players is plausible. (3) Modest synergy benefits on merger (3% of combined operating costs). (4) Scope for improvement in utilization of Big FM stations. It hovers around 50-55% viz. 15-20% lower than MBL.
- Key risk to Big FM acquisitions:** Lack/delay in approval from MIB. Execution failure (loss of talent, customers due to overlap, integration challenges etc) and cannibalization of revenues are key risks.

STANCE

We like MBL owing to its superior execution, capital allocation, return ratios and cash flows. Acquisition of Big FM has the potential to add feather in the cap.

INDUSTRY	MEDIA		
CMP (as on 28 May 2019)	Rs 59		
Target Price	Rs 78		
Nifty	11,929		
Sensex	39,750		
KEY STOCK DATA			
Bloomberg	RADIOCIT IN		
No. of Shares (mn)	277		
MCap (Rs bn) / (\$ mn)	16/233		
6m avg traded value (Rs mn)	9		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 74/46		
	3M	6M	12M
Absolute (%)	9.2	(10.1)	(13.7)
Relative (%)	(1.6)	(21.4)	(26.8)
SHAREHOLDING PATTERN (%)			
	Dec-18	Mar-19	
Promoters	73.7	73.7	
FIs & Local MFs	8.3	9.8	
FPIs	2.4	1.5	
Public & Others	15.6	15.0	
Pledged Shares*	-	-	

Source : BSE, * % of total

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Jagran group foray in Radio on its own (erstwhile eight Radio Mantra stations), acquisition of MBL (11 stations then) has been successful. RBNL too is likely to be beneficial for the shareholders.

Transaction is expected to close in 1HFY21. Immediate outflow for MBL is Rs 2bn for 24% stake in RBNL.

Other highlights

Jagran group – second time lucky in radio!

- JAGP's promoters' prior broadcast experience, uncertainty around pricing and renewal of Phase II licenses enabled it to acquire Music Broadcast (MBL) from the PE player: India Value Fund for ~Rs 3.5bn (net of loan repayment of Rs 0.85bn) vs. its current Mcap of ~Rs 16.3bn (JAGP owns 72.8% i.e. ~Rs 11.9bn). JAGP's own market cap is Rs 32bn. **The value of JAGP's investment (Rs 3.5bn) in Music Broadcast (MBL) has increased by 3.5x since its acquisition in Dec-14.**
- MBL has since expanded its footprint from 20 stations to 39, through the acquisition of JAGP's promoter's eight 'Radio Mantra' stations and an additional eleven stations in the Phase III auctions.
- Jagran group proactively approached RBNL for acquisition. With financial stress at ADAG group level and RBNL with debt of ~Rs 13bn (including Promoter debt of ~Rs 6bn); we believe would have agreed for the sale. MBL had tried for acquisition earlier in Nov-16 but was eventually outbid by Zee Media (Essel group). However, the deal couldn't go through due to business transfer agreement between the parties; a structure not preferred by Ministry of Information and Broadcasting (MIB). We believe, eventual financial stress at Zee group would have led to collapse of transaction instead of restructuring of deal.
- **We foresee, MBL and its minority shareholders (and thus Jagran and its shareholders too) are expected to benefit from MBL's acquisition of RBNL. This is similar to Jagran's success with MBL.**

Deal structure of RBNL transaction

- MBL would pay ~ Rs 2.02bn for acquisition of 24% stake in RBNL. Post the MIB approval which is likely in 1HFY21 (mostly wef 1st April, 2020 as per the management), MBL would pay Rs 3.48bn for

acquisition of balance stake from erstwhile promoters (Anil Ambani group) of RBNL and absorb debt of ~Rs 5bn in RBNL i.e. an EV of Rs 10.5bn. It would thus report share of profits from JV/associate of RBNL in its P&L and as non-current (strategic) investment in Balance sheet.

- Owing to regulatory restrictions, RBNL would operate as a separate entity viz. 100% subsidiary of MBL.

Radio City and Big FM to operate as separate brands

- Big FM is an established brand with 13 years of operations offering retro music with primary target as 45+ age groups. This is against MBL's Radio city brand offering contemporary music primarily to 25-44 age groups. Thus both brands would be likely to continue independently and complement each other in widening geographic reach, consumer segment, advertiser base etc

Key regulations w.r.t promoter lock-in period

- As per the MIB regulations, 'The permission holder company may, with prior approval of the Ministry of Information and Broadcasting, dilute the total shareholding of the constituents of the 'largest Indian shareholder' of the company as it existed at the time of submission of bids to a level below 51% only after a period of three years from the date on which all the channels allotted to the company holding permission stand operationalized.' As per TRAI report, the 14 stations acquired by RBNL in Phase III, batch II auctions were operationalized in 1QFY18. We believe MBL would be able to consolidate RBNL as a subsidiary only from 2nd half FY21 at the earliest even if the effective date is bit earlier.

Does MBL run regulatory risk – unlikely!

- MBL has failed to secure MIB approval for its acquisition of Friend FM station in Kolkata of Anand Bazar Patrika group. It thus cancelled the agreement. Similarly, ENIL too failed in its acquisition of three metro stations of TV Today group.

