

Music Broadcast

BSE SENSEX	S&P CNX
35,593	10,652
Bloomberg	RADIOCIT IN
Equity Shares (m)	57
M.Cap.(INRb)/(USDb)	16.2 / 0.2
52-Week Range (INR)	408 / 267
1, 6, 12 Rel. Per (%)	-9/-5/-24
12M Avg Val (INR M)	13
Free float (%)	26.4

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	3.3	3.7	4.3
EBITDA	1.1	1.4	1.7
PAT	0.6	0.8	1.1
EPS (INR)	11.4	14.9	19.5
Gr. (%)	25.5	30.6	31.2
BV/Sh (INR)	109.5	124.4	143.9
RoE (%)	10.4	12.7	14.5
RoCE (%)	10.4	12.7	14.5
P/E (x)	24.9	19.1	14.5
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	13.7	10.5	7.8

Estimate change



TP change



Rating change


CMP: INR284 TP: INR380 (+34%)
Buy

Adspends trending well; more benefits to come from op. leverage/new station contribution

- **Healthy ad yields, volumes drive growth:** Revenue grew by a healthy 14% YoY (+9% QoQ) to INR870m (in-line), driven by (i) contribution from the festive season, (ii) an 11% (v/s average of 8%) yield improvement at legacy stations and (iii) higher utilization at phase III stations (53% v/s average of 49%). EBITDA grew 23% YoY (+8% QoQ) to INR286m, missing our estimate by 6%, mainly on account of higher-than-expected increase in opex (+21% YoY) due to one-off. EBITDA margin expanded 225bp YoY (-30bp QoQ) to 32.9%, potentially due to higher contribution from new stations. PAT grew 38% YoY to INR164m (10% miss), mainly led by EBITDA growth and ~66% plunge in finance cost. For 9MFY19, revenue/EBITDA/PAT grew 9%/17%/22% YoY.
- **Concall highlights:** (1) Radio industry players have written a letter to the government requesting an ad rate hike; they expect a positive response. (2) Company expects increasing volumes to drive better revenue growth in 2HFY19 than in 1H. Radio industry is likely to grow by 12-14% in FY20. Accordingly, MBL should maintain strong revenue growth of 2HFY19 into the next year. (3) Acquisition of Friends FM 91.9 is still pending MIB approval.
- **Upbeat outlook:** In our view, the revival in local ad spends (as hinted by management) and the fillip from election-led government spending should drive ad spends across sectors. We broadly maintain our estimates – revenue CAGR of 14% over FY19-21. This, coupled with the inherent operating leverage and the higher EBITDA contribution from new stations, should drive strong 18% EBITDA CAGR over FY19-21. Prospects of Friends FM 91.9 acquisition-led synergies strengthen the outlook further.
- **Valuation and view:** We roll forward our valuations to FY21 and reduce our TP to INR380 (prior: INR420), reducing EV/EBITDA multiple to 10x (~40% discount to two-year average), given the concerns around traditional media. However, given the healthy 14% revenue CAGR over FY19-21E, the stock appears attractively priced at 7.8x EV/EBITDA on FY21E. Maintain **Buy**.

Quarterly Performance (INR m)

Y/E March	FY18				FY19				FY18	FY19E	3Q FY19E	Est. Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue	703	758	762	759	757	801	870	865	2,982	3,294	852	2.1
YoY Change (%)	11.9	9.5	4.7	14.1	7.6	5.7	14.2	13.9	9.9	10.4	11.9	19.8
Total Expenditure	481	516	529	486	496	536	584	559	2,012	2,175	548	6.7
EBITDA	222	242	233	274	261	266	286	306	971	1,119	305	-6.1
Margins (%)	31.5	31.9	30.6	36.0	34.4	33.1	32.9	35.4	32.5	34.0	35.8	-288bps
Depreciation	64	67	65	67	67	67	68	67	263	269	67	0.5
Interest	39	38	39	34	14	14	14	-1	150	40	6	122.3
Other Income	47	50	43	54	24	36	45	48	194	153	47	-5.5
PBT	166	187	172	227	204	221	249	288	752	962	279	-10.5
Tax	57	60	53	65	69	87	86	92	235	333	96	-11.3
Rate (%)	34.6	32.0	30.9	28.4	33.7	39.4	34.3	31.8	31.2	34.6	34.6	
Reported PAT	108	127	119	163	135	134	164	197	517	629	182	-10.1
Adj. PAT	108	127	119	163	135	134	164	197	517	629	182	-10.1
YoY Change (%)	42.3	9.7	16.4	261.3	24.5	5.1	37.9	20.9	41.1	21.7	53.3	
Margins (%)	15.4	16.8	15.6	21.4	17.8	16.7	18.8	22.7	17.3	19.1	21.4	-255bps

