

Entertainment Network (ENTNET) ₹ 552

Non-FCT drives revenues growth...

- ENIL's Q3FY19 performance was a mixed bag. While non-FCT business (~ 40% of topline), especially international concert drove topline beat, loss in the same impacted EBITDA & PAT
- Revenues came in at ₹ 200.9 crore (up 35.4% YoY), ahead of our estimate of ₹ 188.2 crore. The topline was largely driven by higher proportion of non FCT business at ~40% vs. 30% earlier
- EBITDA came in at ₹ 40.4 crore (up 13.5% YoY), a tad lower than our expectation of ₹ 42.3 crore while EBITDA margins came in at 20.1% vs. our expectation of 22.5%, largely owing to the international concerts business, which incurred losses
- The reported PAT came in a tad lower at ₹ 16.1 crore (vs. ₹ 16.5 crore), on account of a miss on the EBITDA front

Shifting of festival impacts revenues

The quarter witnessed strong traction in revenue growth driven by robust FCT (radio airtime) segment growth and contribution of international concert business. Ex-international concert, topline growth was ~20%. Within the FCT segment, 35 old stations witnessed 21.2% growth, batch I stations witnessed 40.6% growth, batch II stations contributed topline of ~₹ 1.5 crore. Growth was largely volume led as blended pricing went up merely 1%. Core FCT revenues growth was ~11.9% YoY. Inventory utilisation was at ~124% in top eight stations, ~89% for remaining legacy stations, ~38% for batch I stations and ~12% for batch II stations. We note that the company guided for muted ad environment for the next two quarters due to challenges segments such as e-wallet (new KYC norms), e-commerce (regulations led), with major categories such as auto, real estate, BFSI and media awaiting a major pick-up in sentiment. Going ahead, the company guided for core radio growth (10-12%) over the medium term, coupled with new stations contribution and non-FCT driving overall growth trajectory. We expect revenue to grow at 16.1% CAGR in FY18-21E to ₹ 825 crore.

Losses in international concert business hit EBITDA

During the quarter, the company indicated that ex-radio EBITDA grew ~37%, implying that losses in the international concert business were ~₹ 8.5 crore. The company indicated that, going ahead, they would have a measured approach in international concerts (rather than being aggressive), building on learnings of Q3FY19. The company also guided at overall margins of ~25%+ in FY20, with a possible cut owing to weak radio growth in H1FY20. Over the medium term, the profitability in phase II stations is expected to be boosted by improvement in utilisations while non-FCT business improving gross margins will boost overall EBITDA. We expect 28.6% CAGR in EBITDA in FY18-21E and expect EBITDA margins to reach 29.5% in FY21.

Valuations attractive post correction; upgrade to BUY

We were enthused by the core growth trajectory of ~20%, although the international concert losses were disappointing. We cut our earnings estimates factoring in weak H1FY20. However, considering the stock price correction of ~15% in the last three months, the valuations have turned attractive. Hence, we upgrade our rating to **BUY** with a revised DCF based target price of ₹ 630, (implying ~26x FY21E P/E and ~10.5x FY21E EV/EBITDA).

Rating matrix	
Rating	: Buy
Target	: ₹ 630
Target Period	: 12 months
Potential Upside	: 14%

What's changed?	
Target	Changed from ₹ 690 to ₹ 630
EPS FY19E	Changed from ₹ 12.1 to ₹ 10.9
EPS FY20E	Changed from ₹ 21.9 to ₹ 17.5
EPS FY21E	Introduced at ₹ 24.2
Rating	Changed from Hold to Buy

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	200.9	148.4	35.4	122.5	64.0
EBITDA	40.3	35.6	13.2	27.3	47.5
EBITDA (%)	20.1	24.0	-393 bps	22.3	-224 bps
PAT	16.1	13.2	22.3	9.1	77.8

Key financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	537.1	623.8	739.3	834.5
EBITDA	116.6	138.9	188.2	245.9
Net Profit	35.6	52.2	83.5	115.5
EPS (₹)	7.5	10.9	17.5	24.2

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	73.8	50.4	31.5	22.8
Target P/E	84.2	57.6	36.0	26.0
EV / EBITDA	22.0	17.9	12.6	9.0
P/BV	3.0	2.8	2.6	2.3
RoNW	3.5	5.6	8.3	10.3
RoCE	6.2	9.0	12.6	15.6

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	₹ 2630 Crore
Total Debt (FY18)	₹ 104 Crore
Cash & Liquid Investments(FY18)	₹ 173.3 Crore
EV (₹ Crore)	₹ 2560.6 Crore
52 week H/L	760/ 530
Equity capital	47.7
Face value	10.0
MF Holding (%)	2.5
FII Holding (%)	16.0

