

Music Broadcast

Buy

DART

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MBL reported revenue growth of 9.9% YoY in FY18 to ₹ 2982mn which includes revenue from exchange of services of ₹ 196 as on 31st March, 2018 as compared to ₹ 150 mn as on 31st March 2017. EPS increased to ₹ 9.1 compared to ₹ 6.4 in FY17.

New Stations Contribute Equally to Growth Profitability

Top 8 stations of MBL are operating at utilization of 75% and other markets are operating at 65%; all the growth of the new stations has come from utilization which are operating at a rate of 40%, much better than anticipated. Revenue growth and margin expansion will lead to healthy earnings CAGR of 19% (FY18-21).

New Phase III Stations Attain Complete Breakeven

Realization for legacy stations of MBL grew ~4%-5% with utilization rates of 65-70%; management expects realization growth to be higher at around 8-9% in FY19 driven by Government ad. spends. New Phase III stations attained break even within 15 months, much better than management's guided time of 28 months.

Kolkata Acquisition's Positive Impact in FY19

MBL acquired 100% ownership of Ananda Offset Private Limited's radio division 'Friends 91.9 FM' an established brand in Kolkata in Q4FY18 for a purchase consideration of ₹ 35cr (~3x sales) which will drive penetration for MBL. 'Friends 91.9 FM' is currently under process for MIB approval and is expected to get clearance towards H2FY19. The MIB approval will enhance reach footprint from 62% to 72%.

View

MBL has guided for organic revenue growth of 12%-15% YoY in FY19. EBITDA margin is estimated towards the upper end of the band (33%-35%) over the next three years due to lower marketing/promotion expenses as there is no new station slated for launch. MBL continues to dominate in Bangalore with highest listenership share of 13.9% (FY16-YTD) and is at second rank in Mumbai with market share of 12.1% (FY16-YTD). We expect ad. spends in the Govt. vertical to improve from Q2FY19 until the end of Q4FY19 led by general elections which will drive revenue growth for MBL. MBL had gained market share in FY18 as ENIL's reputed pricing-led strategy led to a sharp inventory decline for the latter (15% decline in inventory). Post strategy revision ENIL gained its lost market share due to inventory-led growth. We largely maintain our estimates and our BUY recommendation rollover to Sep'19 target price of ₹ 450 based on 16x one-year fwd. EV/EBITDA.

Financials (₹ mn)

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	2,714	2,983	4,294	4,889	5,560
Growth (%)	20.4	9.9	44.0	13.8	13.7
EBITDA	913	971	1,893	2,193	2,524
EBITDA Margin (%)	33.6	32.6	44.1	44.9	45.4
Net Profit	367	517	1,083	1,264	1,516
Growth (%)	(24.0)	41.1	109.4	16.7	20.0
EPS (₹)	6.4	9.1	19.5	22.7	27.3
Growth (%)	(44.0)	41.1	115.0	16.7	20.0
PER(X)	51.5	36.5	17.0	14.6	12.1
ROANW (%)	6.7	8.6	16.7	16.3	16.3
ROAIC (%)	12.4	11.2	22.9	22.9	22.7

CMP	₹ 331
Target / Upside	₹ 450/36%
BSE Sensex	38,693
NSE Nifty	11,677

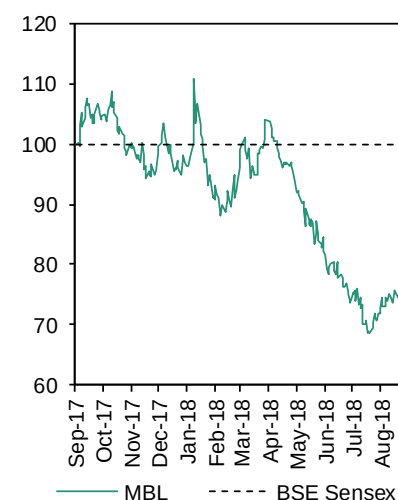
Script Details

Equity / FV	₹ 571mn/₹10/-
Market Cap	₹ 19bn
	USD 262mn
52-week High/Low	₹ 458/282
Avg. Volume (no)	48,981
NSE Symbol	RADIOCITY
Bloomberg Code	RADIOCIT IN