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Old stations garner healthy margins: Revenue for 28 legacy stations grew ~10% YoY to INR783m, attributed to a yield improvement (+11%) and higher utilization (top 12 stations at 80%+; balance in the range of 65-75%). New stations contributed additional INR87m of revenues (~10% of total revenue) led by volume growth. EBITDA for the legacy stations stood at INR279m (~36% margin), while the new stations reported EBITDA of INR7m and 8% margin (v/s EBITDA loss in 3QFY18).

Valuation and view

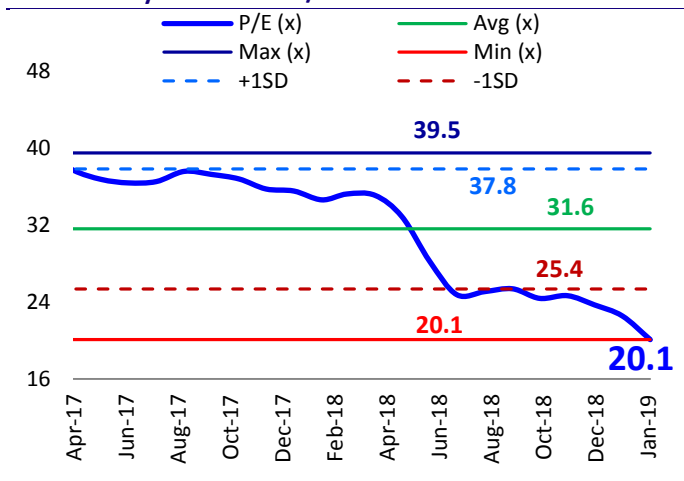
- Revival in local ad spending across categories, coupled with higher government ad spends in the run up to general elections, should drive ad volume growth. This, coupled with yield improvement (mainly at legacy stations), should drive 14% revenue CAGR over FY19-21.
- We expect 18% CAGR in EBITDA over FY19-21 on the back of healthy revenue growth, higher EBITDA contribution from new stations and the inherent operating leverage.
- We expect robust 31% PAT CAGR over FY19-21, and RoE/RoCE to increase to ~15% over the same period.
- RADIOCIT trades at 10.5x/7.8x FY20/21E EBITDA. We roll forward our valuations to FY21 and lower our TP to INR380 (prior: INR420), reducing EV/EBITDA multiple to 10x (~40% discount to two-year average) given the concerns around traditional media.
- However, given the healthy 14% revenue CAGR over FY19-21E, the stock is attractively priced at 7.8x EV/EBITDA on FY21E. Maintain **Buy**.

Exhibit 1: Valuation summary

	Methodology	Driver (INR m)	Multiple (x)	Fair Value (INR m)	Value/sh (INR)
EBITDA	FY21 EV/EBITDA	1,676	10	16,793	304
Less Net debt				-4,206	-76
Total Value				20,999	380
Shares o/s (m)				55.3	
CMP (INR)					284
Upside (%)					34

