

Music Broadcast

BUY

INDUSTRY	MEDIA
CMP (as on 22 May 2018)	Rs 337
Target Price	Rs 492
Nifty	10,537
Sensex	34,651
KEY STOCK DATA	
Bloomberg	RADIOCITY IN
No. of Shares (mn)	57
MCap (Rs bn) / (\$ mn)	19/282
6m avg traded value (Rs mn)	13
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 459/330
	3M 6M 12M
Absolute (%)	(5.3) (8.9) (2.2)
Relative (%)	(7.8) (12.1) (15.5)
SHAREHOLDING PATTERN (%)	
Promoters	71.4
FIs & Local MFs	14.9
FPIs	4.5
Public & Others	9.2
Source : BSE	

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Healthy quarter

Music Broadcast Limited (MBL) reported upbeat 4QFY18 with 14% revenue, 30% adjusted EBITDA (reported 65%) and 117% APAT growth (reported 261%) YoY. FY18 revenue/EBITDA growth was modest at 10%/6%. Launch expenses on new stations dragged EBITDA. FY18 PAT growth was 41% owing to Rs 4bn IPO proceeds (Mar17 @ Rs 333/sh) and thus higher other income.

Led by economic tailwinds, consequent higher inventory utilization, and growth in new stations we expect MBL to register healthy revenue and earning CAGR of 12% and 22% from FY18-20E (ex acquisition). Core ROCE will improve from 11.8% to 19.1%. MBL's prudent capital allocation strategy and focus on profitability are key positives.

BUY with TP of Rs 492 (+47%) at 30x FY20E FCFE per share. Recent correction in MBL's stock price makes risk-reward even more favourable.

Key highlights

- **4QFY18 financial highlights:** MBL's 14% YoY revenue growth (highest since IPO in Mar17) was contributed equally by legacy 28 stations and 11 new stations.

Consolidated Financial Summary

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	759	666	14.1	762	(0.3)	2,255	2,714	2,982	3,473	3,964
EBITDA	274	166	64.8	233	17.3	781	913	971	1,237	1,475
APAT	163	45	261.3	119	36.9	412	367	517	699	866
Diluted EPS (Rs)	2.8	0.8	261.3	2.1	36.9	9.8	6.4	9.1	12.3	15.2
P/E (x)						34.2	52.1	37.0	27.3	22.1
EV / EBITDA (x)						27.8	19.2	17.7	13.7	11.1
RoE						39.4	10.9	9.0	11.3	13.0

Source: Company, HDFC sec Inst Research

Growth in legacy stations was 50:50 mix of price increase and volume growth, while volume led in new stations. Segment wise government revenue increased by 50% (for industry 35%) and accounted for ~20% in 4Q vs. 15-16% average. BFSI, auto, real estate's were other segments that registered growth.

- Eleven new stations accounted for ~6% revenues in FY18 and did EBITDA break-even in 4QFY18; albeit within 1.5 years of launch vs. guidance of 2.5 years.
- **Acquisition of Kolkata station to expand portfolio:** MBL will expand into Kolkata with acquisition of 'Friends FM' station from Ananda Offset. Friend's FM did revenues of ~Rs 110mn and EBITDA of Rs 22mn (20% margin vs. MBL's 30%+) in FY18. We foresee the acquisition as value neutral in the medium term. However it fortifies MBL's presence in Metro cities (top 5 markets) and increases its reach from 62% of FM population to 72%. We incorporate this acquisition in our numbers from 2HFY19.
- **Near term outlook** is positive led by increase in utilization of new stations and upcoming elections should provide boosts to ad revenue growth.

Healthy revenue growth led by higher utilization and low base of 4QFY17 (3.6% growth in base quarter)

Radio business inherently high operating leverage drives strong EBITDA growth

Adjusted for new station launch and IPO expenses in base quarter; 4QFY18 EBITDA grew by 30% YoY and APAT by 117%

Decline in other expenses QoQ/YoY owing to write back of provisions on collections improvement. MBL prudently provides for 180 days plus outstanding and on collections the provision is reversed.