Shareholding Pattern Jun'18 (%)

Promoters	71.4
MF/Banks/FIs	8.1
FIIIs	4.1
Public / Others	16.4

MBL Relative to Sensex



VP Research: Karan Taurani

Tel: +9122 4096 9754

E-mail: karant@dolatcapital.com

Associate: Vinesh Vala

Tel: +9122 4096 9736

E-mail: vineshv@dolatcapital.com

Associate: Priyanka Sureka

Tel: +9122 4096 9751

E-mail: priyankas@dolatcapital.com

DOLAT CAPITAL

August 31, 2018

Director's Report

Directors' Appointment

Mr. Madhukar Kamath was appointed as Additional Director of the Company with effect from 25th May, 2017. The shareholders approved the appointment of Mr. Kamath as Non-Executive Independent Director of the Company to hold office for 5 consecutive years, up to 24th May 24, 2022, not liable to retirement by rotation. Mr. Sameer Gupta, Non-Executive Director of the Company has submitted his resignation from the Board of Directors of the Company with effect from 9th October, 2017. Ms. Apurva Purohit, Director of the Company, retires by rotation at the ensuing AGM of the Company and being eligible, has offered herself for re-appointment and the Board recommends her re-appointment. No KMP(s) has been appointed, retired or resigned during the financial year 2017-18.

Management Discussion and Analysis

Vision

The company expects ad spends to increase in FY 19 and beyond. The recent spate of topline with margin improvements across companies in many sectors is likely to ensure a higher spending on advertising. The M&E sector grew faster than GDP and it is expected that ad revenues will increase from 0.41% of GDP in 2016 to 0.43% of GDP in 2020 though this is still way below the international benchmark.

Strategy

MBL adheres to the strategy of widening their reach in the phase of FM's expansion. Their aim is to be present across all relevant markets of the country to attract quality advertisers and thus sustain their leadership by reaching out to more audiences. Their focus on content innovation has paved the way to reinforce our leadership position across markets.

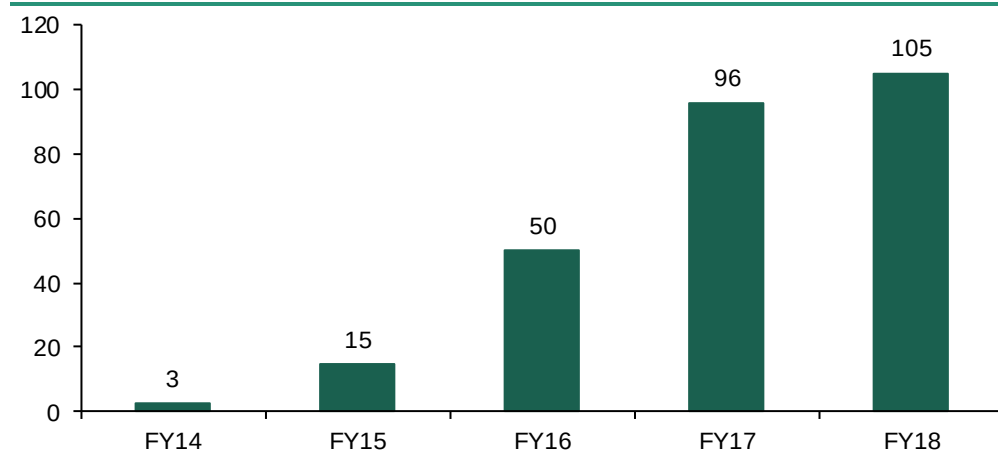
Risks and Concerns

There are no major risks identified that may threaten the existence of the Company. Though, digital VoD music platforms could be a threat going further.

Book Value

Book value has been computed on equity capital base of 57mn shares as on 31st March, 2018. Book value increased from ₹ 96 per share in FY17 to ₹ 105 per share in FY18.