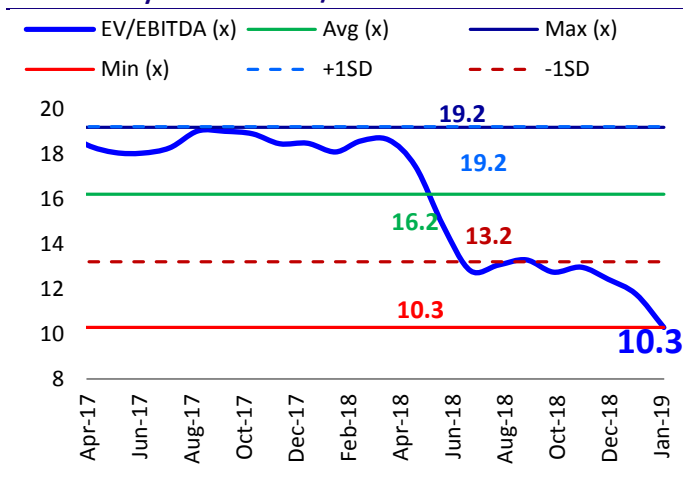
Source: MOSL, Company

Exhibit 2: 1-year forward P/E



Source: Bloomberg, MOSL

Exhibit 3: 1-year forward EV/EBITDA



Source: Bloomberg, MOSL



3QFY19 Earnings call Highlights

Key takeaways

- Radio industry has written letter to govt. requesting ad rate hike; expect a positive response.
- Expect 2HFY19 revenue growth to be higher than 1H on the back of increasing volumes. Expect radio industry growth of 12-14% in FY20. Accordingly, MBL's revenue growth to be strong on the lines of 2HFY19.
- Acquisition of Friends FM 91.9 is still pending MIB approval. No timelines were guided.

3QFY19 performance

- Delivered higher-than-expected revenue growth, led by (a) festive season uptick (couple of pp growth), (b) 11% rate hike in legacy markets v/s average of 8% and (b) higher utilization at new stations (53%)
- Of the 14% revenue growth for 3QFY19, 10% has come from old stations and balance 4% has come from new stations. However, of 9% YoY growth for 9MFY19 - half has come from old and balance from new stations
- New stations contributed about 10-11% of total revenue.
- EBITDA grew 28% YoY to INR285m; margin expanded 225bp YoY to 32.9%.
- Categories such as Govt., e-commerce and auto grew at a healthy rate.
- Core legacy stations are operating at 45% EBITDA margin, while other legacy stations operating at 28% margin. New stations are operating at EBITDA margin of 8%.
- Top 12 stations are operating at average 80%+ utilization, while other legacy stations operating at an average 65-75% utilisation. New stations are operating at an average of 45-50%.
- Operating expenses are higher by 21% YoY due to one-time marketing activities (INR45m-50m) done across all 39 markets to increase the listenership.
- Share of local ad revenue has increased from 40% to 45%.
- Non-FCT revenue contributed ~12% of total revenue.

Industry

- The recent increase in DAVP rates was only for print. Radio industry is operating at DAVP rates which were set two years ago.
- Radio industry has written letter to Govt. requesting ad rate hike and expects positive response.
- Revenue from political ads in 2014 was INR40-50m for radio industry and Radio City garnered about 20-21% share of this election spend.
- Management expects higher election spends compared to 2014.
- Radio industry share is about 4-5% of the overall ad pie and has marginally grown in the last couple of years. Further, as the geographical expansion happens, the share will only grow.
- Radio share would be 5-6% of total government ad spends.

Business outlook

- Confident of sustaining current growth levels and improve EBITDA margins further.
- Expect 2HFY19 revenue growth to be higher than 1H on the back of increasing volumes.

- Despite 11% rate hike in 3QFY19, rate hike for full year FY19 would be about 8%.
- Expect FY20 revenue growth to be on the lines of 2HFY19.
- Rate hikes for new stations will be taken post the utilisation levels exceed 60%.
- Expect other expenses to remain in the range of INR300m.
- Seeking approval from shareholders for subdivision of equity shares from face value of INR10 to INR2.
- E-Commerce contribution is ~6%. Thus, new regulations on e-commerce won't have major impact on radio revenue.
- Acquisition of Friends FM 91.9 is still pending MIB approval. No timelines were guided.
- Management is keen to explore other acquisitions.
- Currently, management has no plans to look beyond India.
- Compared to earlier 8-9% growth levels, expect radio industry to revive with 12-14% growth levels led by upsurge in economy.

Exhibit 4: Quarterly performance (INR m)