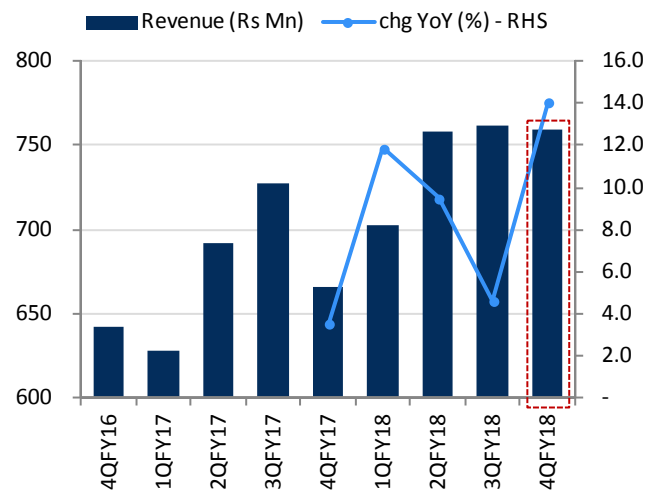
Quarterly Financial Snapshot

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	% chg YoY	% chg QoQ	FY17	FY18	% chg YoY
Revenue	666	703	758	762	759	14.1	(0.3)	2,714	2,982	9.9
License fees	48	52	54	54	53	9.7	(1.3)	192	213	10.7
Employee cost	170	171	171	176	171	0.2	(3.1)	651	689	5.9
Other expenses	281	258	291	299	262	(6.7)	(12.3)	959	1,110	15.8
Total Opex	500	481	516	529	486	(2.8)	(8.1)	1,802	2,012	11.7
EBITDA	166	222	242	233	274	64.8	17.3	913	971	6.4
Depreciation	56	64	67	65	67	18.5	2.1	197	263	33.5
Finance costs	59	39	38	39	34	(42.9)	(14.0)	190	150	(21.2)
Other Income	17	47	50	43	54	221.4	24.7	44	194	336.7
PBT	68	166	187	172	227	236.6	32.1	570	752	31.9
Tax	23	57	60	53	65	187.1	21.4	203	235	15.5
PAT	45	108	127	119	163	261.3	36.9	367	517	41.1
Cash PAT (PAT+Dep)	101	172	194	184	229	126.4	24.6	563	780	38.4

As % of reveue	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	chg YoY (bps)	chg QoQ (bps)	FY17	FY18	chg YoY (bps)
License fees	7.3	7.4	7.1	7.1	7.0	(28)	(7)	7.1	7.1	5
Employee cost	25.6	24.4	22.6	23.1	22.5	(310)	(64)	24.0	23.1	(88)
Other expenses	42.2	36.7	38.4	39.2	34.5	(771)	(472)	35.3	37.2	190
Total Opex	75.1	68.5	68.1	69.4	64.0	(1,109)	(542)	66.4	67.5	108
EBITDA	24.9	31.5	31.9	30.6	36.0	1,109	542	33.6	32.5	(108)
Depreciation	8.5	9.1	8.8	8.6	8.8	32	21	7.3	8.8	156
Finance costs	8.9	5.5	5.1	5.1	4.4	(443)	(71)	7.0	5.0	(199)
Other Income	2.5	6.6	6.6	5.7	7.1	459	143	1.6	6.5	487
PBT	10.1	23.6	24.7	22.6	29.9	1,978	734	21.0	25.2	422
Tax	3.4	8.2	7.9	7.0	8.5	513	152	7.5	7.9	39
PAT	6.8	15.4	16.8	15.6	21.4	1,465	582	13.5	17.3	383
<i>Tax as % of PBT</i>	<i>33.3</i>	<i>34.6</i>	<i>32.0</i>	<i>30.9</i>	<i>28.4</i>	<i>(490)</i>	<i>(250)</i>	<i>35.7</i>	<i>31.2</i>	<i>(444)</i>

