Music Broadcast

BUY

INDUSTRY	**MEDIA**
CMP *(as on 29 Jan 2019)*	**Rs 288**
Target Price	**Rs 402**
Nifty	10,652
Sensex	35,593

KEY STOCK DATA	
Bloomberg	RADIOCITY IN
No. of Shares (mn)	57
MCap (Rs bn) / ($ mn)	16/231
6m avg traded value (Rs mn)	14

STOCK PERFORMANCE (%)

52 Week high / low			**Rs 410/267**
	3M	6M	12M
Absolute (%)	(11.2)	(6.2)	(25.1)
Relative (%)	(15.7)	(1.5)	(23.2)

SHAREHOLDING PATTERN (%)	
Promoters	73.7
FIs & Local MFs	8.3
FPIs	2.4
Public & Others	15.6

Source : BSE

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Healthy growth, sustainability key

Music Broadcast Ltd's (MBL) 3QFY19's revenue /EBITDA/PAT grew by 14/22.6/38% YoY on a low base, in-line with our estimates. The growth recovery was driven by 11% rate hike in the legacy markets, festive advertising and contribution from the Govt, E-Com & Auto sectors. Revenue growth guidance of 12-14% remains intact on the back of recovering economy and political spends.

Radio, being an add-on medium & for free; and with an industry size of ~Rs 22bn, we agree with the management that the impact from digital should be limited. With a mix of non-transferable content (local & live information, interactive jocks & music), radio will continue to maintain its uniqueness. Led by Phase-III expansion in new markets, utilization and modest price increases in established markets; consistent ~9-11% growth is possible.

We like MBL owing to its superior execution, focus on geographic than multi-frequency expansion, healthy balance sheet (~Rs 2bn net cash), return ratios and cash flows. Reiterate BUY with a revised TP of Rs 402 (25x Dec-20E FCFE/sh).

Key highlights

- **3QFY19 highlights:** (1) In ~14% YoY revenue growth, old stations grew by 10% on the back of 11% rate hike (avg 8% YTD) and rest by the new stations. EBITDA margins came in at ~33%. Margins would have been healthy, but for higher A&P spends (2) MBL completed the buyback viz. 1.74mn shares at ~Rs 327/sh or Rs 570mn.
- Increased inventory utilization of ~53% in the Phase III markets (11 stations) was a key positive. 28 legacy stations operate at ~70% utilization. MBL takes price hikes as the utilization hit 60%. For the quarter, legacy stations operated at 38% margin (in core markets > 45%) and new stations at ~8% margin.
- **Key con-call highlights:** (1) Government ads increased by 33%. On YTD basis, govt contributed ~15% to the revenues. (2) Govt. took a price hike of 25% for the print media. However, no hike has been taken for the radio industry in the last couple of years. (3) Approval for Friends FM acquisition is still pending with MIB.
- **Near term outlook:** We remain positive with pick-up in the political/government spends and increasing utilization of the new stations.

Consolidated Financial Summary

(Rs mn)	3QFY19	3QFY18	*YoY (%)*	2QFY19	*QoQ (%)*	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	870	762	*14.2*	801	*8.6*	2,714	2,982	3,296	3,746	4,220
EBITDA	286	233	*22.6*	266	*7.7*	913	971	1,128	1,331	1,584
APAT	164	119	*37.9*	134	*22.4*	367	517	614	764	934
Diluted EPS (Rs)	2.9	2.1	*37.9*	2.3	*22.4*	6.4	9.1	10.8	13.4	16.4
P/E (x)						44.7	31.7	26.7	21.5	17.6
EV / EBITDA (x)						16.3	14.9	12.9	10.8	8.8
RoE (%)						10.9	9.0	10.4	12.7	14.6

Source: Company, HDFC sec Inst Research

Employee cost declined YoY/QoQ due to reversal of variable pay of ~Rs 8mn

Other expenses shot up by 21% due to one-time marketing expense for improving customer engagement in all the markets of ~Rs 40-50mn

Quarterly Financial Snapshot

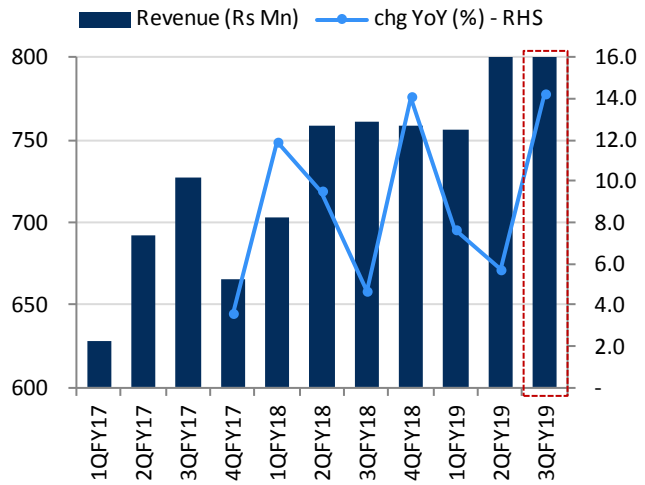
Rs Mn.	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	% chg YoY	% chg QoQ
Revenue	**762**	**759**	**757**	**801**	**870**	***14.2***	***8.6***
License fees	54	53	53	56	55	*2.4*	*(0.9)*
Employee cost	176	171	180	179	167	*(5.0)*	*(6.6)*
Other expenses	299	262	263	301	362	*21.1*	*20.1*
Total Opex	**529**	**486**	**496**	**536**	**584**	***10.5***	***9.0***
EBITDA	**233**	**274**	**261**	**266**	**286**	***22.6***	***7.7***
Depreciation	65	67	67	67	68	*3.5*	*0.9*
Finance costs	39	34	14	14	14	*(65.1)*	*(0.7)*
Other Income	43	54	24	36	45	*3.0*	*23.9*
PBT	**172**	**227**	**204**	**221**	**249**	***44.9***	***12.9***
Tax	53	65	69	87	86	*60.7*	*(1.7)*
PAT	**119**	**163**	**135**	**134**	**164**	***37.9***	***22.4***
Cash PAT (PAT+Dep)	184	229	202	201	231	*25.7*	*15.2*