RBNL would need to surrender 18 radio stations out to 58 to comply with regulations

- On the contrary, Jagran group had been successful in acquiring MBL from India Value Fund and recently HT Media group in their acquisition of Next Media Works (Radio One with 7 stations).
- However, MBL management highlighted its confidence of seeking the approval for RBNL. It categorically stated; MIB prefers simpler structure with acquisition of entire company rather than business transfer agreements for acquisition of only few stations. In our view, it is an unwritten rule of MIB. But with MBL complying with the government requirements, it should be in a position to consummate the deal.
- Management even highlighted that in case of no deal scenario (which is though unlikely), it has sufficient protection to claw back the investments. In our view, no deal scenario would be painful with no recourse to RBNL's cash flows.

RBNL to surrender 18 stations for meet MIB Key regulations on number of frequencies

- As per the MIB regulations, every operator is allowed to run not more than 40% of the total channels in a city subject to a minimum of three different operators in the city. RBNL holds 58 frequencies currently (after it surrendered Vishakhapatnam station earlier in 4QFY18). It would thus need to surrender 18 stations where the merged entity operations will exceed the 40% to comply with this regulation. For details on city-wise frequencies, license fee paid etc refer the table on pg 6 and 7.
- Besides the above regulation, as per MIB 'no entity shall hold permission for more than 15% of all channels allotted in the country (~400)'. Thus no entity can hold more than 60 frequencies. However we believe here the number of channels allotted is considered as those made available for allocation/auctions during Phase III (~600). Thus the maximum number of channels that can be held by entity is around ~85-90. Post surrender of 18 frequencies by RBNL, MBL plus RBNL would have ~79 stations. It would thus be compliant of the regulations.

Proforma P&L of MBL and RBNL

Rs Mn	FY19	FY20E	FY21E	FY22E	FY23E	Remarks
Revenue	5,807	6,334	6,907	7,582	8,281	
- MBL	3,247	3,569	3,921	4,298	4,668	
- RBNL	2,560	2,765	2,986	3,285	3,613	RBNL: Assumed revenue growth of 8% in FY20/21 and 10% in FY22/23. Higher post acquisition by MBL
Op Cost	3,825	4,105	4,422	4,819	5,252	
- MBL	2,115	2,267	2,451	2,651	2,867	
- RBNL	1,710	1,839	1,971	2,168	2,385	
EBITDA	1,982	2,228	2,529	2,884	3,186	
- MBL	1,132	1,302	1,470	1,647	1,800	
- RBNL	850	926	1,015	1,117	1,228	
- Synergy on Op cost	-	-	44	120	158	Assumed savings at ½.5/3% of combined op cost in FY21/22/23E
EBITDA Margin %	34.1	35.2	36.6	38.0	38.5	
- MBL	34.9	36.5	37.5	38.3	38.6	
- RBNL	33.2	33.5	34.0	34.0	34.0	
D&A	542	567	590	614	639	
- MBL	-	283	295	307	319	
- RBNL	-	283	295	307	319	Assumed same as MBL due to similar size of operations
Net finance costs	(94)	27	836	629	399	
- For MBL as is without acquisition	(94)	(94)	(91)	(132)	(181)	
- For MBL addition acquisition finance costs	-	121	427	329	221	Refer table below for computation
- For RBNL for debt on its books	-	-	500	433	359	Refer table below for computation
PBT	1,534	1,634	1,104	1,641	2,148	
- For MBL as is without acquisition	955	1,113	1,266	1,472	1,662	
- PBT loss on acquisition funding (net of synergies)	-	(121)	(383)	(208)	(63)	
- RBNL	579	643	220	377	550	
Tax	339	327	291	417	528	
- For MBL as is without acquisition	339	367	418	486	548	
- Tax shield for MBL on PBT loss above	-	(40)	(126)	(69)	(21)	
- RBNL	-	-	-	-	-	RBNL would have nil tax due to accumulated losses
PAT	616	664	812	1,224	1,621	
- For MBL as is without acquisition	616	746	848	986	1,113	
- Net loss [(Interest less synergy benefits) * tax shield]	-	(81)	(257)	(139)	(42)	
- RBNL	-	-	220	377	550	
O/s shares of MBL (Mn)	277	277	277	277	277	
EPS for MBL including RBNL as subsidiary	2.2	2.4	2.9	4.4	5.9	
- For MBL as is without acquisition	2.2	2.7	3.1	3.6	4.0	
- on account of Net interest costs for acquisition	-	(0.3)	(0.9)	(0.5)	(0.2)	
- RBNL	-	-	0.8	1.4	2.0	
Upside to MBL's EPS			-4.3%	24.1%	45.6%	

Cost of acquisition, likely funding structure and interest costs

	FY19	FY20E	FY21E	FY22E	FY23E
Cost of acquisition and funding					
A) Upfront Payout for 24% stake: Funded from cash of MBL (@ 6% loss of treasury income)		2,020	2,020	2,020	2,020
B) Payout to Promoters of RBNL for balance 76% stake:	-	3,480	2,492	1,412	
- (B1) ~30% by MBL from internal accruals (@ 6%)		1,044	1,044	1,044	
- (B2) 70% from external borrowings (10%)		2,436	1,448	368	~60% of the MBL EBITDA to be utilized for debt reduction in FY22/23E
External borrowings (@ 10%) in RBNL as a subsidiary	-	5,000	4,330	3,593	~60% of the RBNL EBITDA to be utilized for debt reduction in FY22/23E
	2,020	10,500	8,842	7,025	
Interest costs					
MBL - loss of treasury income ((A+B1)*6%) + interest (B2*10%)	121	427	329	221	
RBNL - interest on debt on its books (C*10%)	-	500	433	359	
Total	121	927	762	580	