Price Performance				
	1M	3M	6M	12M
Music Broadcast	-10.2	-16.0	-12.9	-24.2
ENIL	-12.0	-14.4	-25.6	-22.4

Research Analysts

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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	200.9	188.2	148.4	122.5	35.4	64.0	Topline beat was led by incremental revenues from international concert
Other Income	4.4	2.0	1.9	3.5	129.6	26.5	
Marketing Expenses	70.6	44.2	34.3	12.2	105.8	478.7	
Administrative Expenses	34.0	45.2	36.6	33.2	-7.2	2.3	
License Fee	10.0	11.3	8.8	8.4	14.0	19.0	
Employee Expenses	35.9	35.8	26.1	32.7	37.6	9.8	
Other Expenses	10.0	9.4	7.0	8.6	43.8	16.2	
EBITDA	40.3	42.3	35.6	27.3	13.2	47.5	EBITDA mis, despite superior topline was largely owing to international concerts business, which incurred losses
EBITDA Margin (%)	20.1	22.5	24.0	22.3	-393 bps	-224 bps	
Depreciation	17.4	17.0	16.1	16.6	7.8	4.8	
Interest	1.5	1.1	1.2	1.1	NA	39.1	
Total Tax	9.7	9.7	7.0	4.1	38.3	138.0	
PAT	16.1	16.5	13.2	9.1	22.3	77.8	

Key Metrics

Op. Revenue growth	36%	27%	-2%	-3%		
Rate/Slot	388.9	369.9	352.4	291.7	10.4	33.3

Source: Company, ICICI Direct Research

Change in estimates

(` Crore)	FY19E			FY20E			FY21E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Revenue	612.7	623.8	1.8	744.2	739.3	-0.7	834.5		
EBITDA	146.9	138.9	-5.4	214.1	188.2	-12.1	245.9		
EBITDA Margin (%)	24.0	22.3	-171 bps	28.8	25.5	-332 bps	29.5	Lower our estimates as indicated by the management guidance	
PAT	55.7	52.2	-6.3	104.4	83.5	-20.1	115.5		
EPS (`)	11.7	10.9	-6.5	21.9	17.5	-20.0	24.2		

Source: Company, ICICI Direct Research

Assumptions

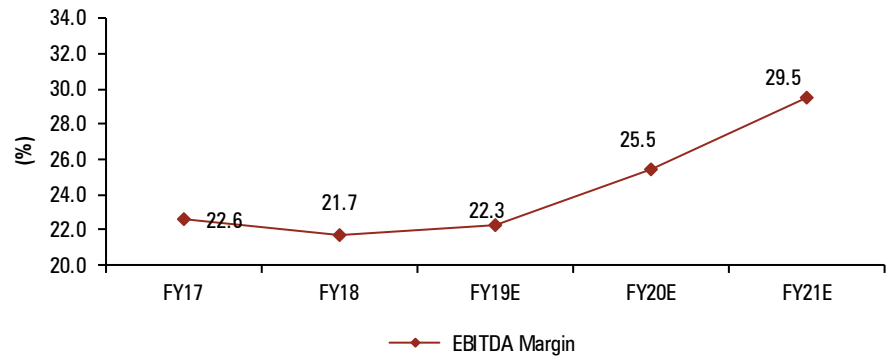
	FY19E		Current		Introduced		Earlier	
	FY17E	FY18E	FY19E	FY20E	FY21E	FY19E	FY20E	
Op. Revenue growth	12%	-4%	17%	18%	13%	20%	18%	
Rate/Slot	317.8	317.8	334.9	346.3	382.1	320.1	337.3	

Source: Company, ICICI Direct Research

Margins to rebound with new stations profitability, non-FCT margin expansion

We highlight ENIL enjoyed industry leading EBITDA margins of 32-33% over FY14-17 on the back of leadership and higher utilisation of existing ad inventory. However, newer channel launch as well as weaker revenue growth led to a sharp decline in margins to 21.7% in FY18. With a ramp up of new stations operations and non-FCT margin expansion, we expect margins to inch up to 29.5% in FY21E.

Exhibit 1: EBITDA margins trend



Source: Company, ICICI Direct Research

Outlook & Valuation

We note that the overall growth scenario in the radio industry has tapered down from erstwhile expectation of high teens growth (including new stations) to low teen growth guidance (including new stations) currently, clearly reflecting that overall market expansion post phase III auction has not been on anticipated lines.

