

## Downgrade to Reduce (Prev. Accumulate)

### Growth challenges coupled with weak margins

- Revenue during the quarter declined 3% YoY to ₹ 1,257mn (DCMe: ₹ 1,322mn) on back of decline in advertisement spend by all advertisers post implementation of GST till August 2017.
- EBITDA margin improved 474bps YoY to 22.6% (DCMe: 20.8%) on back of lower marketing cost and better profitability in non-radio business. PAT during the quarter declined 24.3% to ₹ 61mn (DCMe: ₹ 96mn) on back of higher tax rate (55%). Current tax includes ₹ 27.81mn pertaining to earlier years, excluding the same PAT grew 10.3% YoY to ₹ 89mn below our estimate.
- Non-radio revenue declined 12.7% YoY and it's the contribution fell to 27% (vs 30% in Q2FY17), while Radio business improved 1% YoY supported by new stations. Excluding new stations, Radio business too declined 7.5% YoY as inventory fell 16% YoY and pricing grew 8.5%YoY
- Utilisation in the top 8 stations declined 1400bps YoY to 101% and in balance 24 stations it declined 1100bps to 80%. Lower ad. spends in Govt. vertical, weakness in the real estate segment due to RERA and uncertainty on GST impacted ad. spends which led to lower utilisation rates coupled with management's strategy to pull back inventory to attract a premium price vs industry/peers. Post RERA registration, real estate business volume increased 60% in volume for Mumbai but still some cities like Jaipur (80% volume decline) are yet to be recovered.
- ENIL has a pricing advantage in in all new stations which currently have an Ad. cap of 10 mins; excluding two new stations (Kozhikode and Jammu) launched during the quarter capacity utilization for all the new stations has breached 26%. New stations are operating at an EBITDA loss (₹ 18mn in Q2FY18) which the company expects to break-even in by Q4FY18.
- ENIL has decided to cut down inventory to 14 mins in off-season and 18 mins during festive season which continues to impact near term revenue growth rate.
- ENIL is trading at premium valuations of 21.7x/16.3x based on FY19/FY20 EV/EBITDA which is a 50%/35% premium versus MBL. We pare our FY19/FY20 EBITDA estimates by 15%/13% factoring a weak H2FY18 as mgmt. continues to focus on lower inventory and premium pricing; management also indicated of a relatively weaker festive season which may impact growth. We expect EBITDA margin to be subdued in the near term given its weak performance in H1FY18 and as company's new strategy (inventory cut) continues to exert pressure on the former. We downgrade ENIL to REDUCE with a revised Sep'18 TP of ₹ 810.

### Q2FY18 Result (₹ Mn)

Particulars	Q2FY18	Q1FY18	Q2FY17	QoQ(%)	YoY(%)
Revenue	1,257	1,044	1,296	20.5	(3.0)
EBITDA	284	167	231	70.1	22.8
Pre-Tax Profit	136	27	115	407.0	17.3
Net Profit	61	46	81	33.5	(24.3)
EPS (₹)	1.3	1.0	1.7	33.5	(24.3)
<b>Margins (%)</b>				<b>bps</b>	<b>bps</b>
EBITDA Margin	22.6	16.0	17.8	659	474
PBT Margin	10.8	2.6	8.9	822	187
Net Margin	4.8	4.4	6.2	47	(136)

CMP	₹ 834
Target / Downside	₹ 810/3%
BSE Sensex	33,573
NSE Nifty	10,424

### Scrip Details

Equity / FV	₹ 477mn/₹ 10/-
Market Cap	₹ 40bn
	USD 616mn
52 week High/Low	₹ 1,008 / 677
Avg. Volume (no)	10,952
NSE Symbol	ENIL
Bloomberg Code	ENIL IN

### Shareholding Pattern Sep'17 (%)

Promoters	71.2
MF/Banks/FIs	4.4
FII's	15.9
Public / Others	8.5

### Valuation (x)

	FY18E	FY19E	FY20E
P/E	68.0	41.3	30.0
EV/EBITDA	31.8	21.7	16.3
ROE (%)	6.4	9.5	11.6
ROCE (%)	6.9	11.0	13.9

### Estimates (₹ Mn)

	FY18E	FY19E	FY20E
Net Sales	5,698	6,394	7,678
EBITDA	1,271	1,814	2,332
PAT	584	963	1,324
EPS (₹)	12.3	20.2	27.8

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**Exhibit 1: Q2FY18 Performance**

