Music Broadcast

Buy

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Result Update

Below par revenue growth; positive surprise on margin; Maintain BUY

MBL reports revenue growth of 5.7% YoY led by rate hike in all 12 core stations and improving utilization in Legacy Markets & Phase III markets. EBITDA margin improved 120bps YoY to 33.2% as Yield & inventory improvement translating into operating leverage. In terms of operating efficiencies, margin for MBL continues to report a positive surprise led by traction in the new stations due to improved profitability. We maintain our BUY rating with a revised Sep'19 TP of ₹ 400 (₹ 450 earlier) based on 15x (16x earlier) one-year fwd. EV/EBITDA.

Better margins led by higher profitability in new stations

Revenue during the quarter improved 5.7% YoY to ₹ 801mn (DCMe: ₹ 819mn) led by rate hike in top 12 markets and improving utilization in Legacy Markets & Phase III markets. The topline is equally contributed by volumes and realizations. EBITDA margin increased 120bps YoY to 33.2% (DCMe: 33.0%) helped by better gross margin and improved utilization. PAT during the quarter improved 5.1% YoY to ₹ 134mn (DCMe: ₹ 143mn) on account of lower finance cost despite higher tax rate (39.4%).

Improved pricing drives growth in legacy stations

Rate hike of ~8% was taken for the 12 core stations of MBL in April, management indicated they were able to maintain the rate hike in Q2. Legacy Markets & Phase III Markets saw healthy utilizations at ~70% and ~50% respectively. During the quarter, legacy stations took a dip in volumes due to price hike while new stations are operating at a healthy utilization level.

Real estate and Govt. vertical drive outperformance

The sectors that have done well for MBL in Q2FY19 are Real Estate (49%YoY growth), Pharma, Government (50%YoY growth) and also saw slight improvement in FMCG. In H2FY19, Government sector is expected to witness a growth due to elections. Q2 witnessed that local ad. spends are under pressure due to GST as their contribution lowered from 45% to 40% in Q2FY19; national advertisement was 60%.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	801	758	5.7	757	5.9
Total Expense	536	516	3.8	496	8.0
EBITDA	266	242	9.7	261	1.9
Depreciation	67	67	0.4	67	(0.6)
EBIT	199	176	13.2	193	2.8
Other Income	36	50	(27.9)	24	48.8
Interest	14	38	(64.0)	14	0.0
EBT	221	187	13.2	204	8.4
Tax	87	60	45.5	69	26.8
RPAT	134	127	5.1	135	(0.9)
APAT	134	127	5.1	135	(0.9)
			(bps)		(bps)
Gross Margin (%)	93.1	92.9	18	93.0	9
EBITDA Margin (%)	33.1	31.9	120	34.4	(129)
NPM (%)	16.7	16.8	(9)	17.8	(114)
Tax Rate (%)	39.4	32.0	744	33.7	571
EBIT Margin (%)	24.8	23.1	163	25.5	(75)

CMP	₹ 331
Target / Upside	₹ 400 / 21%
BSE Sensex	33,690
NSE Nifty	10,125

Scrip Details

Equity / FV	₹ 556mn / ₹ 10
Market Cap	₹ 19bn
	US$ 258mn
52-week High/Low	₹ 459/₹ 285
Avg. Volume (no)	48,700
NSE Symbol	RADIOCITY
Bloomberg Code	RADIOCIT IN

Shareholding Pattern Sep'18(%)

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

Valuation (x)

	FY19E	FY20E	FY21E
P/E	33.0	28.3	23.4
EV/EBITDA	16.3	13.5	11.2
ROE (%)	9.6	10.6	11.4
RoACE (%)	8.6	9.7	10.3

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	3,368	3,807	4,299
EBITDA	1,122	1,296	1,480
PAT	574	667	808
EPS (₹)	10.0	11.7	14.1

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DOLAT CAPITAL

View

MBL fails to report any positive surprise on revenue growth front and we believe these may be signs of market share gain for ENIL which had cut its inventory last year, and has now guided for inventory led growth. Despite an expectation for strong double digit growth in H2FY19 led by festive season and election ad. spends, MBL is estimated to report revenue growth of 13% in FY19 due to a muted performance in H1 as local ad. spends remain under pressure due to GST and consumption pattern still remains below par. Radio as an industry is estimated to grow mere 8%-10% in FY19 which is poor as compared to other segments of media; we believe the muted growth prospects is due to the shift of listenership towards digital on the back of recent price cuts by digital music platforms. There is a further delay by MRUC to provide listenership data for radio which adds to their woes. In terms of operating efficiencies, margin for MBL continues to report a positive surprise led by traction in the new stations due to improved profitability; we expect this momentum to continue led by higher utilization rates in the new stations.