	3QFY18	2QFY19	3QFY19	YoY%	QoQ%	3QFY19E	v/s est (%)
Revenue	762	801	870	14.2	8.6	852	2.1
Licence Fees	54	56	55	2.4	-0.9	59	-6.9
Employee Costs	176	179	167	-5.0	-6.6	179	-6.9
Administration and Other Expenses	299	301	362	21.1	20.1	309	17.1
Total Expenses	529	536	584	10.5	9.0	548	6.7
EBITDA	233	266	286	22.6	7.7	305	-6.1
EBITDA margin (%)	30.6	33.1	32.9	225bps	-28bps	35.8	-288bps
Depreciation and amortization	65	67	68	3.5	0.9	67	0.5
EBIT	168	199	218	30.1	10.0	237	-8.0
EBIT margin (%)	22.0	24.8	25.1	306bps	32bps	27.9	-276bps
Net Finance Costs	-4	-22	-31	653.7	39.2	-41	-24.7
Profit before Tax	172	221	249	44.9	12.9	279	-10.5
Adj Tax	53	87	86	60.7	-1.7	96	-11.3
Tax rate (%)	30.9	39.4	34.3	337bps	-511bps	34.6	-30bps
Profit after Tax	119	134	164	37.9	22.4	182	-10.1

Source: MOSL, Company

Exhibit 5: Legacy and new stations mix (INR m)

	3QFY18	2QFY19	3QFY19	YoY%	QoQ%
Revenue break-up (INR m)					
Old Frequencies - 28 channels	714	723	783	9.7	8.3
New Frequencies - 11 channels	48	78	87	82.4	11.6
Total revenue	762	801	870	14.2	8.6
EBITDA break-up (INR m)					
Old Frequencies - 32 channels	243	260	279	14.7	7.5
New Frequencies - 11 channels	-10	6	7	NM	14.1
Total EBITDA	233	266	286	22.6	7.7
EBITDA margin (%)					
Old Frequencies - 32 channels	34.1	35.9	35.6	157	-24
New Frequencies - 11 channels	-21.0	7.8	8.0	NM	18
Total EBITDA margin	30.6	33.1	32.9	225	-28

Source: MOSL, Company

Exhibit 6: Legacy and new stations mix (%)

	3QFY18	2QFY19	3QFY19
Revenue contribution (%)			
Old Frequencies - 28 channels	94%	90%	90%
New Frequencies - 11 channels	6%	10%	10%
Total	100%	100%	100%
EBITDA contribution (%)			
Old Frequencies - 28 channels	104%	98%	98%
New Frequencies - 11 channels	-4%	2%	2%
Total	100%	100%	100%

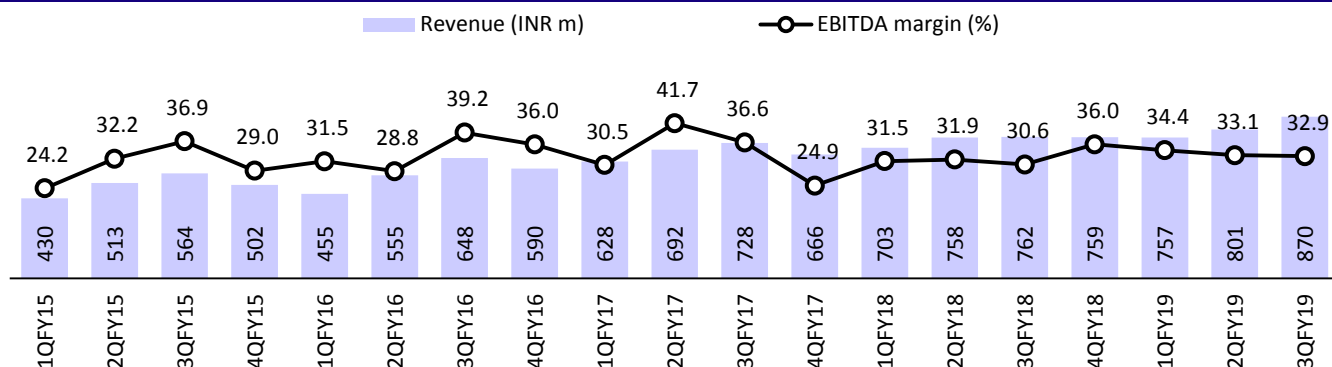
Source: MOSL, Company

Exhibit 7: Summary of estimate changes

	FY19E	FY20E
Revenue (INR m)		
Old	3,251	3,689
Actual/New	3,294	3,737
Change (%)	1.3	1.3
EBITDA (INR m)		
Old	1,113	1,361
Actual/New	1,119	1,360
Change (%)	0.5	-0.1
EBITDA margin (%)		
Old	34.2	36.9
Actual/New	34.0	36.4
Change (bp)	-26bps	-51bps
Net Profit (INR m)		
Old	625	823
Actual/New	629	822
Change (%)	0.6	-0.1
Adj. EPS (INR)		
Old	11.3	14.9
Actual/New	11.4	14.9
Change (%)	0.6	-0.1

