ANAND RATHI

India I Equities

**Media**

**Company Update**

Change in Estimates ☑ Target ☑ Reco ☐

**27 October 2018**

# Music Broadcast

*Soft quarter, as ad-spend deferred to H2; Buy*

Rating: **Buy**
Target Price: ₹440
Share Price: ₹330

**Driven by volume growth in its new stations and pricing growth in legacy stations, Music Broadcast's Q2 sales grew 6% y/y, to ₹801m. Ad-spends have been deferred to Q3 due to the festival season (vs. the split festive season between 2Q/3Q FY18; adjusting for this, growth was ~16% y/y). With costs stable, margins expanded 120bps y/y to 33.1%. As Q2 FY19 bellied our expectations, we have cut our FY19e/FY20e EBITDA by respectively 4%/9%. Introducing FY21e lead us to revise our multiple to 15x FY21e (a 10% discount to our target multiple for Zee and a 10% premium to ENIL) from 20x FY20e EV/EBITDA earlier, reflecting overall weakness in ad spend. We lower our target to ₹440.**

**Guidance for FY19 maintained at 12-14%.** Management, at the start of the year, guided to 12-14% organic revenue growth in FY19. It reported 6.6% y/y in H1 FY19; so, to achieve the lower end of the guided-to figure, the asking rate for H2 FY19 is ~17%. Higher festival-season ad-spend, the coming state elections in Q3 and general elections in Q4 will be some key triggers for performance.

**We have built in 22% earnings CAGR over FY18-21.** We have built in a 12% revenue CAGR over FY18-21, equally from pricing growth in the legacy market and volume growth in new stations (already broken even and at 50% utilisation, company hikes prices when utilisation touches 60%), which would translate to 15% and 22% EBITDA and PAT CAGRs respectively over the same period. This would allow healthy FCF generation of ₹734m/₹841m in FY20/FY21 (~89% of profit), which would allow the company to reward shareholders through dividends and buybacks.

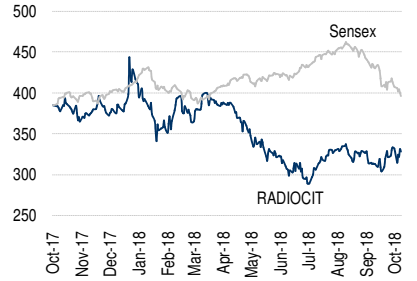
**Retaining our Buy rating.** Music Broadcast is our top pick in the radio space. We retain our Buy rating, with a new target of ₹440 (earlier ₹520). **Risk:** Macro pressures on key advertising sectors.

| Key data | RADIOCIT IN / MUSI.BO |
|---|---|
| 52-week high / low | ₹459 / 282 |
| Sensex / Nifty | 33349 / 10030 |
| 3-m average volume | $0.2m |
| Market cap | ₹19bn / $255.5m |
| Shares outstanding | 57m |

| Shareholding pattern (%) | Sep'18 | Jun'18 | Mar'18 |
|---|---|---|---|
| Promoters | 72.1 | 71.4 | 71.4 |
| *- of which, Pledged* | - | - | - |
| Free float | 27.9 | 28.6 | 28.6 |
| - Foreign institutions | 3.5 | 4.0 | 4.5 |
| - Domestic institutions | 8.1 | 8.1 | 8.3 |
| - Public | 16.2 | 16.5 | 15.8 |

| Estimates revision (%) | FY19e | FY20e |
|---|---|---|
| Sales | (2.3) | (5.1) |
| EBITDA | (4.2) | (9.1) |
| PAT | (11.2) | (9.6) |