Exhibit 1: Book Value (₹)



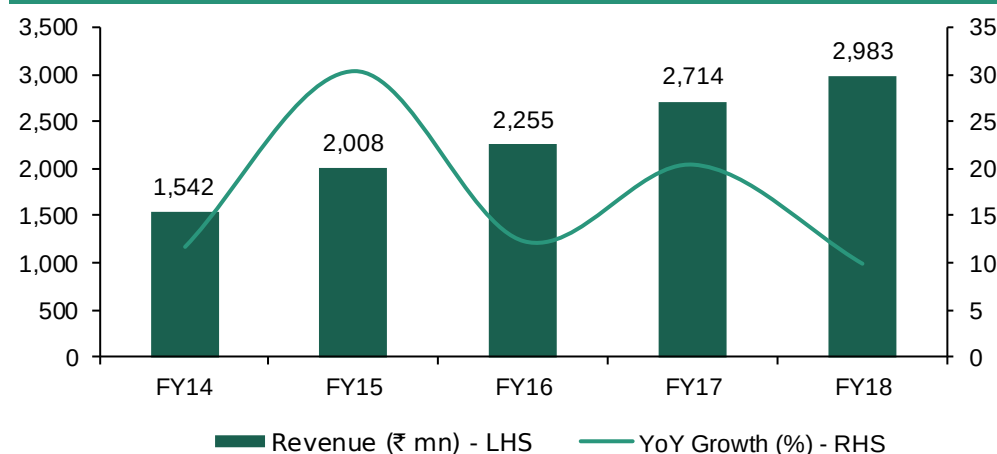
Source: Company, DART

Financial Highlights

Revenue Performance

The company's revenue grew by 10% to ₹ 2983 mn for FY18 which includes revenue from exchange of services of ₹ 196 as on 31st March, 2018 as compared to ₹ 150 mn as on 31st March, 2017

Exhibit 2: Revenue (₹ mn) and YoY Growth (%)



Source: DART, Company

License Fee

Amounts paid towards license fees increased by 10.7% from ₹ 192mn in Fiscal 2017 to ₹ 213mn in fiscal 2018 is primarily due to the additional 11 new stations launched during the second half of the fiscal 2017.

Depreciation and Amortization Expense

The company's depreciation and amortization expense increased by 33.5% from ₹ 197mn in fiscal 2017 to ₹ 263mn in fiscal 2018 primarily due to additional charge on assets capitalized under Phase III for 11 new stations and radio stations acquired during the second half of the fiscal 2017.

Finance Costs

The finance cost decreased by 21.2% from ₹ 190mn in fiscal 2017 to ₹. 150mn in fiscal 2018 is because of repayment of borrowings in last year out of IPO proceeds.

Other Income

The other income has increased from ₹ 44mn in fiscal 2017 to ₹ 194mn in fiscal 2018. This is primarily due to increase in interest income by ₹ 106mn on fixed deposits held by the Company on the funds raised through Initial Public Offering (IPO). This represents net gain on financial assets mandatorily measured at fair value through profit and loss account, net gain on sale of investments and other miscellaneous income. Net gain on investment has increased by ₹ 51mn from ₹ 12 mn in fiscal 2017 to ₹ 63mn in fiscal 2018.

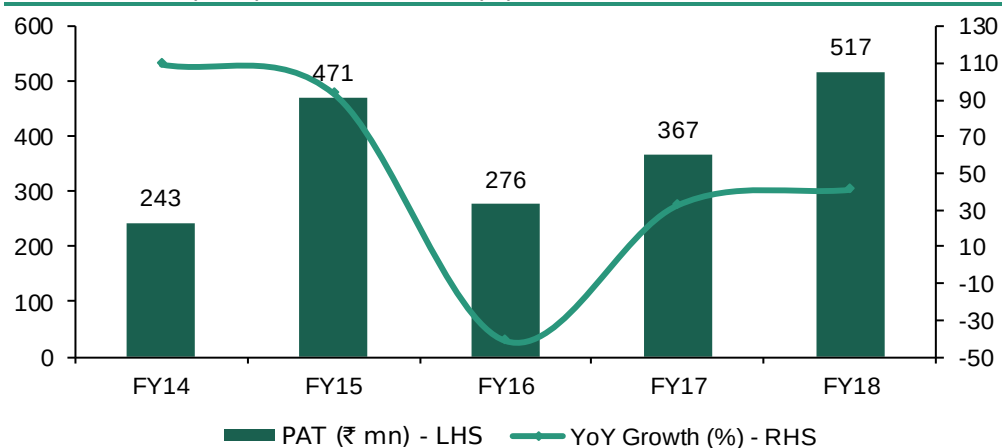
Effective Tax Rate

Total effective tax rate was 31% which amounts to ₹ 235mn for the year ended March 2018 against ₹ 203mn for the year ended March 2017.