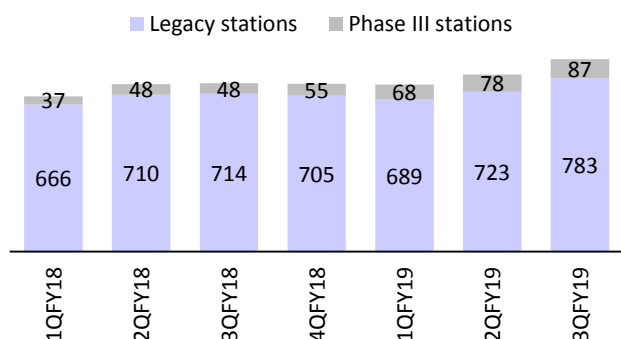
Story in charts

Exhibit 8: Revenue and EBITDA margin trend (INR m)



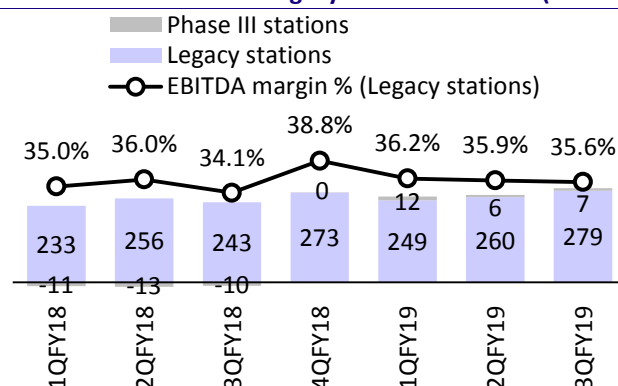
Source: MOSL, Company

Exhibit 9: Revenue from new stations on an uptrend (INR m)



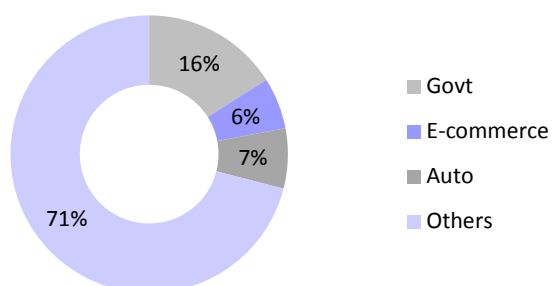
Source: MOSL, Company

Exhibit 10: EBITDA mix of legacy and new stations (INR m)



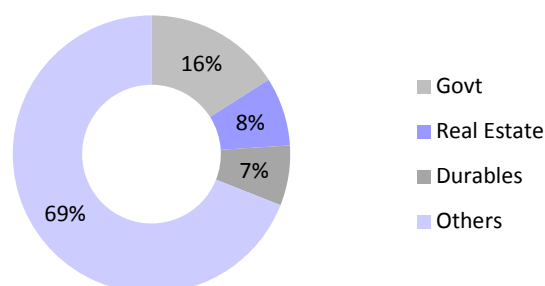
Source: MOSL, Company

Exhibit 11: 3QFY19 industry volume breakup (%)



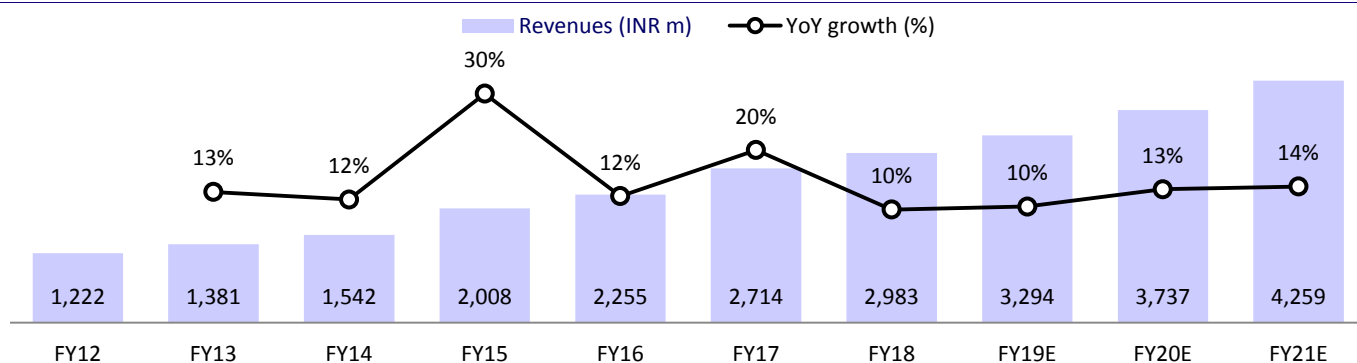
Source: MOSL, Company

Exhibit 12: 9MFY19 industry volume breakup (%)