**Relative price performance**




*Source: Bloomberg*

| Key financials (YE Mar) | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|---|---|---|---|---|
| Sales (₹ m) | 2,714 | 2,982 | 3,312 | 3,715 | 4,178 |
| Net profit (₹ m) | 366 | 517 | 608 | 819 | 945 |
| EPS (₹) | 8.0 | 9.1 | 10.9 | 14.7 | 17.0 |
| PE (x) | 51.4 | 36.4 | 31.0 | 23.0 | 19.9 |
| EV / EBITDA (x) | 18.9 | 17.8 | 15.5 | 13.4 | 11.7 |
| PBV (x) | 3.4 | 3.1 | 3.1 | 2.8 | 2.4 |
| RoE (%) | 9.7 | 9.0 | 10.1 | 12.7 | 12.9 |
| RoCE (%) | 8.1 | 7.2 | 8.4 | 10.0 | 10.7 |
| Dividend yield (%) | - | - | - | - | - |
| Net debt / equity (x) | -0.3 | -0.3 | -0.3 | -0.4 | -0.5 |

*Source: Company, Anand Rathi Research*


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# Quick Glance – Financials and Valuations

## Fig 1 – Income statement (₹ m)

| Year-end: Mar | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|---|---|---|---|---|
| Net revenues | 2,714 | 2,982 | 3,312 | 3,715 | 4,178 |
| *Growth (%)* | *20* | *10* | *11* | *12* | *12* |
| No. of channels | - | - | - | - | - |
| Direct costs | 1,108.4 | 1,189.7 | 1,286.2 | 1,390.4 | 1,558.8 |
| Gross profit | 1,605.4 | 1,792.0 | 2,025.9 | 2,325.0 | 2,618.9 |
| *Gross margins %* | *59.2* | *60.1* | *61.2* | *62.6* | *62.7* |
| SG&A | 693 | 821 | 911 | 1,039 | 1,148 |
| **EBITDA** | 912 | 971 | 1,115 | 1,286 | 1,471 |
| *EBITDA margins (%)* | *33.6* | *32.6* | *33.7* | *34.6* | *35.2* |
| - Depreciation | 197 | 263 | 268 | 280 | 292 |
| Other income | 44 | 194 | 132 | 216 | 232 |
| Interest expenses | 190 | 150 | 48 | - | - |
| PBT | 570 | 752 | 931 | 1,222 | 1,411 |
| *Effective tax rate (%)* | *35.7* | *31.3* | *34.7* | *33.0* | *33.0* |
| + Associates / (minorities) | - | - | - | - | - |
| Net income | 366 | 517 | 608 | 819 | 945 |
| WANS | 46 | 57 | 56 | 56 | 56 |
| FDEPS (₹ / sh) | 8.0 | 9.1 | 10.9 | 14.7 | 17.0 |

## Fig 2 – Balance sheet (₹ m)

| Year-end: Mar | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|---|---|---|---|---|
| Share capital | 571 | 571 | 556 | 556 | 556 |
| Net worth | 5,481 | 5,999 | 6,022 | 6,841 | 7,786 |
| Total debt | 1,498 | 499 | 499 | - | - |
| Minority interest | - | - | - | - | - |
| DTL / (asset) | -252 | -182 | -182 | -182 | -182 |
| **Capital employed** | **6,726** | **6,316** | **6,339** | **6,659** | **7,604** |
| Net tangible assets | 353 | 412 | 765 | 772 | 785 |
| Net intangible assets | 2,763 | 2,557 | 2,342 | 2,118 | 1,885 |
| Goodwill | | | | | |
| CWIP (tang. & intang.) | - | - | - | - | - |
| Investments (strategic) | | | | | |
| Investments (financial) | - | 1,559 | 1,714 | 1,886 | 2,074 |
| Current assets (ex cash) | 1,296 | 1,514 | 1,650 | 1,816 | 2,006 |
| Cash | 2,946 | 762 | 422 | 701 | 1,585 |
| Current liabilities | 632 | 488 | 554 | 634 | 730 |
| Working capital | 664 | 1,026 | 1,096 | 1,182 | 1,275 |
| **Capital deployed** | **6,726** | **6,316** | **6,339** | **6,659** | **7,604** |
| Contingent liabilities | - | - | - | - | - |