We pare our FY19/FY20 EBITDA estimates by 4% factoring slightly lower revenue growth factoring a below par H1FY19 performance. MBL is currently trading at fair valuations of 12.7x based on FY20 EV/EBITDA which is at a 28% discount vs its avg. EV/EBITDA (17.5x – 18 months). We do not expect this discount to increase further, however convergence on the same vs avgs. remains to be a challenge until there are some visible signs of listenership on radio not getting impacted due to digital. We believe recent moves like Gaana cutting yearly subs pricing to ₹ 399 a year and Jio's investment in Saavn are clear signs of pricing going down to lower levels which may impact radio listenership in the medium term. A better than expected performance in H2 led by surge in Govt. ad spends and some clarity over listenership data will drive upgrades for the stock in the near term. We maintain our BUY rating with a revised Sep'19 TP of ₹ 400 (₹ 450 earlier) based on 15x (16x earlier) one-year fwd. EV/EBITDA

Concall Highlights

- Economy muted due to fuel price, INR dep, NBFC issue which led to lower consumers during the quarter which impacted MBL's revenue
- MBL saw a 16% growth if we remove the impact of economy slowdown
- They took 8% rate hike in 12 stations in April and continue to maintain that rate hike YoY
- Industry expected to report 8-10% growth with healthy growth in H2 (Festive season & Elections)
- Phase 3 market beat market and operate at 50% utilization level
- 68% of buyback completed
- Advertising to pick up in H2 due to festive season
- MIB approval for Calcutta station is expected in Q3FY19. Other pending approval is ENIL with MIB
- Real estate grew 49% in Q2 due to low base of last year. Auto contributed 7%. Government contribution was 17% in Q2FY19 as compared to 12% in Q2FY18.
- Mumbai listenership share is down according to RAM data. Morning slot not doing well whereas night show & Breakfast slot are doing well. To revamp the morning and mid-morning slots.
- Radio industry to show double digit growth and MBL to do better than industry (12-14% in FY19)

- First half contributes 45% to revenue and majority of the revenue is booked in H2
- Advertisers are just adding to digital advertisement and not decreasing traditional advertising
- Ad growth in core markets volume is flat and rate hike of 8%, balance growth from volume in balance stations
- Our reach is 85% in big cities on an average in a week. Average time spend is 45 mins/day on radio, bringing the daily average reach to ~75%.
- Revenue contribution is 10% for new stations and at 12-15% EBITDA margins
- MBL is actively seeking opportunity for acquisition of new stations
- Web radio is at the breakeven stage and has ₹ 7-8 crore of revenue in Web Radio
- All advertising from Government is from DAVP which is Pan India and Government share is negligible
- Car listenership is 6-8% and 70% from mobile while travelling
- Government ad to increase by 2-3% due to Elections (Ad by Political parties)
- In Mumbai yield is around ₹ 1200-1400 for 10 seconds
- With regards to ad inventory, they try to keep it lower than 15mins/hour except for during festive seasons or peak slots where it might go slightly higher.
- MRUC rating launch status – resolution on which set of stations to cover is not closed, hopeful to launch by end of this quarter
- Tax rate was higher due to long term investment buyback of shares; annual basis guidance of 32-33%
- Radio listenership in car is around 6%-7%, at home is 60% and on the mobile phone is the balance.

Exhibit 1: Q2FY19 Performance

(₹ mn)	Q2FY19	DCMe	Diff (%)	Q1FY19	QoQ(%)	Q2FY18	YoY(%)
Revenue	801	819	-2.1	757	5.9	758	5.7
EBITDA	266	270	-1.7	261	1.9	242	9.7
Pre-Tax Profit	221	212	4.1	204	8.4	187	18.0
Net Profit	134	143	-6.7	135	-0.9	127	5.1
EPS (₹)	2.4	2.5	-6.6	2.4	-0.8	2.2	5.4
Margins (%)							
EBITDA Margin	33.1	33.0	14	34.4	-129	31.9	120
Net Margin	16.7	17.5	-83	17.8	-114	16.8	-9

Source: Company, DART

Exhibit 2: Estimate Revision

(₹ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	3,368	3,807	4,299	3,480	3,946	4,467	(3.2)	(3.5)	(3.8)
EBITDA	1,122	1,296	1,480	1,175	1,360	1,559	(4.5)	(4.7)	(5.1)
Pre-Tax Profit	869	1,011	1,224	922	1,075	1,305	(5.7)	(6.0)	(6.2)
Net Profit	574	667	808	608	710	861	(5.7)	(6.0)	(6.2)
EPS (₹)	10.3	12.0	14.5	11.0	12.8	15.5	(5.7)	(6.0)	(6.2)
Margins (%)									
EBITDA Margin	33.3	34.0	34.4	33.7	34.5	34.9			
Net margin	17.0	17.5	18.8	17.5	18.0	19.3			
ROE	9.6	10.0	10.8	9.5	9.9	10.5			
ROCE	12.8	14.0	14.8	12.8	13.6	14.2			

Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	**2,983**	**3,368**	**3,807**	**4,299**
Total Expense	**2,012**	**2,246**	**2,511**	**2,819**
COGS	213	229	259	292
Employees Cost	689	768	830	913
Other expenses	1,110	1,249	1,423	1,614
EBIDTA	**971**	**1,122**	**1,296**	**1,480**
Depreciation	263	286	289	293
EBIT	**708**	**836**	**1,007**	**1,187**
Interest	150	28	43	43
Other Income	194	61	47	79
Exc. / E.O. items	0	0	0	0
EBT	**752**	**869**	**1,011**	**1,224**
Tax	235	295	344	416
RPAT	517	574	667	808
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**517**	**574**	**667**	**808**