However, we were enthused by the core growth trajectory of ~20% although international concert losses were disappointing. We cut our earnings estimates factoring in weak H1FY20. However, considering the stock price correction of ~15% in the last three months, valuations have turned attractive. Therefore, we upgrade our rating to **BUY** with a revised DCF based target price of ₹ 630, (implying ~26x FY21E P/E and ~10.5x FY21E EV/EBITDA).

Exhibit 2: DCF valuations

Particulars	Amount
WACC	10.3%
Revenue CAGR over FY18 - FY25E	14.1%
PV of Cash Flow Till Terminal Year	782.3
Terminal Growth	3.5%
Present Value of terminal cash flow	2,150.6
PV of firm	2,933.0
Less: Net Debt	-69.3
Total present value of the Equity	3,002.3
Number of Equity Shares outstanding	4.8
DCF - Target price (₹)	630

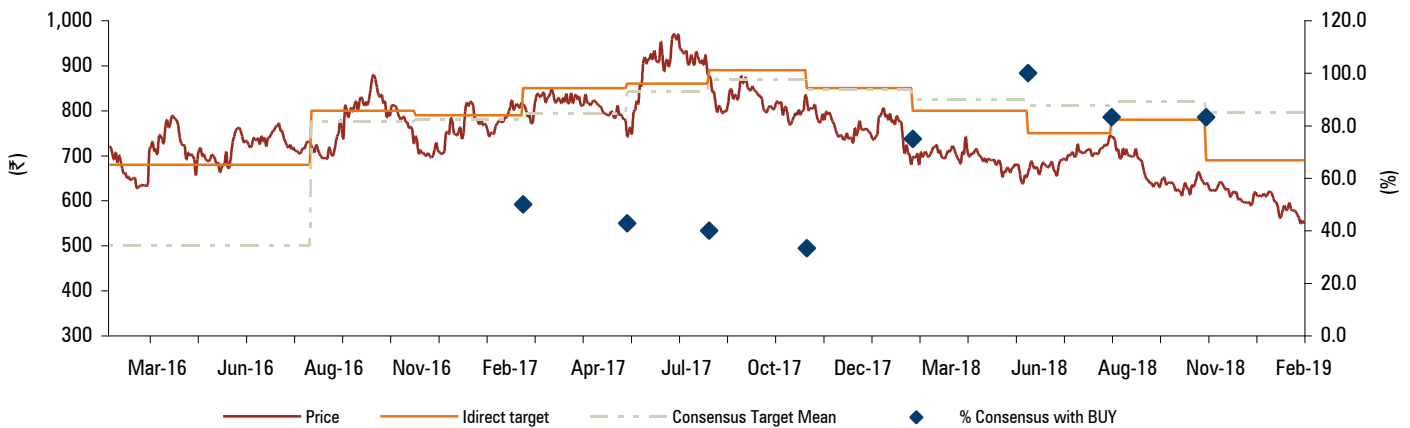
Source: Company, ICICI Direct Research

Exhibit 3: Valuations

	Sales (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	537.1	-3.5	7.5	-35.4	73.8	22.0	3.5	6.2
FY19E	623.8	16.1	10.9	NA	50.4	17.9	5.6	9.0
FY20E	739.3	18.5	17.5	60.0	31.5	12.6	8.3	12.6
FY21E	834.5	12.9	24.2	38.3	22.8	9.0	10.3	15.6

Source: Company, ICICI Direct Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Jul-10	Sells off event business to the parent - negative reaction in the stock - relatively cheaper valuations
Aug-10	Entertainment Network (India) Ltd approves appointment of Prashant Panday as whole-time director
Jul-11	Government approves Phase III radio auctions
Jun-12	India's largest FM station Radio Mirchi joins hands with a Dubai-based Cricket Radio to make it's ICC World Cup programming more interesting
Sep-13	I&B Minister Manish Tewari announces the government is set to unveil e-auction process for Phase III auctions
Apr-14	Phase III auction talks kick start with renewed focus
Feb-15	TV Today's board approves selling off of its radio stations to ENIL
Jun-15	The I&B approves ENIL's purchase of four of TV Today's radio stations
Jul-15	Phase III auctions finally begin for 135 stations in its first phase
Sep-15	Buys 17 frequencies in the auction by incurring an outlay of ₹ 339.2 crore. Nine out of the 17 are second frequencies and third for Hyderabad
Mar-16	Launches a new radio station in Guwahati
H1FY17	Launches radio stations in Bangalore (second frequency - Hindi music based), Cochin, Hyderabad