## Fig 3 – Cash-flow statement (₹ m)

| Year-end: Mar | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|---|---|---|---|---|
| PBT | 570 | 752 | 931 | 1,222 | 1,411 |
| + Non-cash items | 371 | 219 | 184 | 64 | 60 |
| Oper. prof. before WC | 941 | 971 | 1,115 | 1,286 | 1,471 |
| - Incr. / (decr.) in WC | -68 | -362 | -70 | -86 | -94 |
| Others incl. taxes | -85 | -235 | -323 | -403 | -466 |
| Operating cash-flow | 788 | 374 | 722 | 797 | 912 |
| - Capex (tang. + intang.) | 274 | 60 | 56 | 63 | 71 |
| Free cash-flow | 514 | 314 | 666 | 734 | 841 |
| Acquisitions | - | - | -350 | - | - |
| - Div.(incl. buyback & taxes) | - | - | 570 | - | - |
| + Equity raised | 4,000 | 1 | -15 | -0 | -0 |
| + Debt raised | -702 | -999 | -0 | -499 | - |
| - Fin investments | 109 | 1,559 | 156 | 171 | 189 |
| - Misc. (CFI + CFF) | 915 | -58 | -85 | -216 | -232 |
| Net cash-flow | 2,788 | -2,184 | -340 | 279 | 884 |

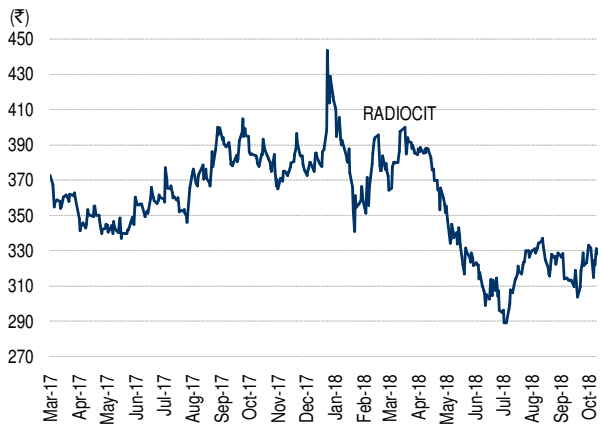
*Source: Company, Anand Rathi Research*

## Fig 4 – Ratio analysis

| Year-end: Mar | FY17 | FY18 | FY19e | FY20e | FY21e |
|---|---|---|---|---|---|
| P/E (x) | 51.4 | 36.4 | 31.0 | 23.0 | 19.9 |
| EV / EBITDA (x) | 18.9 | 17.8 | 15.5 | 13.4 | 11.7 |
| EV / sales (x) | 6.4 | 5.7 | 5.2 | 4.4 | 3.6 |
| P/B (x) | 3.4 | 3.1 | 3.1 | 2.8 | 2.4 |
| RoE (%) | 9.7 | 9.0 | 10.1 | 12.7 | 12.9 |
| RoCE (%) - after tax | 8.1 | 7.2 | 8.4 | 10.0 | 10.7 |
| RoIC (%) - after tax | 11.1 | 9.9 | 9.3 | 11.0 | 12.7 |
| DPS (₹ / sh) | - | - | - | - | - |
| Dividend yield (%) | - | - | - | - | - |
| Dividend payout (%) - incl. DDT | - | - | - | - | - |
| Net debt / equity (x) | -0.3 | -0.3 | -0.3 | -0.4 | -0.5 |
| Receivables (days) | 110 | 135 | 135 | 135 | 135 |
| Inventory (days) | - | - | - | - | - |
| Payables (days) | 67 | 40 | 40 | 40 | 40 |
| CFO : PAT (%) | 215.2 | 72.3 | 118.8 | 97.3 | 96.4 |