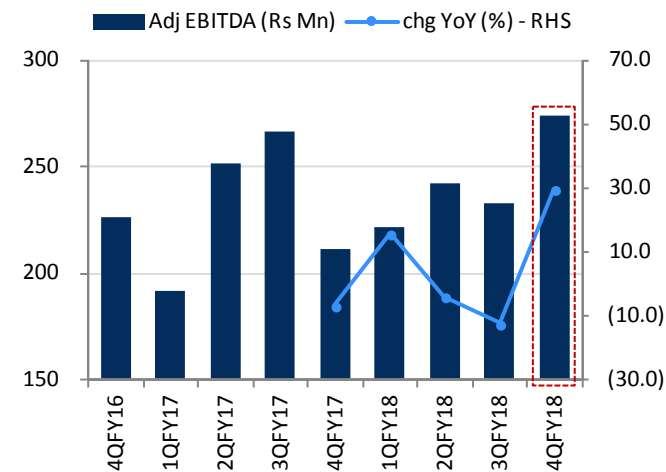
Source: Company, HDFC sec Inst Research

Revenue trend



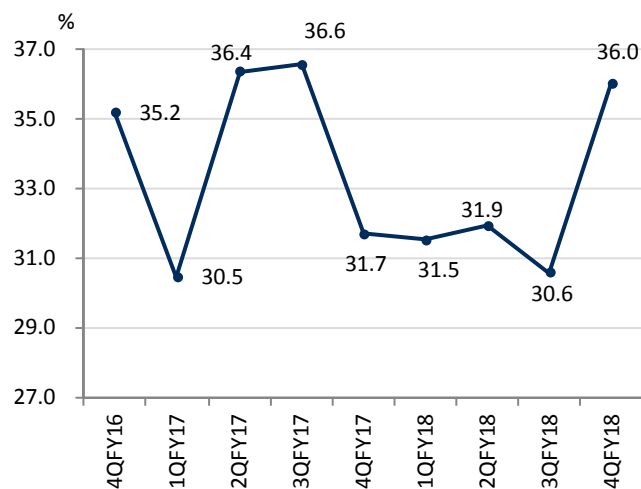
Source: Company, HDFC sec Inst Research

EBITDA trend



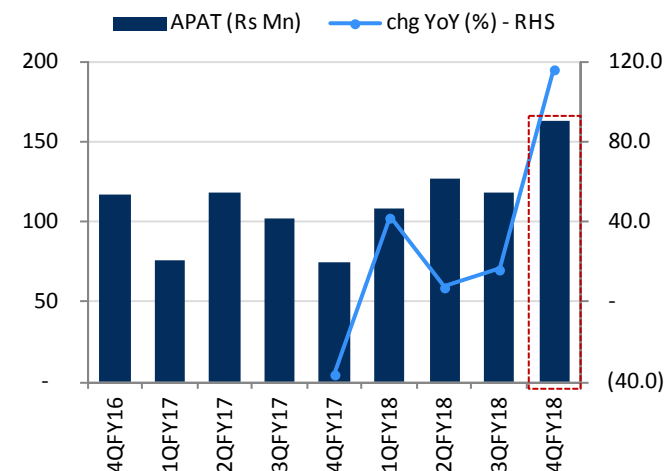
Source: Company, HDFC sec Inst Research

EBITDA margin trend



Source: Company, HDFC sec Inst Research

APAT trend



Source: Company, HDFC sec Inst Research

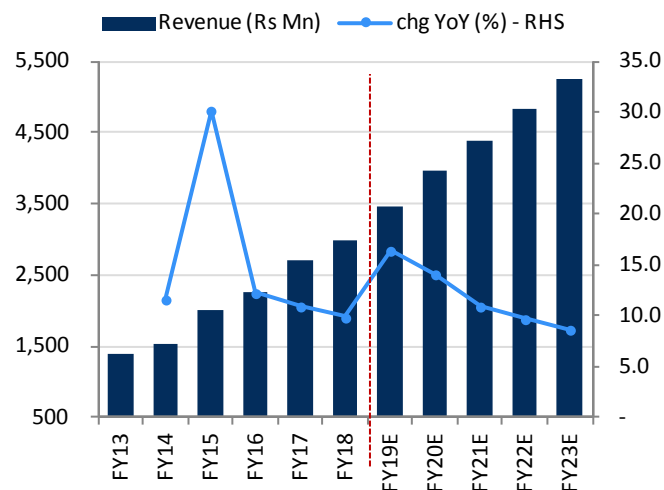
28 legacy stations margin stood at healthy 39% in 4QFY18 whereas 11 new stations break-even

EBITDA margin to improve from 32-33% to 35-38% 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 1.3-1.4bn in FY23E. FY18

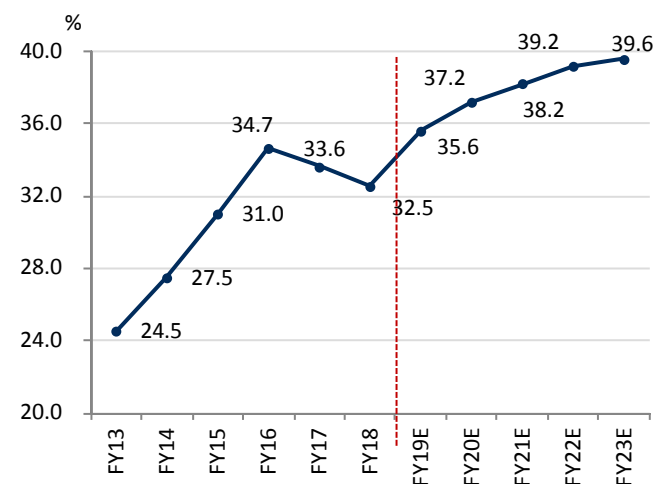
FY18 FCF was subdued owing to increase in receivables led by deferment in government collections from 4QFY18 to 1QFY19