Source: Company, ICICI Direct Research

Top 10 Shareholders

Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1 Bennett Coleman & Co., Ltd.	31-Dec-18	71.15	33.9	0.0
2 Ruane, Cunniff & Goldfarb, Inc.	31-Dec-18	5.94	2.8	0.0
3 ICICI Prudential Asset Management Co. Ltd.	31-Dec-18	4.51	2.2	0.0
4 IDFC Asset Management Company Private Limited	31-Dec-18	2.72	1.3	0.0
5 Reliance Nippon Life Asset Management Limited	31-Dec-18	1.55	0.7	0.0
6 Aditya Birla Sun Life AMC Limited	31-Dec-18	1.22	0.6	0.0
7 State Bank of India	31-Dec-18	1.14	0.5	0.0
8 Motilal Oswal Asset Management Company Ltd.	31-Dec-18	1.05	0.5	0.0
9 Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Dec-18	1.02	0.5	0.0
10 HDFC Asset Management Co., Ltd.	31-Dec-18	0.62	0.3	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	71.15	71.15	71.15	71.15	71.15
FII	12.39	8.80	8.76	8.80	8.79
DII	6.63	10.00	11.44	13.04	13.00
Others	9.83	10.05	8.65	7.01	7.06

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Taurus Asset Management Co. Ltd.	+0.03M	+0.00M	Reliance Nippon Life Asset Management Limited	-0.11M	-0.01M
Nordea Investment Management AB (Denmark)	+0.00M	+0.00M	ICICI Prudential Asset Management Co. Ltd.	-0.04M	-0.00M
State Bank of India	+0.00M	+0.00M	LIC Mutual Fund Asset Management Company Ltd.	-0.03M	-0.00M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Total operating Income	537.1	623.8	739.3	834.5	
Growth (%)	-3.5	16.1	18.5	12.9	
Other Costs (Production, Marketing)	267.3	309.9	358.0	379.7	
License Fee	34.7	37.5	44.4	45.9	
Employee Expenses	118.5	137.5	148.9	163.0	
Total Operating Expenditure	420.5	484.9	551.2	588.6	
EBITDA	116.6	138.9	188.2	245.9	
Growth (%)	-7.4	19.1	35.5	30.7	
Depreciation	63.5	66.7	71.7	80.9	
Interest	4.7	4.6	4.0	4.0	
Other Income	9.4	13.8	14.0	14.0	
Exceptional Items	(4.2)	-	-	-	
PBT	62.1	81.3	126.5	174.9	
MI/PAT from associates	-	-	-	-	
Total Tax	26.4	29.1	43.0	59.5	
PAT	35.6	52.2	83.5	115.5	
Growth (%)	-35.4	46.4	60.0	38.3	
EPS (₹)	7.5	10.9	17.5	24.2	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	35.6	52.2	83.5	115.5	
Add: Depreciation	63.5	66.7	71.7	80.9	
Add: Interest Paid	4.7	4.6	4.0	4.0	
(Inc)/dec in Current Assets	-16.9	-43.2	-39.0	-41.2	
Inc/(dec) in CL and Provisions	-5.1	23.0	30.7	25.2	
CF from operating activities	81.8	103.3	150.8	184.4	
(Inc)/dec in Investments	-47.9	50.0	-100.0	-100.0	
(Inc)/dec in Fixed Assets	-19.4	-25.0	-20.0	-20.0	
Others	14.3	0.0	0.0	0.0	
CF from investing activities	-53.0	25.0	-120.0	-120.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-19.2	-104.0	0.0	0.0	
Interest paid	-4.7	-4.6	-4.0	-4.0	
Dividend outflow	-5.7	-5.7	-5.7	-5.7	
Others	0.2	0.0	0.0	0.0	
CF from financing activities	-29.5	-114.3	-9.7	-9.7	
Net Cash flow	-0.6	14.0	21.1	54.7	
Opening Cash	18.6	18.0	32.0	53.1	
Closing Cash	18.0	32.0	53.1	107.7	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Liabilities					
Equity Capital	47.7	47.7	47.7	47.7	
Reserve and Surplus	839.8	886.2	963.9	1,073.6	
Total Shareholders funds	887.5	933.9	1,011.6	1,121.3	
Total Debt	104.0	0.0	0.0	0.0	
Others	24.1	24.1	24.1	24.1	
Total Liabilities	1,015.5	958.0	1,035.7	1,145.4	
Assets					
Gross Block	1,139.3	1,164.3	1,184.3	1,204.3	
Less: Acc Depreciation	465.4	532.2	603.9	684.8	
Net Block	673.8	632.1	580.4	519.4	
Capital WIP	62.6	62.6	62.6	62.6	
Total Fixed Assets	736.4	694.7	643.0	582.0	
Goodwill	0.5	0.5	0.5	0.5	
Investments	164.8	114.8	214.8	314.8	
Inventory	-	-	-	-	
Debtors	170.2	205.1	232.9	262.9	
Loans and Advances	22.3	25.9	30.7	34.6	
Other Current Assets	45.8	50.5	56.9	64.2	
Cash	18.0	32.0	53.1	107.7	
Total Current Assets	256.2	313.4	373.5	469.4	
Creditors	104.9	121.8	144.4	163.0	
Provisions	10.8	12.6	14.9	16.8	
Other Current Liabilities	26.7	31.1	36.8	41.5	
Total Current Liabilities	142.4	165.4	196.1	221.3	
Net Current Assets	113.8	148.0	177.5	248.1	
Other non Current Assets	0.0	0.0	0.0	0.0	
Application of Funds	1,015.5	958.0	1,035.7	1,145.4	