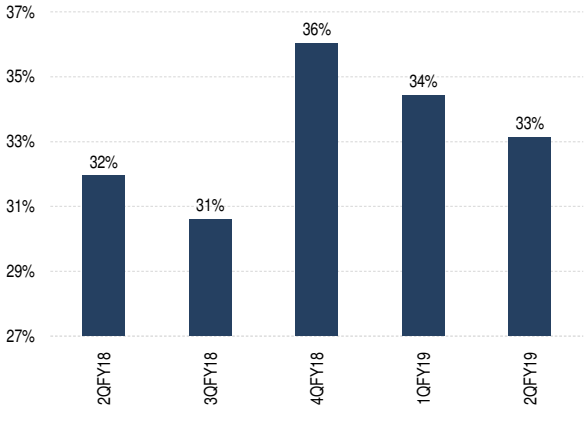
*Source: Company, Anand Rathi Research*

## Fig 5 – Price movement




*Source: Bloomberg*

## Fig 6 – EBITDA margins




*Source: Company*

# Result Highlights

## Q2 FY19 Results at a Glance

### Fig 7 – Segment-wise results

| (₹ m) | Q2 FY18 | Q3 FY18 | Q4 FY18 | Q1 FY19 | Q2 FY19 | Q/Q % | Y/Y % |
|---|---|---|---|---|---|---|---|
| Revenues (₹ m) | 758 | 762 | 759 | 757 | 801 | 5.9 | 5.7 |
| *Growth Y/Y %* | *9.5* | *4.7* | *14.1* | *7.6* | *5.7* | *-194 bps* | *-382 bps* |
| License Fees | (54) | (54) | (53) | (53) | (56) | 4.5 | 3.0 |
| *As % of revenues* | *-7* | *-7* | *-7* | *-7* | *-7* | *9 bps* | *18 bps* |
| Staff Cost | (171) | (176) | (171) | (180) | (179) | -0.6 | 4.5 |
| *As % of revenues* | *-23* | *-23* | *-22* | *-24* | *-22* | *146 bps* | *26 bps* |
| Selling & Other Costs | (291) | (299) | (262) | (263) | (301) | 14.6 | 3.6 |
| *As % of revenues* | *-38* | *-39* | *-35* | *-35* | *-38* | *-285 bps* | *76 bps* |
| EBITDA | 242 | 233 | 274 | 261 | 266 | 1.9 | 9.7 |
| *EBITDA margins %* | *32* | *31* | *36* | *34* | *33* | *-129 bps* | *120 bps* |
| Depreciation | (67) | (65) | (67) | (67) | (67) | -0.6 | 0.4 |
| EBIT | 176 | 168 | 207 | 193 | 199 | 2.8 | 13.2 |
| *EBIT margins %* | *23* | *22* | *27* | *26* | *25* | *-75 bps* | *163 bps* |
| Other Income | 50 | 43 | 54 | 24 | 36 | 48.8 | -27.9 |
| Interest expense | (38) | (39) | (34) | (14) | (14) | 0.0 | -64.0 |
| PBT | 187 | 172 | 227 | 204 | 221 | 8.4 | 18.0 |
| *PBT margins %* | *25* | *23* | *30* | *27* | *28* | *65 bps* | *287 bps* |
| Taxes | (60) | (53) | (65) | (69) | (87) | 26.8 | 45.5 |
| *ETR %* | *-32* | *-31* | *-28* | *-34* | *-39* | *-571 bps* | *-744 bps* |
| PAT | 127 | 119 | 163 | 135 | 134 | -0.9 | 5.1 |
| *PAT margins %* | *16.8* | *15.6* | *21.4* | *17.8* | *16.7* | *-114 bps* | *-9 bps* |