(₹ mn)	Q2FY18	DCMe	Diff (%)	Q1FY18	QoQ(%)	Q2FY17	YoY(%)
Revenue	1,257	1,322	(4.9)	1,044	20.5	1,296	(3.0)
EBITDA	284	275	3.3	167	70.1	231	22.8
Pre-Tax Profit	136	126	7.5	27	407.0	115	17.3
Net Profit	61	96	(36.5)	46	33.5	81	(24.3)
EPS (₹)	1.3	2.0	(36.1)	1.0	33.5	1.7	(24.3)
<b>Margins (%)</b>							
EBITDA Margin	22.6	20.8		16.0	659	17.8	474
Net Margin	4.8	7.3		4.4	47	6.2	(136)

Source: Company, DART

**Exhibit 2: Estimate Revision**

(₹ mn)	New		Old		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	6,479	7,772	7,164	8,615	(9.6)	(9.8)
EBITDA	1,814	2,332	2,135	2,696	(15.0)	(13.5)
Pre-Tax Profit	1,376	1,891	1,666	2,225	(17.4)	(15.0)
Net Profit	963	1,324	1,166	1,558	(17.4)	(15.0)
EPS (₹)	20.2	27.8	24.5	32.7	(17.4)	(15.0)
<b>Margins (%)</b>						
EBITDA Margin	28.0	30.0	29.8	31.3		
Net margin	14.9	17.0	16.3	18.1		

Source: Company, DART

### Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>Net Sales</b>	<b>5,495</b>	<b>5,698</b>	<b>6,394</b>	<b>7,678</b>
Other Operational income	71	78	85	94
Total Income	5,565	5,776	6,479	7,772
Total Expenditure	4,306	4,505	4,665	5,440
COGS	588	549	616	637
Employee Expenses	1,054	1,213	1,361	1,578
Selling & Admin. Expenses	1,294	1,155	1,263	1,593
Other Expenses	1,370	1,588	1,425	1,632
<b>Gross Profit</b>	<b>4,977</b>	<b>5,227</b>	<b>5,864</b>	<b>7,135</b>
<b>EBIDTA</b>	<b>1,259</b>	<b>1,271</b>	<b>1,814</b>	<b>2,332</b>
Depreciation	536	550	552	554
<b>EBIT</b>	<b>723</b>	<b>721</b>	<b>1,262</b>	<b>1,778</b>
Other Income	203	175	175	175
Interest	136	62	62	62
Profit Before Tax	790	835	1,376	1,891
Tax	238	250	413	567
<b>Net Profit</b>	<b>552</b>	<b>584</b>	<b>963</b>	<b>1,324</b>

### Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>Sources of Funds</b>				
Equity Capital	477	477	477	477
Other Reserves	8,097	8,681	9,645	10,969
<b>Net Worth</b>	<b>8,574</b>	<b>9,158</b>	<b>10,121</b>	<b>11,445</b>
Secured Loans	0	0	0	0
Unsecured Loans	1,232	1,232	1,232	1,232
<b>Loan Funds</b>	<b>1,232</b>	<b>1,232</b>	<b>1,232</b>	<b>1,232</b>
Deferred Tax Liability	95	95	95	95
<b>Total Capital Employed</b>	<b>9,901</b>	<b>10,485</b>	<b>11,449</b>	<b>12,773</b>
<b>Applications of Funds</b>				
Gross Block	9,016	9,516	9,576	9,636
Less: Acc. Depreciation	1,871	2,204	2,539	2,876
<b>Net Block</b>	<b>7,145</b>	<b>7,312</b>	<b>7,037</b>	<b>6,760</b>
Investments	1,169	1,169	1,169	1,169
<b>Current Assets, Loans &amp; Advances</b>				
Sundry Debtors	1,622	1,683	1,888	2,265
Cash and Bank Balance	186	622	1,669	3,047
Loans and Advances	592	614	689	827
sub total	2,400	2,919	4,246	6,138
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	1,477	1,399	1,481	1,741
Provisions	0	180	187	218
sub total	1,477	1,579	1,667	1,959
Net Current Assets	923	1,340	2,578	4,180
<b>Total Assets</b>	<b>9,901</b>	<b>10,485</b>	<b>11,449</b>	<b>12,773</b>