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	571	556	556	556
Minority Interest	0	0	0	0
Reserves & Surplus	5,428	5,431	6,098	6,906
Net Worth	**5,998**	**5,987**	**6,654**	**7,462**
Total Debt	535	535	535	535
Net Deferred Tax Liability	(182)	0	0	0
Total Capital Employed	**6,352**	**6,522**	**7,189**	**7,997**
Applications of Funds				
Net Block	**2,969**	**3,093**	**2,864**	**2,632**
CWIP	0	0	0	0
Investments	1,559	1,559	1,559	1,559
Current Assets, Loans & Advances	**2,276**	**2,916**	**3,940**	**5,127**
Inventories	0	0	0	0
Receivables	1,104	1,246	1,408	1,590
Cash and Bank Balances	762	1,165	1,984	2,918
Loans and Advances	192	236	244	275
Other Current Assets	219	269	305	344
Less: Current Liabilities & Provisions	**452**	**1,046**	**1,174**	**1,321**
Payables	223	677	757	849
Other Current Liabilities	230	369	417	471
sub total				
Net Current Assets	1,824	1,870	2,766	3,807
Total Assets	**6,352**	**6,522**	**7,189**	**7,997**

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	92.9	93.2	93.2	93.2
EBIDTA Margin	32.6	33.3	34.0	34.4
EBIT Margin	23.7	24.8	26.4	27.6
Tax rate	31.2	34.0	34.0	34.0
Net Profit Margin	17.3	17.0	17.5	18.8
(B) As Percentage of Net Sales (%)				
COGS	7.1	6.8	6.8	6.8
Employee	23.1	22.8	21.8	21.2
Other	37.2	37.1	37.4	37.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	4.7	30.2	23.5	27.7
Inventory days	0	0	0	0
Debtors days	135	135	135	135
Average Cost of Debt	27.5	5.2	8.0	8.0
Payable days	27	73	73	72
Working Capital days	223	203	265	323
FA T/O	1.0	1.1	1.3	1.6
(D) Measures of Investment				
AEPS (₹)	9.1	10.0	11.7	14.1
CEPS (₹)	13.7	15.1	16.7	19.3
DPS (₹)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (₹)	105.1	104.8	116.5	130.7
RoANW (%)	9.0	9.6	10.6	11.4
RoACE (%)	8.0	8.6	9.7	10.3
RoAIC (%)	16.3	15.3	19.1	23.1
(E) Valuation Ratios				
CMP (₹)	331	331	331	331
P/E	36.5	33.0	28.3	23.4
Mcap (₹ Mn)	18,903	18,903	18,903	18,903
MCap/ Sales	3.2	3.2	2.8	2.5
EV	18,676	18,273	17,454	16,520
EV/Sales	6.3	5.4	4.6	3.8
EV/EBITDA	19.2	16.3	13.5	11.2
P/BV	3.2	3.2	2.8	2.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	9.9	12.9	13.0	12.9
EBITDA	(15.7)	15.5	15.6	14.2
EBIT	(25.9)	18.0	20.5	17.9
PBT	(7.1)	15.5	16.3	21.1
APAT	(14.7)	10.9	16.3	21.1
EPS	(14.7)	10.9	16.3	21.1

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	401	1,183	875	958
CFI	31	(410)	(60)	(60)
CFF	(2,350)	(370)	11	66
FCFF	341	773	815	898
Opening Cash	2,679	762	1,165	1,991
Closing Cash	762	1,165	1,984	2,918

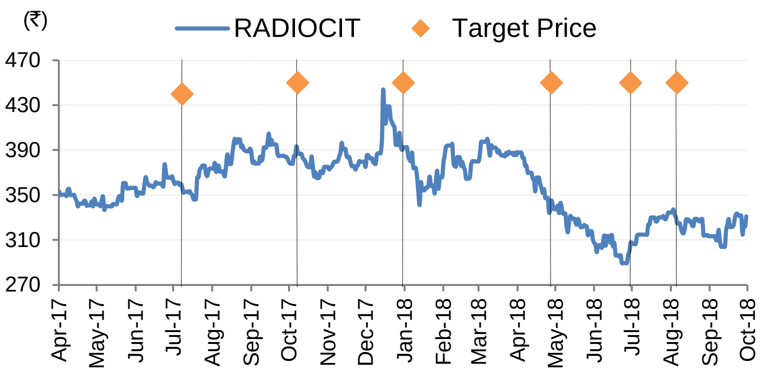
E – Estimates

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 (₹) *
Aug-17	Buy	440	357
Nov-17	Buy	450	388
Jan-18	Buy	450	393
May-18	Buy	450	345
Jul-18	Buy	450	308
Aug-18	Buy	450	325

**Price as on Recommendation Date*

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