*Source: Company, Anand Rathi Research*

### Fig 8 – Quarterly results (₹ m)

| Year-end: Mar | Q2 FY19 | % Q/Q | % Y/Y | H1 FY19 | H1 FY18 | % Y/Y |
|---|---|---|---|---|---|---|
| Sales | 801 | *5.9* | *5.7* | 1,558 | 1,461 | *6.6* |
| EBITDA | 266 | *1.9* | *9.7* | 526 | 464 | *13.4* |
| *EBITDA margin (%)* | *33.1* | *-129 bps* | *120 bps* | *33.8* | *31.7* | *202 bps* |
| EBIT | 199 | *2.8* | *13.2* | 392 | 333 | *17.6* |
| *EBIT margins (%)* | *24.8* | *-75 bps* | *163 bps* | *25.1* | *22.8* | *234 bps* |
| PBT | 221 | *8.4* | *18.0* | 424 | 353 | *20.3* |
| Tax | (87) | *26.8* | *45.5* | (156) | (117) | *32.8* |
| *Tax rate (%)* | *(39.4)* | *-571 bps* | *-744 bps* | *(36.7)* | *(33.2)* | *-345 bps* |
| Net Income | 134 | *(0.9)* | *5* | 269 | 236 | *14.0* |

*Source: Company, Anand Rathi Research*

# Conference call takeaways

### Company

- The company is looking to grow ahead of industry growth of ~8-10% in FY19. From Sep'18, mid-teen growth has been seen.
- Category-wise, the government (15% of radio industry revenue) grew 12% y/y in H1 FY19 for the industry but for RadioCity it grew ~14-15%, real estate (8% of radio industry revenue) grew 35% y/y in H1 for the industry but for company it grew 49%.
- In H1 FY19 the company hiked prices 8% in its 12 core markets.
- Its web radio stations are breaking even and growing at a steady ~7-8% y/y.
- New stations have contributed 10% to revenue with 12-15% EBITDA margins at 50% utilisation.
- The company is looking for inorganic opportunities as it has sufficient liquidity.
- In big cities like Mumbai, radio consumption averages ~45 minutes/ day and people listen to the radio 5 days/week. For RadioCity, a 10-second slot realisation in Mumbai is ~₹1,200-1,400.
- On 24th Oct'18, 60% of the buyback was completed.

### Outlook

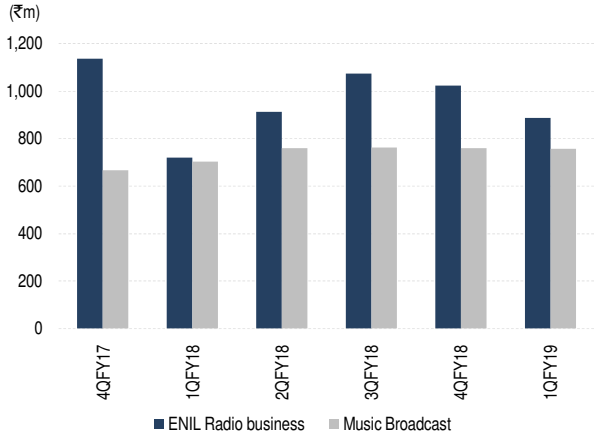
- The company is expecting a strong upswing in revenue growth in H2 FY19 due to the festival season and an increase in government spending on advertising in view of the forthcoming elections. Its FY19 revenue growth guidance is 12-14%.

### Q1 FY19 concall highlights

- Category-wise, the proportion of revenue from the government was down 1% y/y to 12% of revenue in Q1 FY19. Real estate grew 21% y/y, education 60% y/y, whereas sectors such as media and automobile declined 13-15% each. Non-regulated sectors such as retail, apparel etc., are affecting the media sector as a whole, as working capital has been blocked in GST and uncertainty in obtaining input cost credit.
- In Q1 FY19 the company hiked rates 12% in its top-12 markets and doesn't expect any more hikes in FY19.
- Ahead, growth would arise from a mix of greater yields and inventory growth, with phase-III markets increasing their share in the company's revenue and profits. Besides, its wider footprint, to 72% of the FM reach, through the recent acquisition of Friends FM in a key market such as Kolkata, would further support growth