MBL's net debt/EBITDA post acquisition as of FY21 end

	FY21E	FY22E	FY23E
MBL's net C&CE as of FY21 pre acquisition (Rs Mn)	(2,797)	(3,484)	(4,136)
Acquisition costs (Rs Mn)	10,500	10,500	10,500
Debt including acquisition of Big FM (Rs Mn)	7,703	7,016	6,364
EBITDA of MBL+RBNL (Rs Mn)	2,529	2,884	3,186
Net Debt/EBITDA (x)	3.0	2.4	2.0

City-wise footprint of MBL and RBNL including details of stations likely to be dropped out

State	City	No of stations			Total Stations in the City	Market share %	License costs (Rs Mn)		
		MBL	RBNL	Total			MBL	RBNL	Total
Tamil Nadu	Chennai	1	1	2	9	22%	123	333	456
Delhi	Delhi	1	1	2	9	22%	333	367	700
West Bengal	Kolkata	-	1	1	9	11%	-	71	71
Maharashtra	Mumbai	1	1	2	9	22%	367	123	490
Sub Total Metro cities		3	4	7	36	19%	823	894	1,717
Gujarat	Ahmedabad	1	-	1	6	17%	132	-	132
Karnataka	Bengaluru	1	1	2	8	25%	216	216	432
Andhra Pradesh	Hyderabad	1	1	2	8	25%	180	180	360
Rajasthan	Jaipur	1	-	1	6	17%	77	-	77
Uttar Pradesh	Kanpur	1	1	2	6	33%	80	80	160
Uttar Pradesh	Lucknow	1	1	2	6	33%	140	140	280
Maharashtra	Nagpur	1	1	2	6	33%	51	78	129
Maharashtra	Pune	1	1	2	6	33%	140	420	560
Gujarat	Surat	1	1	2	6	33%	36	-	36
Sub Total A category cities		9	7	16	58	28%	1,052	1,114	2,166
Uttar Pradesh	Agra	1	1	2	4	50%	26	26	51
Uttar Pradesh	Allahabad	-	1	1	4	25%	-	41	41
Punjab	Amritsar	-	1	1	4	25%	-	60	60
West Bengal	Asansol	-	1	1	3	33%	-	20	20
Madhya Pradesh	Bhopal	-	1	1	4	25%	-	75	75
Tamil Nadu	Coimbatore	1	-	1	4	25%	169	-	169
Madhya Pradesh	Indore	-	1	1	4	25%	-	131	131
Jharkhand	Jamshedpur	1	1	2	4	50%	13	13	25
Tamil Nadu	Madurai	1	-	1	4	25%	65	-	65
Bihar	Patna	1	1	2	4	50%	179	179	358
Gujarat	Rajkot	-	1	1	4	25%	-	61	61
Gujarat	Vadodara	1	1	2	4	50%	113	113	226
Uttar Pradesh	Varanasi	1	1	2	4	50%	53	175	228
Andhra Pradesh	Vishakapatnam	1	-	1	3	33%	117	-	117
Sub Total B category cities		8	11	19	54	35%	733	893	1,627
Maharashtra	Ahmednagar	1	1	2	4	50%	5	5	9
Rajasthan	Ajmer	1	1	2	4	50%	8	8	16
Uttar Pradesh	Aligarh	-	1	1	4	25%	-	3	3

Acquisition of RBNL to significantly strengthen the footprint of MBL in Metro and A cities viz. 10 out of top 13 cities with dual frequencies. This would also include Kolkata which MBL couldn't acquire from Anand Bazar Patrika group.

MBL would add 30 new cities from RBNL to its existing portfolio of 39 cities. Thus the overlap of frequencies is minimal.

State	City	No of stations			Total Stations in the City	Market share %	License costs (Rs Mn)		
		MBL	RBNL	Total			MBL	RBNL	Total
Maharashtra	Aurangabad	-	1	1	4	25%	-	62	62
Maharashtra	Akola	1	-	1	4	25%	3	-	3
Karnataka	Bareilly	1	1	2	4	50%	5	5	11
Orissa	Bhubaneshwar	-	1	1	4	25%	-	13	13
Rajasthan	Bikaner	1	1	2	4	50%	3	3	6
Chandigarh/UT	Chandigarh	-	1	1	4	25%	-	190	190
Uttar Pradesh	Gorakhpur	1	1	2	4	50%	3	3	6
Assam	Guwahati	-	1	1	4	25%	-	6	6
Madhya Pradesh	Gwalior	-	1	1	3	33%	-	14	14
Punjab	Jalandhar	1	1	2	4	50%	42	42	85
Jammu and Kashmir	Jammu	-	1	1	4	25%	-	10	10
Rajasthan	Jodhpur	-	1	1	4	25%	-	21	21
Uttar Pradesh	Jhansi	-	1	1	4	25%	-	3	3
Maharashtra	Jalgaon	1	-	1	4	25%	4	-	4
Maharashtra	Kolhapur	1	1	2	4	50%	94	94	189
Rajasthan	Kota	1	1	2	4	50%	10	10	20
Karnataka	Mangalore	-	1	1	3	33%	-	45	45
Karnataka	Muzaffarpur	-	1	1	5	20%	-	2	2
Karnataka	Mysore	-	1	1	3	33%	-	47	47
Maharashtra	Nanded	1	-	1	3	33%	3	-	3
Maharashtra	Nasik	1	-	1	4	25%	147	-	147
Punjab	Patiala	1	1	2	4	50%	16	16	33
Tamil Nadu	Puducherry	-	1	1	4	25%	-	65	65
Jharkhand	Ranchi	1	1	2	4	50%	10	10	21
Orissa	Rourkela	-	1	1	4	25%	-	10	10
Maharashtra	Sangli	1	-	1	4	25%	5	-	5
Maharashtra	Sholapur	1	1	2	4	50%	7	7	14
Jammu and Kashmir	Srinagar	-	1	1	4	25%	-	6	6
Andhra Pradesh	Tirupati	-	1	1	3	33%	-	45	45
Rajasthan	Udaipur	1	1	2	4	50%	11	11	21
Sub Total C category cities		17	28	45	128	35%	376	757	1,133
Tripura	Agartala	-	1	1	2	50%	-	2	2
Mizoram	Aizwal	-	1	1	2	50%	-	1	1