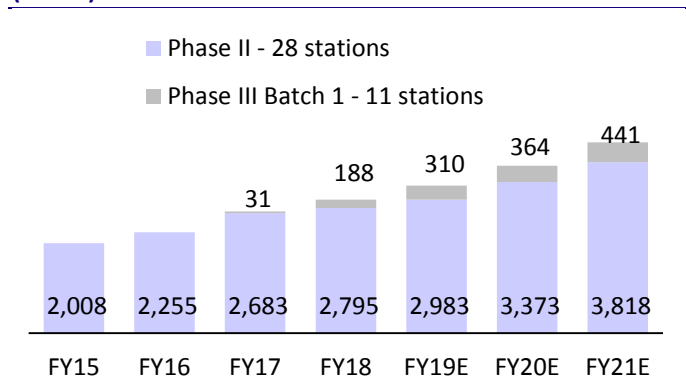


Source: MOSL, Company

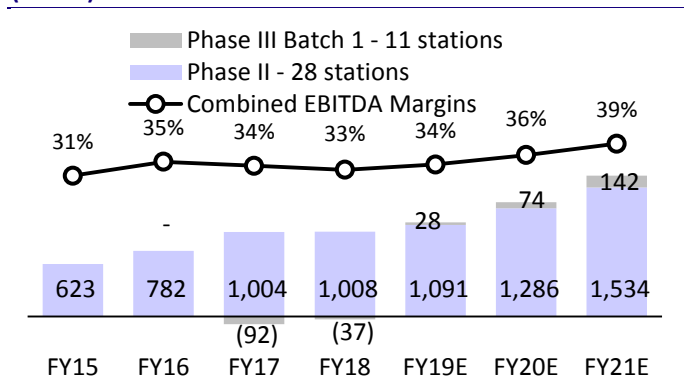
Exhibit 13: Expect revenue CAGR of 14% over FY19-21



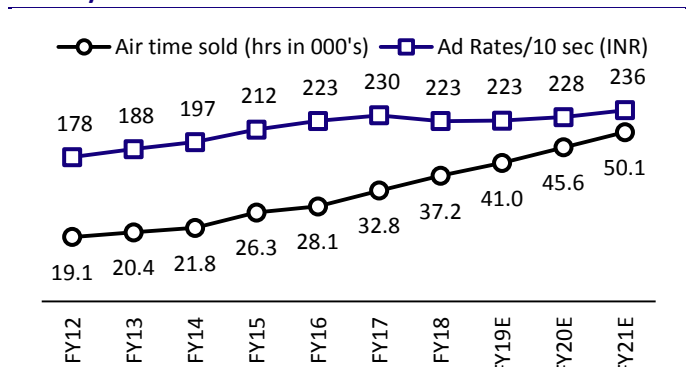
Source: MOSL, Company

Exhibit 14: Revenue growth accelerated by new stations (INR m)

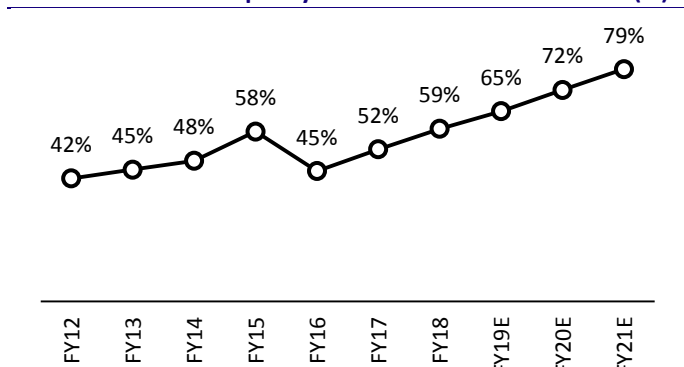
Source: MOSL, Company

Exhibit 15: EBITDA mix from new stations to improve (INR m)