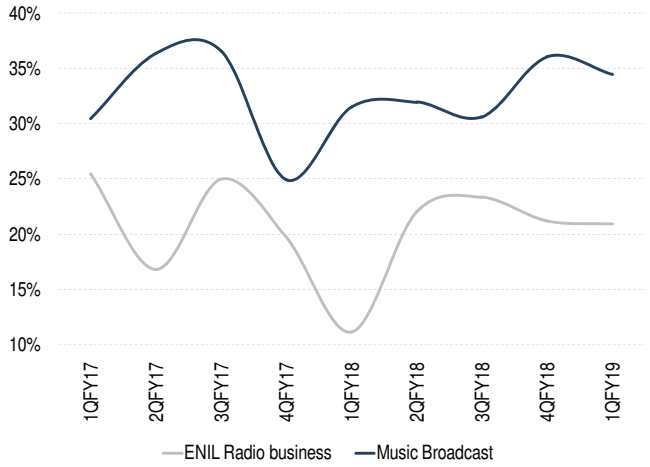
# Why MBL should trade at a premium to ENIL

**Fig 9 – Revenue trend - Revenue gap reducing (MBL operates 40% fewer stations than ENIL)**



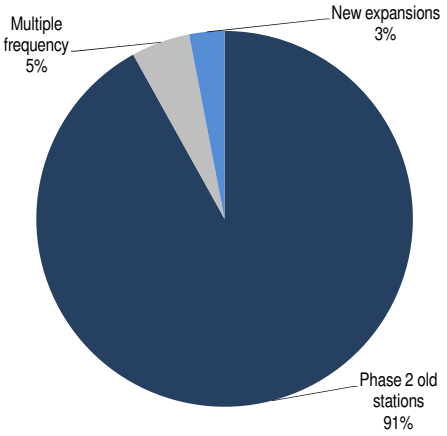

*Source: Anand Rathi Research*

**Fig 10 – Margin trend - MBL consistent 30%+ margins**



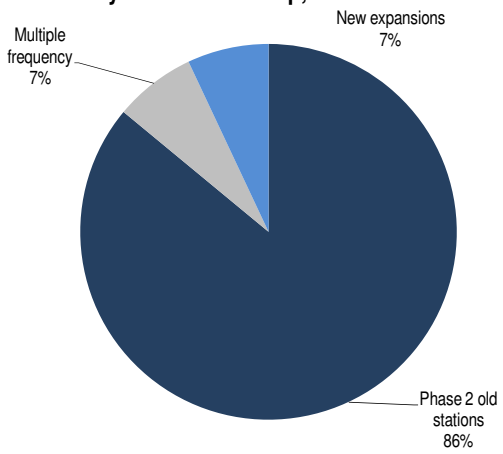

*Source: Anand Rathi Research*

**Fig 11 – Industry volume break-up, H1 FY18**




*Source: Anand Rathi Research*

**Fig 12 – Industry volume break-up, H1 FY19**




*Source: Anand Rathi Research*

# Valuations

Part of the Jagran Prakashan group, Radio City has emerged as one of the leading all-India radio networks in India. It has widened its footprint from four cities in 2001 to 39 in FY18. It commands a strong audience share in the top 23 markets (including Radio Mantra) of the 39 in which it operates. We believe that its 11 newly-acquired stations (already live and having broken even at the EBITDA level) in the batch-1, phase-III auction would support healthy revenue growth, driven by inventory utilisation. The company will become debt free by FY20.

The stock trades at 13.4x and 11.7x our FY20e and FY20e EV/EBITDA, respectively, an 8% discount to its peer, ENIL. We believe its valuation discount to ENIL has the potential to be reduced and, in fact, move to a premium, given its strong brand, healthy growth and steady FCF/RoIC recovery.