License costs acquisition for MBL and RBNL is broadly equal

State	City	No of stations			Total Stations in the City	Market share %	License costs (Rs Mn)		
		MBL	RBNL	Total			MBL	RBNL	Total
Haryana	Hissar	1	1	2	4	50%	8	8	17
Arunchal Pradesh	Itanagar	-	1	1	2	50%	-	1	1
Haryana	Karnal	1	-	1	3	33%	10	-	10
Goa	Panaji	-	1	1	2	50%	-	32	32
Meghalaya	Shillong	-	1	1	3	33%	-	7	7
Himachal Pradesh	Shimla	-	1	1	3	33%	-	23	23
Tamil Nadu	Thiruvananthapuram	-	1	1	4	25%	-	81	81
Sub Total D category cities		2	8	10	25	40%	19	156	174
Grand Total		39	58	97	301	32%	3,004	3,814	6,818
Overlap stations to be surrendered		18		729					
Net		39	40	79	283	28%	3,004	3,085	6,089

Source: HDFC Sec Inst Research

Summary of Portfolio (MBL+RBNL) excluding stations to be surrendered

Category of Cities	No of stations			Total Stations	Market share %	License costs		
	MBL	RBNL	Total			MBL	RBNL	Total cost
Metro	3	4	7	36	19%	823	894	1,717
A	9	7	16	58	28%	1,052	1,114	2,166
B	8	6	14	49	29%	733	388	1,121
C	17	16	33	116	28%	376	542	918
D	2	7	9	24	38%	19	147	166
Total	39	40	79	283	28%	3,004	3,085	6,089

Source: HDFC Sec Inst Research

Other expenses declined QoQ as 3QFY19 included one-time marketing expense for improving customer engagement in all the markets of ~Rs 40-50mn

Quarterly Financial Snapshot

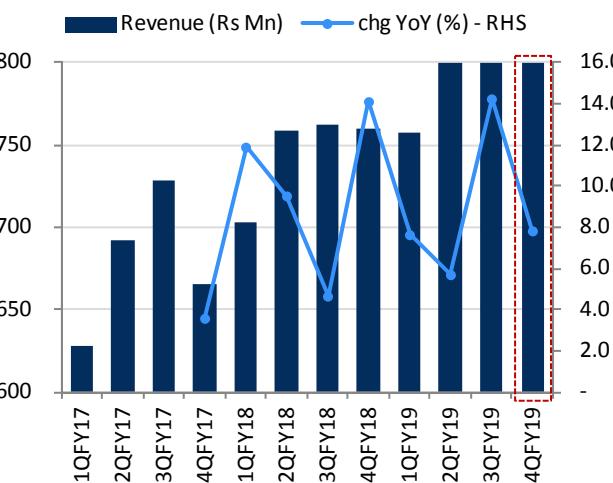
Rs Mn.	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	% chg YoY	% chg QoQ
Revenue	759	757	801	870	819	7.8	(5.9)
License fees	53	53	56	55	50	(5.6)	(9.1)
Employee cost	171	180	179	167	163	(4.2)	(2.2)
Other expenses	262	263	301	362	286	8.9	(21.1)
Total Opex	486	496	536	584	499	2.7	(14.6)
EBITDA	274	261	266	286	320	16.8	11.8
Depreciation	67	67	67	68	69	3.6	2.2
Finance costs	34	14	14	14	15	(54.9)	10.9
Other Income	54	24	36	45	46	(14.6)	3.4
PBT	227	204	221	249	282	23.9	12.9
Tax	65	69	87	86	98	51.7	14.6
PAT	163	135	134	164	184	12.9	12.0
Cash PAT (PAT+Dep)	229	202	201	231	253	10.2	9.2