PAT

The net profit margin improved to 17.3% for the year ending 2018 compared to 13.5% for the year-ending 2017. The net profit grew 41.1% YoY to ₹ 517mn as against ₹ 367mn for the fiscal year 2017.

Exhibit 3: PAT (₹ mn) and YoY Growth (%)

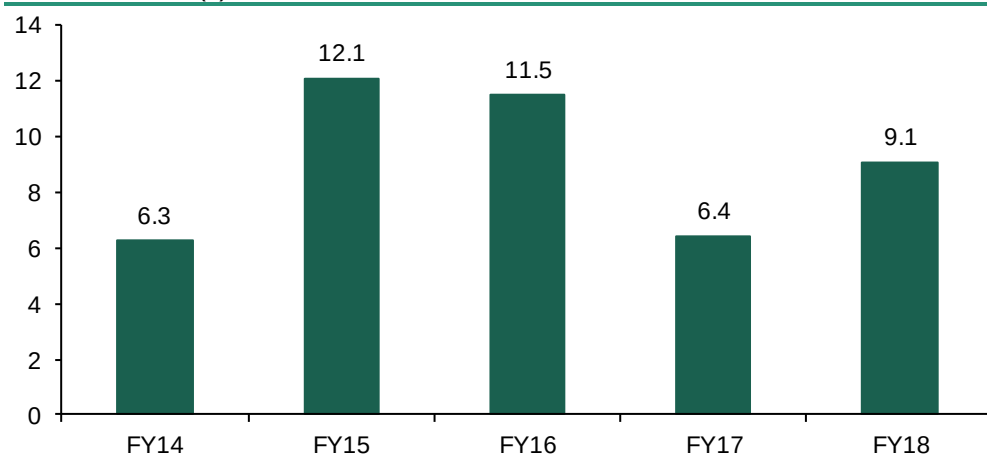


Source: Company, DART

EPS

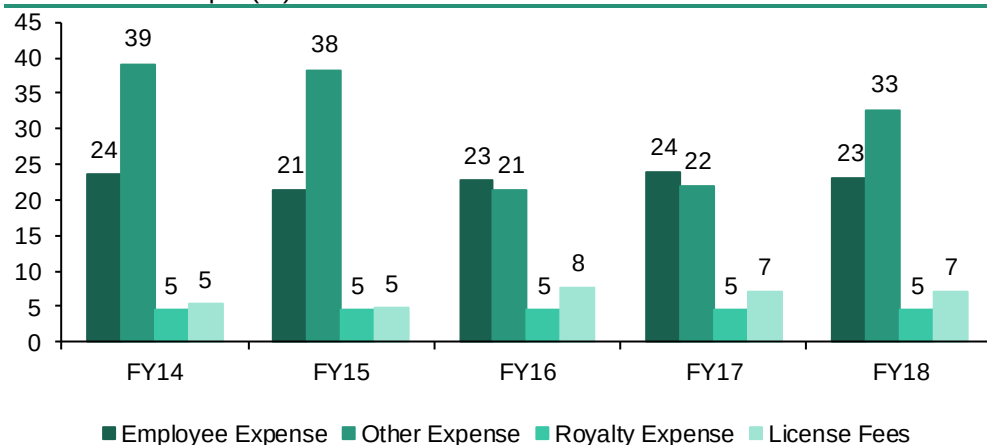
EPS has been computed on equity capital base of 57mn shares as on March 31, 2018. During the year, EPS increased to ₹ 9.1 compared to ₹ 6.4 in FY17.

Exhibit 4: EPS (₹)



Source: Company, DART

Exhibit 5: Cost Split (%)



Source: DART, Company

Balance Sheet Analysis

Gross Block

MBL invested ₹ 59mn of CAPEX during the year towards maintenance during the year.