E – Estimates

### Cash Flow (₹ mn)

Particulars	Mar17E	Mar18E	Mar19E	Mar20E
<b>Profit before tax</b>	<b>790</b>	<b>835</b>	<b>1,376</b>	<b>1,891</b>
Depreciation & w.o.	536	550	552	554
Net Interest Exp	(67)	(114)	(114)	(114)
Direct taxes paid	(238)	(250)	(413)	(567)
Change in Working Capital	(257)	110	(228)	(399)
<b>(A) CF from Opt. Activities</b>	<b>763</b>	<b>1,130</b>	<b>1,174</b>	<b>1,365</b>
Capex	(520)	(500)	(60)	(60)
<b>Free Cash Flow</b>	<b>244</b>	<b>630</b>	<b>1,114</b>	<b>1,305</b>
<b>(B) CF from Invst. Activities</b>	<b>(520)</b>	<b>(500)</b>	<b>(60)</b>	<b>(60)</b>
Inc./(Dec.) in Debt	(1,269)	0	0	0
Interest exp net	(1,269)	0	0	0
Dividend Paid (Incl. Tax)	(56)	(56)	(56)	(56)
Other	2,338	(139)	(10)	129
<b>(C) CF from Financing</b>	<b>(256)</b>	<b>(195)</b>	<b>(66)</b>	<b>73</b>
Net Change in Cash	(12)	435	1,048	1,378
Opening Cash balances	198	186	621	1,669
Closing Cash balances	186	622	1,669	3,047

### Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin	22.6	22.0	28.0	30.0
EBIT Margin	13.0	12.5	19.5	22.9
Interest / Sales	2.5	1.1	1.0	0.8
Gross Profit Margin	89.4	90.5	90.5	91.8
Tax/PBT	30.1	30.0	30.0	30.0
Net Profit Margin	9.9	10.1	14.9	17.0
<b>(B) As Percentage of Net Sales</b>				
COGS	10.6	9.5	9.5	8.2
Employee Expenses	18.9	21.0	21.0	20.3
Selling & Admin Expenses	23.3	20.0	19.5	20.5
Other Expenses	24.6	27.5	22.0	21.0
<b>(C) Measures of Financial Status</b>				
Debt / Equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	5.3	11.7	20.5	28.9
Average Cost of Debt (%)	7.3	5.0	5.0	5.0
W.C Turnover (x)	6.0	4.3	2.5	1.8
Non-Cash W.C. (₹ Mn)	736.4	718.2	909.5	1,132.6
<b>(D) Measures of Investment</b>				
EPS (₹)	11.6	12.3	20.2	27.8
CEPS (₹)	22.8	23.8	31.8	39.4
DPS (₹)	1.0	1.0	1.0	1.0
Dividend Payout (%)	8.6	8.2	4.9	3.6
Profit Ploughback (%)	91.4	91.8	95.1	96.4
Book Value (₹)	179.9	192.1	212.3	240.1
RoANW (%)	6.4	6.4	9.5	11.6
RoACE (%)	7.3	6.9	11.0	13.9
RoAIC (%)	7.4	7.3	12.9	18.3
<b>(E) Valuation Ratios</b>				
CMP (₹)	834	834	834	834
P/E (x)	72.0	68.0	41.3	30.0
Market Cap. (₹. Mn)	39,738	39,738	39,738	39,738
MCap/ Sales (x)	7.2	7.0	6.2	5.2
EV (₹. Mn.)	40,784	40,348	39,301	37,923
EV/Sales (x)	7.4	7.1	6.1	4.9
EV/EBDITA (x)	32.4	31.8	21.7	16.3
P/BV (x)	4.6	4.3	3.9	3.5
Dividend Yield (%)	0.1	0.1	0.1	0.1

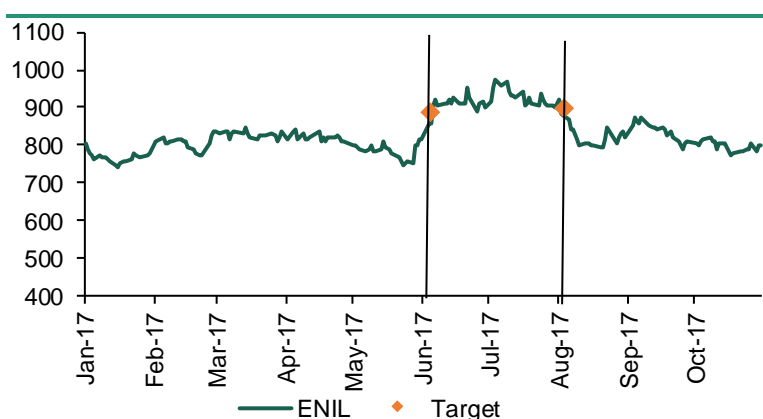
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



	Rating	TP (₹)	CMP (₹)
Jun'17	Accumulate	890	815
Aug'17	Accumulate	900	880

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