As % of revenue	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	chg YoY (bps)	chg QoQ (bps)
License fees	7.0	7.0	6.9	6.3	6.1	(87)	(21)
Employee cost	22.5	23.8	22.3	19.2	20.0	(250)	76
Other expenses	34.5	34.8	37.6	41.6	34.9	35	(673)
Total Opex	64.0	65.6	66.9	67.1	61.0	(302)	(618)
EBITDA	36.0	34.4	33.1	32.9	39.0	302	618
Depreciation	8.8	8.9	8.4	7.8	8.4	(34)	67
Finance costs	4.4	1.8	1.7	1.6	1.9	(258)	28
Other Income	7.1	3.2	4.5	5.1	5.6	(148)	51
PBT	29.9	26.9	27.6	28.6	34.4	446	574
Tax	8.5	9.1	10.9	9.8	12.0	346	214
PAT	21.4	17.8	16.7	18.8	22.4	100	359
<i>Tax as % of PBT</i>	28.4	33.7	39.4	34.3	34.8	638	52

Source: Company, HDFC sec Inst Research

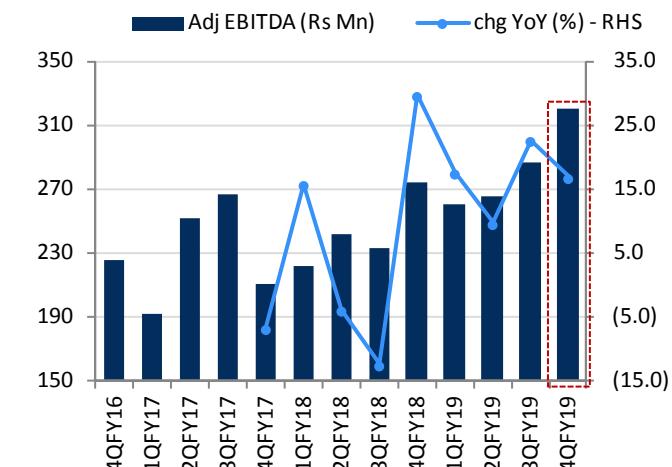
Revenue growth was driven by government sector. BFSI and Real Estate de-grew.

Revenue trend



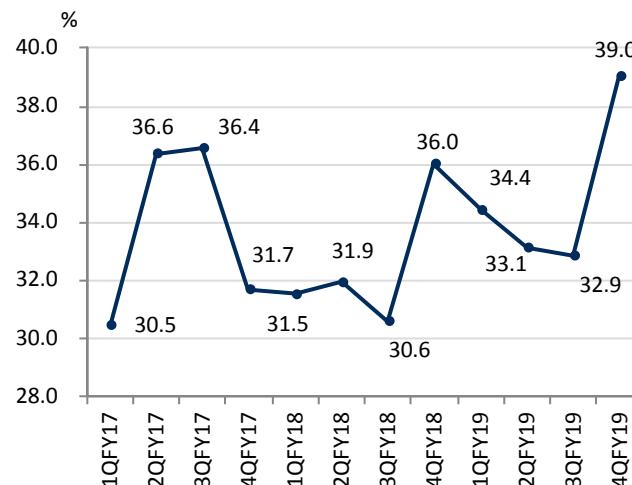
Source: Company, HDFC sec Inst Research

EBITDA trend



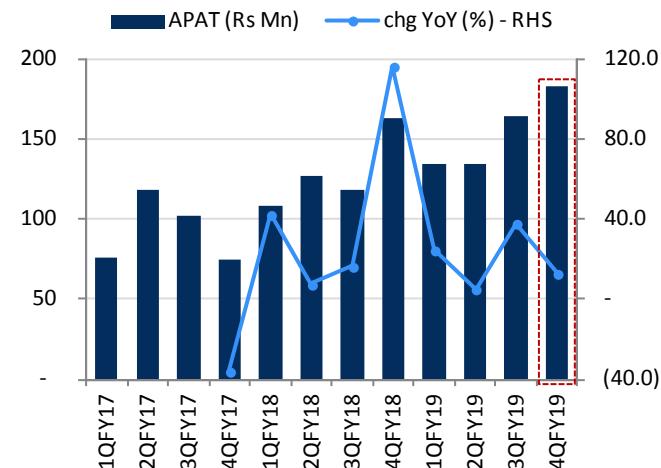
Source: Company, HDFC sec Inst Research

EBITDA margin trend



Source: Company, HDFC sec Inst Research

APAT trend



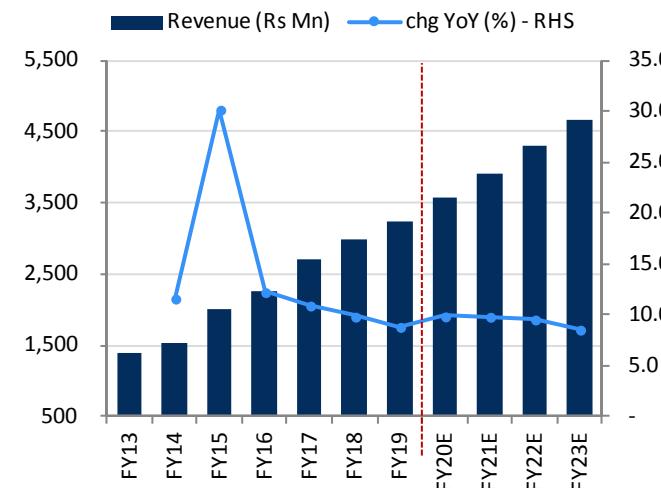
Source: Company, HDFC sec Inst Research

MBL's revenue to grow at ~9.5% CAGR over FY19-23E led by 50:50 blends of price increase and utilization

EBITDA margin to improve from ~35% to ~38% led by higher utilization and improved pricing