Cash and Investments

The company witnessed a decrease in cash to ₹ 762mn in its cash positions. The 72% decrease YoY at ₹ 2679mn mainly due to lower cash in fixed deposits and because of repayment of borrowings. The cash per share value stood at ₹ 2.3.

Debtors

MBL declined its receivables collection in FY18 resulting in an increase in its overall receivables from ₹ 817mn in FY17 to ₹ 1104mn in FY18. Debtor days (DSO) for the fiscal increased to 135 days as against 110 days in FY17.

Cash Flow

The company's cash from operations decreased to ₹ 401mn in FY18 as compared to ₹ 789mn in FY17 mainly due to higher direct taxes and working capital despite higher net income. Operating cash flow to EBITDA ratio declined to 41% in FY18 from 86% in FY17 and free cash flow decreased from ₹ 514mn in FY17 to ₹ 341mn in FY18.

Dividend

No Dividend has been recommended by the Board of Directors for the Financial Year ended 31st March, 2018.

View

MBL expects healthy double-digit (12-15%) revenue growth in FY19 led by recovery in key verticals like auto, BFSI and Govt. (DAVP), and is confident of reporting revenue growth above industry avgs. supported by new stations which will start contributing to EBITDA from Q2FY19 onwards led by improved utilization rates. There will also be a positive impact due to the acquisition of Kolkata based radio station which is currently under process for MIB approval; we expect clearance for the same towards H2FY19 which will further have a positive impact of ~3% on revenue growth which translates into ~17% YoY revenue growth for FY19. The management expects improvement in margins supported by healthy growth in pricing of legacy stations. We believe higher ad. spends due to elections, introduction of MRUC rating and lower threat from digital vs other segments of media are some of the key triggers for performance of radio. As per RAM, MBL continues to dominate in Bangalore with highest listenership share of 25% and is ranked second in Mumbai with market share of 13.7%. We largely maintain our estimates and our BUY recommendation rollover to Sep'19 target price of ₹ 450 based on 16x one-year fwd. EV/EBITDA.

Income Statement (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Net Sales	2,983	4,294	4,889	5,560
Total Expenditure	2,012	2,401	2,696	3,036
Raw Material(licence fee)	213	309	352	400
Employee Expenses	689	772	833	917
Marketing	0	0	0	0
Other Expenses	1,110	1,320	1,510	1,719
Gross Profit	2,770	3,985	4,537	5,159
EBIDTA	971	1,893	2,193	2,524
Depreciation	263	286	289	293
EBIT	708	1,607	1,904	2,231
Finance Cost	150	28	43	43
Other Income	194	61	54	108
Profit Before Tax	752	1,641	1,914	2,297
Tax	235	558	651	781
Net Profit	517	1,083	1,264	1,516

Balance Sheet (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Sources of Funds				
Equity Capital	571	556	556	556
Other Reserves	5,428	5,941	7,204	8,720
Net Worth	5,998	6,496	7,760	9,276
Secured Loans	535	535	535	535
Unsecured Loans	0	0	0	0
Loan Funds	535	535	535	535
Total Capital Employed	6,352	7,031	8,295	9,811
Applications of Funds				
Gross Block	4,536	4,652	5,062	5,122
Less: Acc. Depreciation	1,420	1,682	1,968	2,257
Net Block	2,969	3,093	2,864	2,632
Investments	1,559	1,559	1,559	1,559
Current Assets, Loans & Advances				
Sundry Debtors	1,104	1,588	1,808	2,056
Cash and Bank Balance	762	1,341	2,708	4,288
Loans and Advances	192	301	313	356
Other Current Assets	219	344	391	445
sub total	2,276	3,574	5,220	7,145
Less: Current Liabilities & Provisions				
Current Liabilities	452	1,194	1,348	1,524
sub total	452	1,194	1,348	1,524
Net Current Assets	1,824	2,379	3,872	5,621
Total Assets	6,352	7,031	8,295	9,811