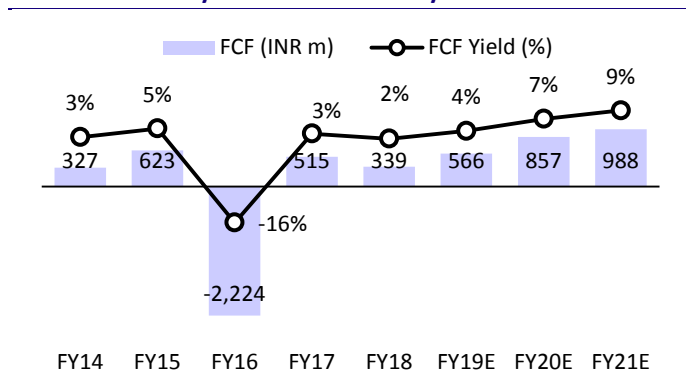
Source: MOSL, Company

Exhibit 16: Overall ad rates and volumes both increasing steadily

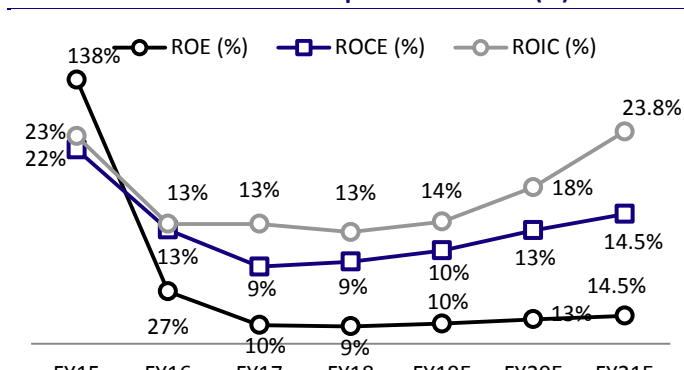
Source: MOSL, Company

Exhibit 17: Overall capacity utilization levels to increase (%)

Source: MOSL, Company

Exhibit 18: Steady rise in FCF and FCF yield

Source: MOSL, Company

Exhibit 19: Return ratios to improve from FY19 (%)

Source: MOSL, Company

Financials and Valuations

Standalone - Income Statement								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	1,542	2,008	2,255	2,714	2,983	3,294	3,737	4,259
Change (%)	11.7	30.3	12.3	20.4	9.9	10.4	13.5	14.0
Total Expenditure	1,118	1,385	1,473	1,802	2,012	2,175	2,377	2,583
% of Sales	72.5	69.0	65.3	66.4	67.4	66.0	63.6	60.7
EBITDA	424	623	782	913	971	1,119	1,360	1,676
Margin (%)	27.5	31.0	34.7	33.6	32.6	34.0	36.4	39.3
Depreciation	155	157	167	197	263	269	282	282
EBIT	269	466	614	716	708	849	1,078	1,394
Int. and Finance Charges	57	62	207	190	150	40	0	0
Other Income	31	67	148	44	194	153	178	256
PBT bef. EO Exp.	243	471	555	570	752	962	1,257	1,649
EO Items	0	0	-136	0	0	0	0	0
PBT after EO Exp.	243	471	420	570	752	962	1,257	1,649
Total Tax	0	0	143	203	235	333	435	571
Tax Rate (%)	0.0	0.0	34.2	35.7	31.2	34.6	34.6	34.6
Reported PAT	243	471	276	367	517	629	822	1,079
Adjusted PAT	243	471	366	367	517	629	822	1,079
Change (%)	109.4	93.5	-22.3	0.3	41.1	21.7	30.6	31.2
Margin (%)	15.8	23.4	16.2	13.5	17.3	19.1	22.0	25.3