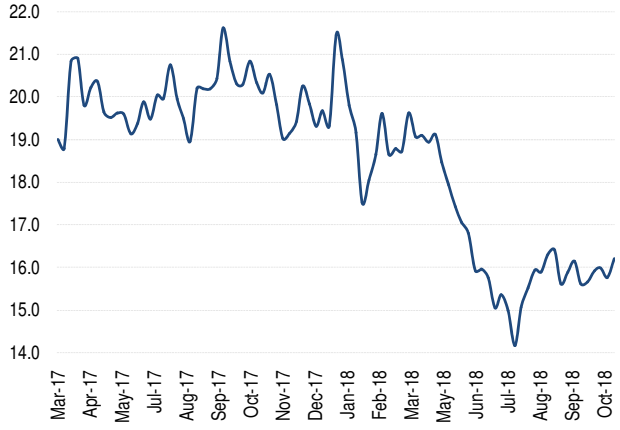
We maintain our Buy on the stock, with a new target of ₹440 (earlier ₹520), valuing it at 15x FY21e EBITDA (a 10% premium to ENIL and a 10% discount to our target multiple for Zee) reflecting overall weakness in the media space.

**Fig 13 – Change in estimates**

| | FY19 | | | FY20 | | |
|---|---|---|---|---|---|---|
| (₹ m) | New | Old | % Change | New | Old | % Change |
| Revenues | 3,312 | 3,389 | (2.3) | 3,715 | 3,914 | (5.1) |
| EBITDA | 1,115 | 1,164 | (4.2) | 1,286 | 1,416 | (9.1) |
| *EBITDA margin %* | 33.7% | 34.3% | -64 bps | 34.6% | 36.2% | -155 bps |
| EBIT | 846 | 894 | (5.3) | 1,006 | 1,136 | (11.4) |
| *EBIT margin %* | 25.6% | 26.4% | -85 bps | 27.1% | 29.0% | -193 bps |
| PBT | 931 | 1,025 | (9.2) | 1,222 | 1,352 | (9.6) |
| Net profit | 608 | 685 | (11.2) | 819 | 906 | (9.6) |

*Source: Anand Rathi Research*

**Fig 14 – EV / EBITDA (one-year-forward)**




*Source : Bloomberg, Anand Rathi Research*

## Risk

- Macro pressures on key advertising sectors.

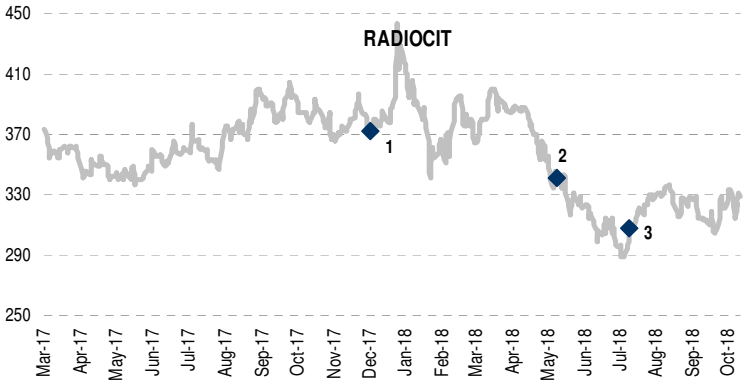
## Appendix

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**Important Disclosures on subject companies**

**Rating and Target Price History (as of 26 October 2018)**




| | Date | Rating | TP (₹) | Share Price (₹) |
|---|---|---|---|---|
| 1 | 18-Dec-17 | Buy | 500 | 375 |
| 2 | 24-May-18 | Buy | 530 | 345 |
| 3 | 25-Jul-18 | Buy | 520 | 304 |

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

**Ratings Guide (12 months)**

| | Buy | Hold | Sell |
|---|---|---|---|
| Large Caps (>US$1bn) | >15% | 5-15% | <5% |
| Mid/Small Caps (<US$1bn) | >25% | 5-25% | <5% |

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