Revenue trend



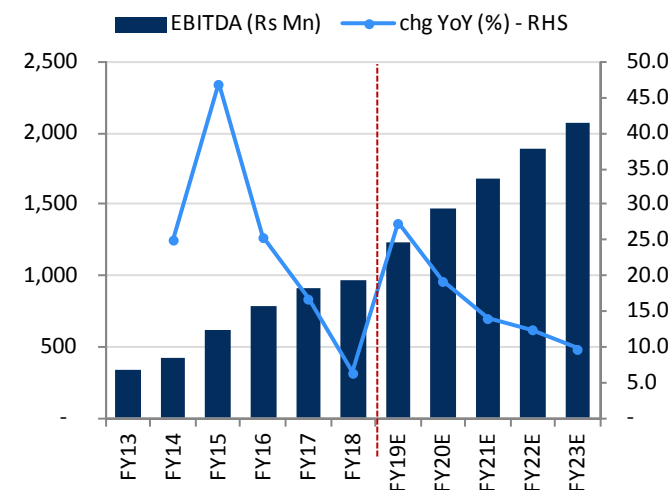
Source: Company, HDFC sec Inst Research

EBITDA margin trend



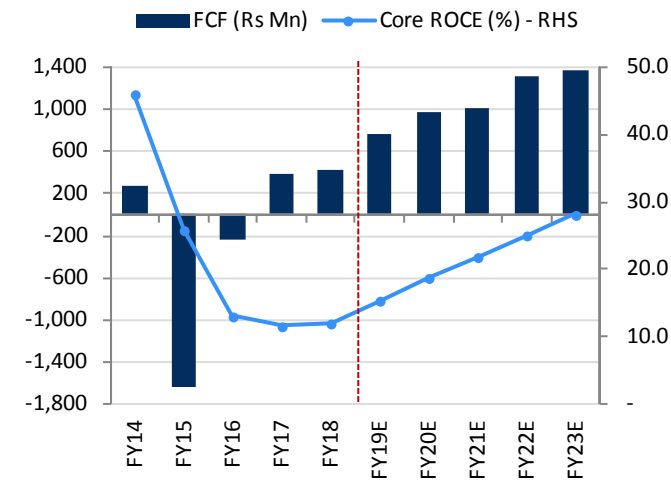
Source: Company, HDFC sec Inst Research

EBITDA trend



Source: Company, HDFC sec Inst Research

FCF and Core ROCE



Source: Company, HDFC sec Inst Research

*** Increase in one station in FY19 is owing to acquisition of Ananda Offset Kolkata station (wef 2HFY19)**

MBL's revenue to grow at 11% CAGR over FY18-23 led by 50:50 blend of price increase and utilization

Increase in utilization of 11 new stations launched in 2HFY17 and price increase in established stations to drive growth

~30% of the incremental revenue to be contributed by 11 new stations. Share of 11 stations to increase from 6% in FY18E to ~16% in FY23E

Key Operating assumptions

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
No of stations						
- established	28	29*	29	29	29	29
- Phase 3, Batch 1	11	11	11	11	11	11
Total	39	40	40	40	40	40
Inventory Available (mn 10 sec slots)*						
- established	16.6	16.9	17.2	17.2	17.2	17.2
- Phase3, Batch 1	6.6	6.6	6.6	6.6	6.6	6.6
Total	23.2	23.5	23.8	23.8	23.8	23.8
Inventory Sold (mn 10 sec slots)*						
- established	11.6	12.4	13.0	13.1	13.3	13.3
- Phase3, Batch 1	2.0	2.8	3.5	4.1	4.5	4.8
Total	13.7	15.2	16.4	17.2	17.8	18.2
Inventory Sold (% chg YoY)						
- established		6.9	4.3	1.5	1.0	0.5
- Phase3, Batch 1		36.0	25.3	16.4	10.9	6.9
Total		11.2	8.1	4.7	3.3	2.1
Utilization %						