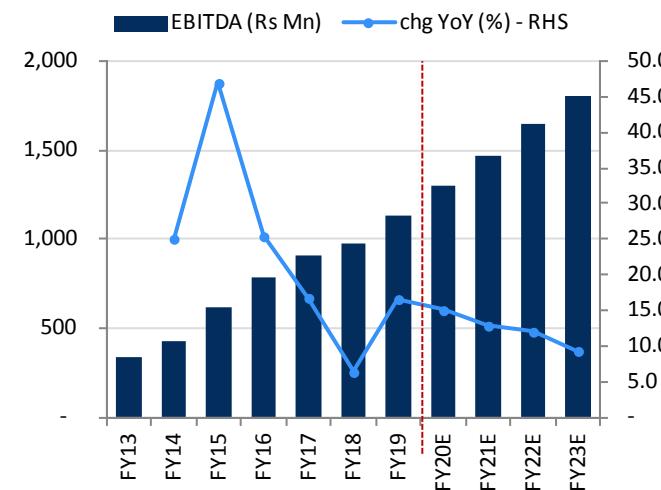
MBL's FCF generation is set to triple from current Rs 0.4-0.5bn p.a. in FY18 to Rs 1.2-1.3bn in FY23E

Revenue trend



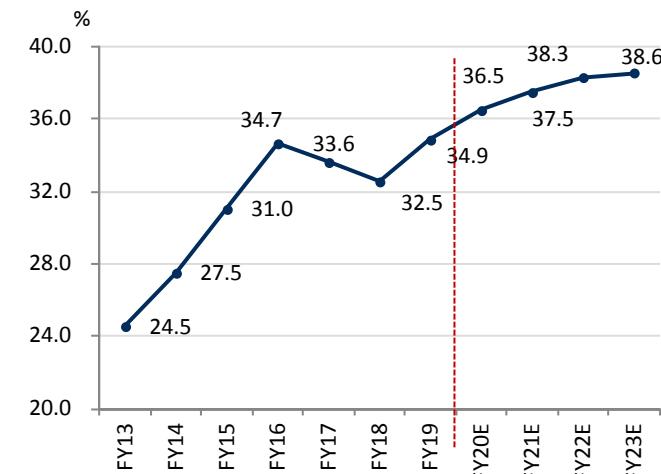
Source: Company, HDFC sec Inst Research

EBITDA trend



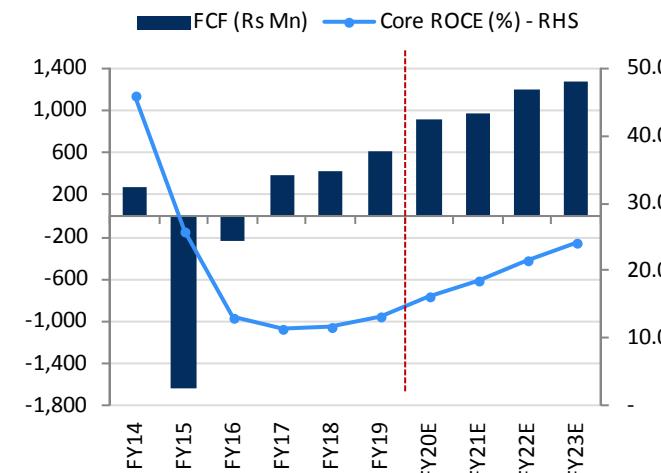
Source: Company, HDFC sec Inst Research

EBITDA margin trend



Source: Company, HDFC sec Inst Research

FCF and Core ROCE



Source: Company, HDFC sec Inst Research

~30% of the incremental revenue to be contributed by 11 new stations. Share of 11 stations to increase from 6% in FY18 to ~17% in FY23E

Increasing utilization levels of 11 new stations launched in 2HFY17 and price increase in major markets to drive growth

Key Operating assumptions

	FY18	FY19	FY20E	FY21E	FY22E	FY23E
No of stations						
- established	28	28	28	28	28	28
- Phase 3, Batch 1	11	11	11	11	11	11
Total	39	39	39	39	39	39
Inventory Available (mn 10 sec slots)*						
- established	16.6	16.6	16.6	16.6	16.6	16.6
- Batch 1, phase 3	6.6	6.6	6.6	6.6	6.6	6.6
Total	23.2	23.2	23.2	23.2	23.2	23.2
Inventory Sold (mn 10 sec slots)*						
- established	11.6	11.8	12.1	12.3	12.4	12.5
- Batch 1, phase 3	2.0	3.0	3.7	4.3	4.7	5.0
Total	13.7	14.8	15.8	16.6	17.1	17.5
Inventory Sold (% chg YoY)						
- established	1.7	2.5	1.5	1.0	0.5	
- Batch 1, phase 3	46.4	23.0	15.6	10.4	6.6	
Total	8.4	6.6	4.8	3.4	2.2	
Utilization %						
- established	70.0	71.2	73.0	74.1	74.8	75.2
- Batch 1, phase 3	31.3	45.8	56.3	65.0	71.8	76.5
Average	59.0	64.0	68.2	71.5	73.9	75.6
Realization/slot/station						
- established	239	248	261	277	296	317
- Batch 1, phase 3	97	108	110	121	131	142
Average	218	219	226	237	251	267
Realization/slot/station (% chg YoY)						
- established	3.5	5.5	6.0	7.0	7.0	
- Batch 1, phase 3	11.8	1.1	10.6	8.4	7.8	
Total	0.4	3.1	4.9	6.0	6.3	
Revenue (Rs Mn)						
- established	2,784	2,922	3,165	3,405	3,680	3,957
- Batch 1, phase 3	199	325	404	516	618	711
Total	2,982	3,247	3,569	3,921	4,298	4,668
Revenue (% chg YoY)						
- established	5.0	8.3	7.6	8.1	7.5	
- Batch 1, phase 3	63.6	24.3	27.8	19.7	15.0	
Total	8.9	9.9	9.9	9.6	8.6	