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Profit before tax	752	1,641	1,914	2,297
Depreciation & w.o.	263	286	289	293
Net Interest Exp	27	(33)	(11)	(66)
Direct taxes paid	(165)	(558)	(651)	(781)
Change in Working Capital	(403)	24	(126)	(169)
(A) CF from Opt. Activities	401	1,359	1,416	1,574
Capex	(59)	(410)	(60)	(60)
Free Cash Flow	341	949	1,356	1,514
Inc./ (Dec.) in Investments	(1,227)	0	0	0
(B) CF from Inv. Activities	31	(410)	(60)	(60)
Other	(1,194)	(370)	11	66
(C) CF from Financing	(2,350)	(370)	11	66
Net Change in Cash	(1,918)	579	1,367	1,580
Opening Cash balances	2,679	762	1,341	2,708
Closing Cash balances	762	1,341	2,708	4,288

Important Ratios

Particulars	Mar18	Mar19E	Mar20E	Mar21E
(A) Measures of Performance (%)				
EBIDTA Margin	32.6	44.1	44.9	45.4
EBIT Margin	23.7	37.4	38.9	40.1
Interest / Sales	5.0	0.6	0.9	0.8
Tax/PBT	31.2	34.0	34.0	34.0
Net Profit Margin	17.3	25.2	25.8	27.3
(B) As Percentage of Net Sales				
License Fee	7.1	7.2	7.2	7.2
Employee Expense	23.1	18.0	17.0	16.5
Other Expenses	37.2	30.7	30.9	30.9
(C) Measures of Financial Status				
Debt / Equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	0.2	0.0	0.0	0.0
Average Cost of Debt (%)	27.5	5.2	8.0	8.0
Debtors Period (days)	135	135	135	135
Fixed Assets Turnover (x)	1.0	1.4	1.7	2.1
WC Turnover (x)	1.6	1.8	1.3	1.0
Non-Cash WC (₹ Mn)	1,062	1,038	1,164	1,333
(D) Measures of Investment				
EPS (₹)	9.1	19.5	22.7	27.3
CEPS (₹)	13.7	24.6	28.0	32.6
Book Value (₹)	105.1	116.9	139.7	167.0
RoANW (%)	8.6	16.7	16.3	16.3
RoACE (%)	11.2	22.9	22.9	22.7
RoAIC (%) (Ex. Cash & Inv.)	12.7	28.2	34.1	40.4
(E) Valuation Ratios				
CMP (₹)	331	331	331	331
P/E (x)	36.5	17.0	14.6	12.1
Market Cap. (₹ Mn)	18,884	18,387	18,387	18,387
MCap/ Sales (x)	6.3	4.3	3.8	3.3
EV (₹ Mn)	18,657	17,581	16,214	14,634
EV/Sales (x)	6.3	4.1	3.3	2.6
EV/EBDITA (x)	19.2	9.3	7.4	5.8
P/BV (x)	3.1	2.8	2.4	2.0
FCFE Yield (%)	1.0	5.0	7.2	8.0

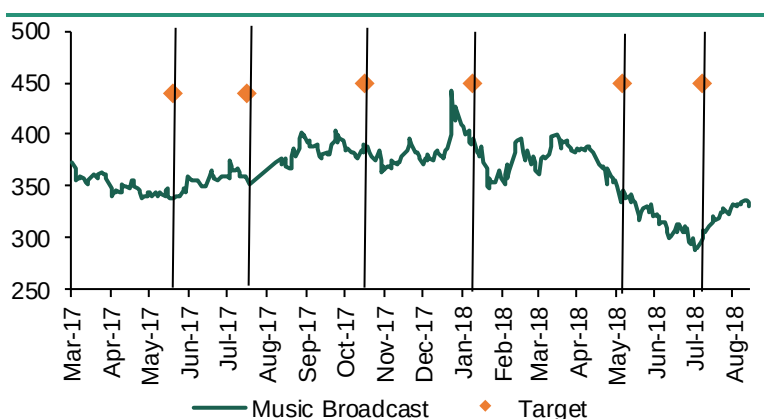
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun-17	Buy	440	339
Aug-17	Buy	440	360
Oct-17	Buy	450	382
Jan-18	Buy	450	390
May-18	Buy	450	342
Jul-18	Buy	450	310

* As on Recommended Dated

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705
Hardik Mehta	Sales Trader	hardikm@dolatcapital.com	+9122 4096 9703

Dolat Capital Market Private Limited.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com