- established	70.0	73.5	75.3	76.5	77.2	77.6
- Phase3, Batch 1	31.3	42.5	53.3	62.0	68.8	73.5
Average	59.0	64.8	69.2	72.5	74.9	76.5
Realization/slot/station						
- established	239	254	270	289	309	331
- Phase3, Batch 1	97	116	133	147	160	172
Average	218	228	241	256	271	289
Realization/slot/station (% chg YoY)						
- established		6.1	6.5	7.0	7.0	7.0
- Phase3, Batch 1		19.1	15.3	10.6	8.4	7.8
Total		4.8	5.5	6.0	6.2	6.4
Revenue (Rs Mn)						
- established	2,780	3,151	3,499	3,800	4,107	4,416
- Phase3, Batch 1	199	322	465	599	720	830
Total	2,979	3,473	3,964	4,399	4,827	5,246
Revenue (% chg YoY)						
- established		13.3	11.0	8.6	8.1	7.5
- Phase3, Batch 1		62.0	44.4	28.7	20.3	15.3
Total		16.6	14.1	11.0	9.7	8.7

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

*In the medium-to-long term
we expect both MBL and ENIL
to deliver similar stock returns*

*In short term MBL can
outperform ENIL*

Valuation Snapshot: ENIL and MBL

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
ENIL*						
FCFE (Rs Mn)	721	808	1,314	1,622	1,873	2,152
Target Multiple (x)	30	30	30	30	30	30
Implied Mcap (Rs Mn)	21,638	24,245	39,431	48,664	56,196	64,574
Implied TP (Rs)	454	509	827	1,021	1,179	1,355
Upside to CMP (%)	(29.1)	(20.5)	29.2	59.5	84.2	111.7
MBL						
FCFE (Rs Mn)**	272	964	935	987	1,298	1,346
Target Multiple (x)	30	30	30	30	30	30
Implied Mcap (Rs Mn)	8,162	28,926	28,049	29,604	38,939	40,381
Implied TP (Rs)	143	507	492	519	682	708
Upside to CMP (%)	(57.3)	51.3	46.8	54.9	103.7	111.3