Source: HDFC Sec Inst Research * MBL calculates inventory at 15min/hour for 18 hours a day

Reduction in our estimate is on account of moderation in revenue growth assumption

Re-rating of radio companies multiple is dependent on sustained double digit revenue growth

Change in estimates

	Old		New		% Change	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Sales (Rs Mn)	3,746	4,220	3,569	3,921	(4.7)	(7.1)
EBITDA (Rs Mn)	1,331	1,584	1,302	1,470	(2.2)	(7.2)
EBITDA Margin (%)	35.5	37.5	36.5	37.5	99 bps	-1 bps
APAT (Rs Mn)	764	934	746	848	(2.4)	(9.2)
EPS (Rs)	2.8	3.4	2.7	3.1	(2.3)	(9.0)

Source: HDFC sec Inst Research

Valuation Snapshot: ENIL and MBL

	FY19E	FY20E	FY21E	FY22E	FY23E
ENIL*					
FCFE (Rs Mn)	800	1,068	1,281	1,805	2,072
Target Multiple (x)	25	25	25	25	25
Implied Mcap (Rs Mn)	20,002	26,699	32,031	45,113	51,804
Implied TP (Rs)	420	560	672	946	1,087
Upside to CMP (%)	(10.0)	20.2	44.2	103.1	133.2
MBL					
FCFE (Rs Mn)**	559	857	861	1,112	1,202
Target Multiple (x)	25	25	25	25	25
Implied Mcap (Rs Mn)	13,970	21,413	21,523	27,798	30,050
Implied TP (Rs)	51	77	78	101	109
Upside to CMP (%)	(14.0)	31.8	32.5	71.1	85.0

Source: HDFC Sec Inst Research

Peer Set Comparison

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Zee Ent	366.7	382	NEU	352	16.6	17.5	19.5	92.9	105.8	120.0	23.0	21.8	19.5	19.3	17.6	17.3
Dish TV	62.6	33	BUY	51	(6.3)	0.5	1.3	(5.2)	59.4	25.2	5.7	5.5	5.1	(19.1)	1.8	4.2
Ent Network	22.2	466	BUY	672	10.7	11.1	15.1	43.6	42.0	30.8	16.3	12.7	10.2	5.6	5.6	7.3
Music Broadcast	16.2	59	BUY	78	15.2	18.3	10.6	21.8	23.4	25.1	26.4	21.8	19.1	10.2	11.9	12.6
DB Corp	34.0	194	BUY	291	15.7	20.8	24.2	12.4	9.3	8.0	6.6	4.8	3.9	14.6	19.4	21.2
Jagran Prakashan	32.6	110	BUY	147	8.5	9.8	12.3	13.0	11.2	9.0	5.8	4.7	3.9	12.8	14.9	17.7

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
Net Sales	2,714	2,982	3,247	3,569	3,921
Growth (%)	20.4	9.9	8.9	9.9	9.9
Program & Loyalty exp	228	254	260	268	294
License fee	192	213	214	211	228
Employee cost	651	689	689	741	797
Mktg exps	240	268	260	268	294
Other exps	491	588	692	779	838
Total Operating Cost	1,802	2,012	2,115	2,267	2,451
EBIDTA	913	971	1,132	1,302	1,470
EBIDTA (%)	33.6	32.5	34.9	36.5	37.5
EBIDTA Growth (%)	16.8	6.4	16.6	15.1	12.9
Depreciation	197	263	271	283	295
EBIT	716	708	861	1,019	1,175
Interest	190	150	57	56	111
Other Income	44	194	151	149	203
PBT	570	752	955	1,113	1,266
Tax	203	235	339	367	418
EO loss/(gain)	-	-	-	-	-
RPAT	367	517	616	746	848
APAT	367	517	616	746	848
APAT Growth (%)	(11.0)	41.1	19.1	21.0	13.8
AEPS	1.3	1.8	2.2	2.7	3.1
EPS Growth (%)	(34.4)	41.1	22.9	21.0	13.8

Source: Company, HDFC sec Inst Research

* 4QFY16 included acquisition of eight radio mantra stations from Jagran group company.