Standalone - Balance Sheet								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	389	389	420	571	571	553	553	553
Total Reserves	-283	187	1,680	4,911	5,428	5,502	6,324	7,403
Net Worth	106	576	2,100	5,481	5,999	6,055	6,877	7,956
Total Loans	1,282	2,932	2,242	1,509	499	-1	-1	-1
Deferred Tax Liabilities	0	0	-316	-252	-182	0	0	0
Capital Employed	1,388	3,507	4,026	6,738	6,316	6,054	6,876	7,955
Gross Block	2,166	2,189	2,471	3,480	3,596	4,005	4,063	4,122
Less: Accum. Deprn.	1,850	2,002	167	364	627	896	1,177	1,460
Net Fixed Assets	317	187	2,304	3,116	2,969	3,109	2,886	2,662
Capital WIP	3	3	657	0	0	0	0	0
Total Investments	0	0	147	268	1,559	1,559	1,559	1,559
Curr. Assets, Loans & Adv.	1,380	3,787	1,474	3,975	2,276	1,836	2,941	4,313
Account Receivables	628	772	763	817	1,104	1,128	1,178	1,284
Cash and Bank Balance	339	543	159	2,679	762	368	1,403	2,647
Loans and Advances	413	2,472	552	480	410	341	360	383
Curr. Liability & Prov.	311	470	554	621	488	449	509	578
Account Payables	231	339	223	329	223	226	256	292
Other Current Liabilities	55	94	279	224	222	179	202	229
Provisions	26	36	53	69	43	45	51	57
Net Current Assets	1,069	3,317	919	3,354	1,788	1,387	2,432	3,735
Appl. of Funds	1,388	3,507	4,026	6,738	6,316	6,054	6,876	7,955

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	6.3	12.1	8.7	6.4	9.1	11.4	14.9	19.5
Cash EPS	10.2	16.1	12.7	9.9	13.7	16.2	20.0	24.6
BV/Share	2.7	14.8	50.0	96.1	105.1	109.5	124.4	143.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E				44.1	31.3	24.9	19.1	14.5
Cash P/E				28.7	20.7	17.5	14.2	11.5
P/BV				3.0	2.7	2.6	2.3	2.0
EV/Sales				5.5	5.3	4.7	3.8	3.1
EV/EBITDA				16.4	16.4	13.7	10.5	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	5.7	10.9	-39.0	9.0	6.0	10.2	15.5	17.9
Return Ratios (%)								
RoE	-1,580.1	138.0	27.3	9.7	9.0	10.4	12.7	14.5
RoCE	21.9	21.8	12.8	8.6	9.2	10.4	12.7	14.5
RoIC	24.9	23.3	13.4	13.4	12.5	13.7	17.5	23.8
Working Capital Ratios								
Asset Turnover (x)	1.1	0.6	0.6	0.4	0.5	0.5	0.5	0.5
Debtor (Days)	149	140	123	110	135	125	115	110
Creditor (Days)	55	62	36	44	27	25	25	25
Leverage Ratio (x)								
Net Debt/Equity	8.9	4.1	0.9	-0.3	-0.3	-0.3	-0.4	-0.5

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	243	471	555	570	752	962	1,257	1,649
Depreciation	155	157	167	197	263	269	282	282
Interest & Finance Charges	57	62	207	190	150	40	0	0
Direct Taxes Paid	-4	7	-104	-85	-235	-333	-435	-571
(Inc)/Dec in WC	-77	-54	8	-68	-351	7	-9	-59
CF from Operations	373	643	833	804	579	945	1,094	1,302
Others	-9	7	-227	-15	-123	29	-178	-256
CF from Operating incl EO	364	650	606	789	456	974	916	1,046
(Inc)/Dec in FA	-37	-27	-2,830	-274	-116	-409	-59	-59
Free Cash Flow	327	623	-2,224	515	339	566	857	988
(Pur)/Sale of Investments	0	0	-134	-109	-1,291	0	0	0
Others	139	-1,871	2,400	65	194	153	178	256
CF from Investments	101	-1,898	-564	-319	-1,213	-256	120	197
Issue of Shares	0	0	0	3,823	0	-573	0	0
Inc/(Dec) in Debt	-203	1,649	-88	-1,557	-1,010	-500	0	0
Interest Paid	-56	-51	-227	-244	-150	-40	0	0
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	29	0	0	0	0
CF from Fin. Activity	-259	1,599	-316	2,050	-1,159	-1,113	0	0
Inc/Dec of Cash	206	351	-274	2,521	-1,917	-394	1,036	1,243
Opening Balance	133	192	432	159	2,679	762	368	1,404
Closing Balance	339	544	159	2,679	762	368	1,404	2,647

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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