Source: HDFC Sec Inst Research

* We have added back Rs 1.7bn in FCF of ENIL to be paid towards acquisition of Ishq FM stations and Rs 250mn in MBL for acquisition of Kolkata station of Anand Offset in FY19E

** MBL's FY18 FCF is subdued owing to Rs 390mn increase in working capital on account of receivables as also decline in Payables

Valuation Summary

	CMP	TP	+/- %	Rating	P/E (x)			EV/EBTDA (x)			P/FCFE (x)			P/B (x)			Core ROCE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ENIL	640	827	29.2	BUY	95.2	54.5	44.1	25.8	18.5	15.0	42.3	(34.2)	23.2	3.4	3.3	3.1	3.5	6.4	7.6
MBL	337	492	46.8	BUY	37.0	27.3	22.1	17.7	13.7	11.1	70.3	26.8	20.4	3.2	3.0	2.8	12.0	15.4	18.8

Source: HDFC Sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17*	FY18	FY19E	FY20E
Net Sales	2,255	2,714	2,982	3,473	3,964
Growth (%)	12.3	20.4	9.9	16.5	14.1
Program & Loyalty exp	147	228	254	278	297
License fee	172	192	213	231	259
Employee cost	511	651	689	764	845
Mktg exps	206	240	268	278	297
Other exps	437	491	588	685	790
Total Operating Cost	1,473	1,802	2,012	2,236	2,489
EBIDTA	781	913	971	1,237	1,475
EBIDTA (%)	34.7	33.6	32.5	35.6	37.2
EBIDTA Growth (%)	25.4	16.8	6.4	27.4	19.3
Depreciation	167	197	263	274	285
EBIT	614	716	708	963	1,190
Interest	207	190	150	45	36
Other Income	147	44	194	125	139
PBT	555	570	752	1,043	1,293
Tax	143	203	235	344	427
EO loss/(gain)	136	-	-	-	-
RPAT	276	367	517	699	866
APAT	412	367	517	699	866
APAT Growth (%)	30.5	(11.0)	41.1	35.2	23.9
AEPS	9.8	6.4	9.1	12.3	15.2
EPS Growth (%)	20.8	(34.4)	41.1	35.2	23.9

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)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	420	571	571	571	571
Reserves	853	4,911	5,428	5,858	6,296
Total Shareholders Funds	1,273	5,481	5,999	6,429	6,866
Long Term Debt	2,325	499	499	399	319
Short Term Debt	743	1,010	-	-	-
Total Debt	3,068	1,509	499	399	319
Other Non current liabilities	41	54	36	58	64
TOTAL SOURCES OF FUNDS	4,382	7,044	6,534	6,886	7,250
APPLICATION OF FUNDS					
Net Block	2,960	3,116	2,969	3,049	2,869
Other Non current assets	528	381	266	439	470
Non Current Assets	3,489	3,497	3,235	3,488	3,339
Trade Receivables	763	817	1,104	1,169	1,305
Other Current Assets	207	229	219	289	318
Current Assets	970	1,046	1,323	1,457	1,623
Trade Payables	223	329	223	341	388
Other Current Liabilities	292	239	230	341	348
Current Liabilities	515	567	452	682	736
Net current Assets	455	479	871	776	887
Cash & Equivalents	439	3,068	2,428	2,622	3,023
TOTAL APPLICATION OF FUNDS	4,382	7,044	6,534	6,886	7,250