Thus YoY growth is not comparable (adjusted revenue grew by 12% YoY)

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	571	571	553	553	553
Reserves	4,911	5,428	5,480	5,911	6,401
Total Shareholders Funds	5,481	5,999	6,033	6,464	6,954
Long Term Debt	499	499	556	1,113	890
Short Term Debt	1,010	-	-	-	-
Total Debt	1,509	499	556	1,113	890
Other Non current liabilities	54	36	42	53	52
TOTAL SOURCES OF FUNDS	7,044	6,534	6,632	7,630	7,897
APPLICATION OF FUNDS					
Net Block	3,116	2,969	3,100	2,929	2,749
Other Non current assets	503	374	244	468	436
Non Current Assets	3,619	3,343	3,343	3,397	3,185
Trade Receivables	817	1,104	1,254	1,258	1,450
Other Current Assets	229	219	217	267	281
Current Assets	1,046	1,323	1,471	1,525	1,730
Trade Payables	329	223	247	323	315
Other Current Liabilities	239	230	427	345	391
Current Liabilities	567	452	674	668	706
Net current Assets	479	871	798	857	1,025
Cash & Equivalents	2,946	2,320	2,491	3,376	3,687
TOTAL APPLICATION OF FUNDS	7,044	6,534	6,632	7,630	7,897

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
PAT from Operations	367	517	616	746	848
Interest	190	150	57	56	111
Depreciation	197	263	271	283	295
Working Capital Change	(24)	(392)	73	(59)	(168)
OPERATING CASH FLOW (a)	729	538	1,017	1,025	1,087
Capex	(352)	(116)	(401)	(113)	(115)
Free Cash Flow	377	422	615	912	972
Investments & Others	38	111	136	(212)	30
INVESTING CASH FLOW (b)	(314)	(5)	(266)	(325)	(85)
Capital Issuance	150	-	(17)	-	-
Debt Issuance	(1,559)	(1,010)	57	556	(223)
Interest	(190)	(150)	(57)	(56)	(111)
Dividend	-	-	(570)	(315)	(358)
Others	3,691	0	6	(0)	0
FINANCING CASH FLOW (c)	2,092	(1,159)	(581)	186	(692)
NET CASH FLOW (a+b+c)	2,507	(626)	170	886	310
Closing Cash	2,946	2,320	2,491	3,376	3,687

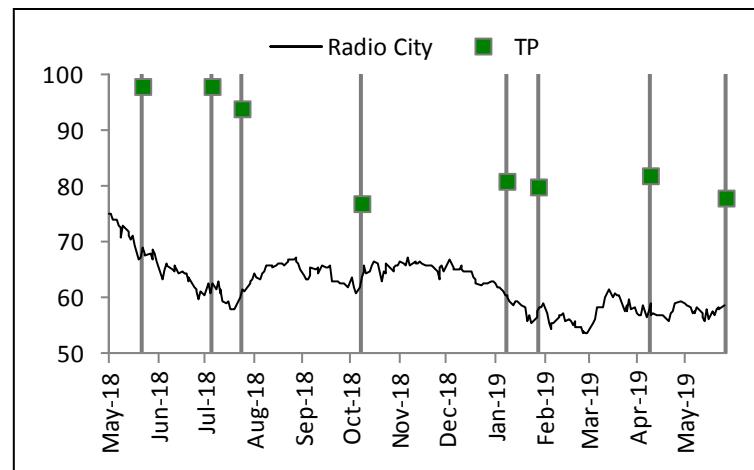
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17*	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	91.6	91.5	92.0	92.5	92.5
EBITDA Margin	33.6	32.5	34.9	36.5	37.5
EBIT Margin	26.4	23.7	26.5	28.6	30.0
APAT Margin	13.5	17.3	19.0	20.9	21.6
RoE	10.9	9.0	10.2	11.9	12.6
Core ROCE	11.5	11.7	13.3	16.3	18.6
RoCE	8.2	7.2	8.4	9.6	10.1
EFFICIENCY					
Tax Rate (%)	35.7	31.2	35.5	33.0	33.0
Asset Turnover (x)	0.9	1.0	1.0	1.2	1.4
Debtors (days)	110	135	141	129	135
Other Current Assets (days)	31	27	24	27	26
Payables (days)	44	27	28	33	29
Other Current Liabilities (days)	32	28	48	35	36
Cash Conversion Cycle (days)	64	107	90	88	95
Net Debt/EBITDA (x)	(1.6)	(1.9)	(1.7)	(1.7)	(1.9)
Net D/E	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage	3.8	4.7	15.2	18.3	10.6
PER SHARE DATA					
EPS (Rs/sh)	1.3	1.8	2.2	2.7	3.1
CEPS (Rs/sh)	2.0	2.7	3.2	3.7	4.1
DPS (Rs/sh)	-	-	2.1	0.9	1.1
BV (Rs/sh)	19.2	21.0	21.8	23.4	25.1
VALUATION					
P/E	45.7	32.4	26.4	21.8	19.1
P/BV	3.1	2.8	2.7	2.5	2.3
EV/EBITDA	16.2	14.9	12.6	10.7	9.2
OCF/EV (%)	4.9	3.7	7.1	7.3	8.1
FCF/EV (%)	2.5	2.9	4.3	6.5	7.2
FCFE/Mcap (%)	1.2	1.7	3.4	5.3	5.3
EV/Revenues	5.5	4.8	4.4	3.9	3.4
Dividend Yield (%)	-	-	3.5*	1.6	1.8

Source: Company, HDFC sec Inst Research; * Including buyback on per share basis

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
23-May-18	67	BUY	98
6-Jul-18	62	BUY	98
25-Jul-18	62	BUY	94
9-Oct-18	62	BUY	77
9-Jan-19	61	BUY	81
29-Jan-19	58	BUY	80
10-Apr-19	58	BUY	82
29-May-19	59	BUY	78

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
 NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
 SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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