Source: Company, ICICI Direct Research

Key ratios		FY18	FY19E	FY20E	FY21E
Per share data (₹)					
EPS		7.5	10.9	17.5	24.2
Cash EPS		20.8	24.9	32.6	41.2
BV		186.2	195.9	212.2	235.2
DPS		1.2	1.2	1.2	1.2
Cash Per Share		3.8	6.7	11.1	22.6
Operating Ratios (%)					
EBITDA Margin		21.7	22.3	25.5	29.5
PBT / Total Operating income		9.9	11.6	15.8	19.8
PAT Margin		5.8	8.4	11.3	13.8
Inventory days		0.0	0.0	0.0	0.0
Debtor days		115.7	120.0	115.0	115.0
Creditor days		71.3	71.3	71.3	71.3
Return Ratios (%)					
RoE		3.5	5.6	8.3	10.3
RoCE		6.2	9.0	12.6	15.6
RoIC		6.8	9.5	16.3	24.6
Valuation Ratios (x)					
P/E		73.8	50.4	31.5	22.8
EV / EBITDA		22.0	17.9	12.6	9.0
EV / Net Sales		4.8	4.0	3.2	2.7
Market Cap / Sales		4.9	4.2	3.6	3.2
Price to Book Value		0.0	0.0	0.0	0.0
Solvency Ratios					
Debt/EBITDA		0.9	0.0	0.0	0.0
Debt / Equity		0.1	0.0	0.0	0.0
Current Ratio		1.7	1.7	1.6	1.6
Quick Ratio		1.7	1.7	1.6	1.6

Source: Company, ICICI Direct Research

ICICI Direct Reseach coverage universe (Media)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)				
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	
DB Corp (DBCORP)	177	215	Buy	3,265	17.1	15.6	20.0	10.4	11.3	8.9	5.4	6.5	4.9	23.1	22.4	25.9	16.3	16.0	18.5				
DISH TV (DISHTV)	28	UR	UR	5,174	-0.4	1.6	2.0	NM	17.6	14.2	5.7	3.5	3.1	3.1	8.4	9.5	0.1	4.2	4.9				
ENIL (ENTNET)	552	630	BUY	2,630	7.5	10.9	17.5	73.8	50.4	31.5	22.0	17.9	12.6	6.2	9.0	12.6	3.5	5.6	8.3				
Inox Leisure (INOX)	259	330	Buy	2,658	11.9	8.8	12.6	21.7	29.3	20.6	14.0	11.6	9.0	13.2	13.7	16.3	10.6	9.9	12.3				
Jagran Praka (JAGPRA)	97	108	Hold	3,027	10.6	9.6	8.3	9.1	10.1	11.7	4.6	5.2	5.9	18.9	18.6	17.1	16.1	14.7	13.9				
Music Broadcast (MUSBRO)	275	340	Buy	1,521	9.1	10.8	14.0	30.3	25.4	19.6	13.8	12.0	9.6	14.3	15.9	17.6	8.6	9.9	11.4				
PVR (PVRLIM)	5,558	1,750	Buy	25,965	26.4	34.5	43.5	210.5	161.0	127.7	66.6	50.3	41.1	14.7	13.3	15.1	11.5	13.1	14.3				
Sun TV (SUNTV)	533	675	Hold	21,004	28.8	36.9	37.5	18.5	14.4	14.2	9.5	7.3	6.6	35.5	37.7	33.0	24.2	25.6	22.1				
TV Today (TVTNET)	336	450	Buy	2,004	19.9	25.7	29.8	16.9	13.1	11.3	8.7	6.9	5.2	30.4	30.2	29.8	19.3	19.5	19.0				
ZEE Ent. (ZEEENT)	402	500	Buy	38,584	15.4	16.5	20.0	26.1	24.3	20.1	17.1	13.7	11.4	25.6	25.2	25.5	15.3	15.4	15.9				

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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