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PAT from Operations	276	367	517	699	866
Interest	207	190	150	45	36
Depreciation	167	197	263	274	285
Working Capital Change	2,058	(24)	(392)	95	(112)
OPERATING CASH FLOW (a)	2,709	729	538	1,112	1,075
Capex	(2,937)	(352)	(116)	(353)	(104)
Free Cash Flow	(229)	377	422	759	971
Investments & Others	(198)	160	97	(151)	(25)
INVESTING CASH FLOW (b)	(3,136)	(192)	(19)	(504)	(129)
Capital Issuance	176	3,842	0	(0)	-
Debt Issuance	142	(1,559)	(1,010)	(100)	(80)
Interest	(207)	(190)	(150)	(45)	(36)
Dividend	-	-	-	(269)	(429)
FINANCING CASH FLOW (c)	111	2,092	(1,159)	(414)	(545)
NET CASH FLOW (a+b+c)	(316)	2,629	(640)	194	401
Closing Cash	439	3,068	2,428	2,622	3,023

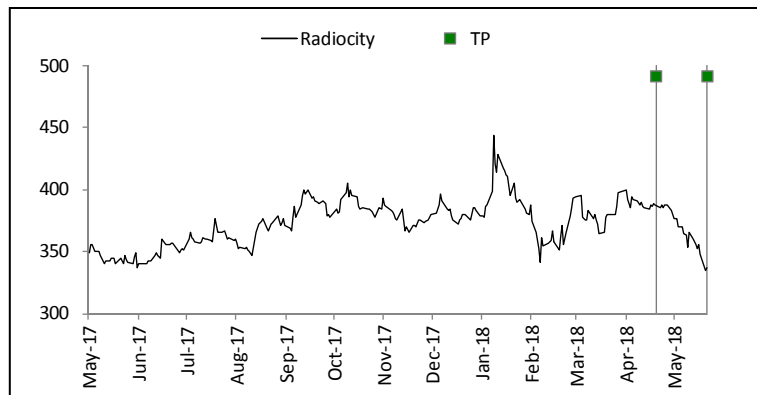
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	93.5	91.6	91.5	92.0	92.5
EBITDA Margin	34.7	33.6	32.5	35.6	37.2
EBIT Margin	27.2	26.4	23.7	27.7	30.0
APAT Margin	18.3	13.5	17.3	20.1	21.9
RoE	39.4	10.9	9.0	11.3	13.0
Core ROCE	13.1	11.6	12.0	15.4	18.8
RoCE	11.2	8.1	7.2	9.6	11.3
EFFICIENCY					
Tax Rate (%)	25.8	35.7	31.2	33.0	33.0
Asset Turnover (x)	0.8	0.9	1.0	1.1	1.4
Debtors (days)	123	110	135	123	120
Payables (days)	36	44	27	36	36
Cash Conversion Cycle (days)	74	64	107	82	82
Debt/EBITDA (x)	3.4	(1.7)	(2.0)	(1.8)	(1.8)
Net D/E	2.1	(0.3)	(0.3)	(0.3)	(0.4)
Interest Coverage	3.0	3.8	4.7	21.4	33.1
PER SHARE DATA					
EPS (Rs/sh)	9.8	6.4	9.1	12.3	15.2
CEPS (Rs/sh)	1.4	1.0	1.4	1.7	2.0
DPS (Rs/sh)	-	-	-	4.3	6.8
BV (Rs/sh)	30.3	96.1	105.1	112.7	120.3
VALUATION					
P/E	34.2	52.1	37.0	27.3	22.1
P/BV	11.1	3.5	3.2	3.0	2.8
EV/EBITDA	27.8	19.2	17.7	13.7	11.1
OCF/EV (%)	12.5	4.2	3.1	6.6	6.6
FCF/EV (%)	(1.1)	2.1	2.5	4.5	5.9
FCFE/Mcap (%)	(2.3)	1.0	1.4	3.7	4.9
EV/Revenues	9.6	6.5	5.8	4.9	4.1
Dividend Yield (%)	-	-	-	1.3	2.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-Apr-18	388	BUY	492
23-May-18	337	BUY	492

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

Disclosure:

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