As % of revenue	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	chg YoY (bps)	chg QoQ (bps)
License fees	7.1	7.0	7.0	6.9	6.3	*(73)*	*(61)*
Employee cost	23.1	22.5	23.8	22.3	19.2	*(389)*	*(312)*
Other expenses	39.2	34.5	34.8	37.6	41.6	*236*	*400*
Total Opex	**69.4**	**64.0**	**65.6**	**66.9**	**67.1**	***(225)***	***28***
EBITDA	**30.6**	**36.0**	**34.4**	**33.1**	**32.9**	***225***	***(28)***
Depreciation	8.6	8.8	8.9	8.4	7.8	*(80)*	*(59)*
Finance costs	5.1	4.4	1.8	1.7	1.6	*(357)*	*(15)*
Other Income	5.7	7.1	3.2	4.5	5.1	*(56)*	*63*
PBT	**22.6**	**29.9**	**26.9**	**27.6**	**28.6**	***607***	***110***
Tax	7.0	8.5	9.1	10.9	9.8	*284*	*(103)*
PAT	**15.6**	**21.4**	**17.8**	**16.7**	**18.8**	***323***	***213***
Tax as % of PBT	*30.9*	*28.4*	*33.7*	*39.4*	*34.3*	*337*	*(511)*

Source: Company, HDFC sec Inst Research

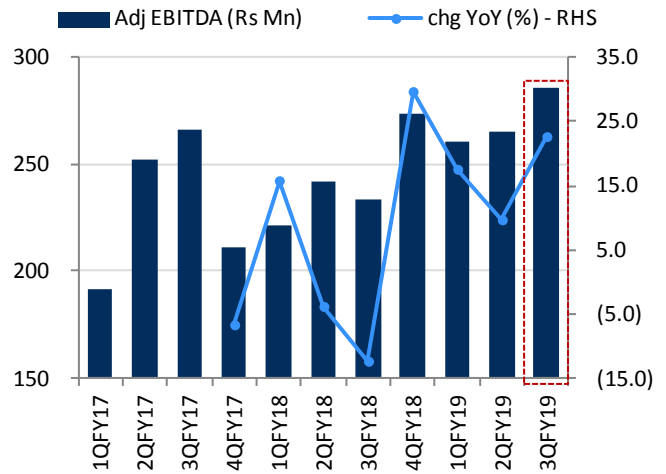
Revenue growth was driven by festive advertising and sectors like government, e-com and auto

Revenue trend



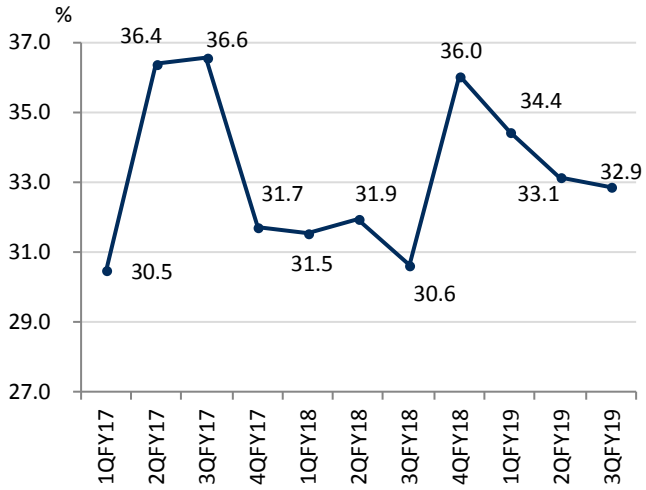
Source: Company, HDFC sec Inst Research

EBITDA trend



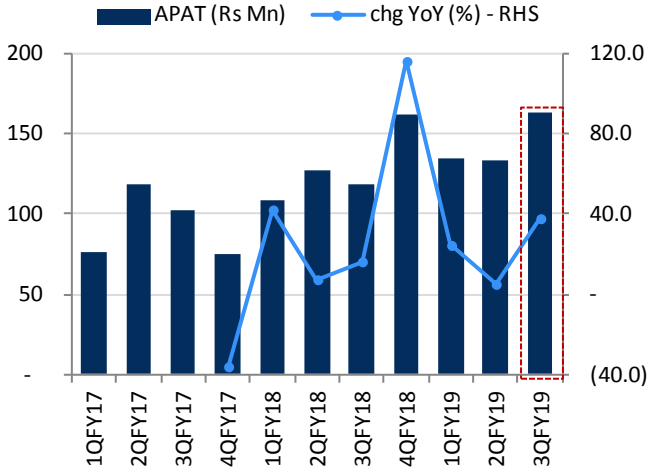
Source: Company, HDFC sec Inst Research

EBITDA margin trend



Source: Company, HDFC sec Inst Research

APAT trend



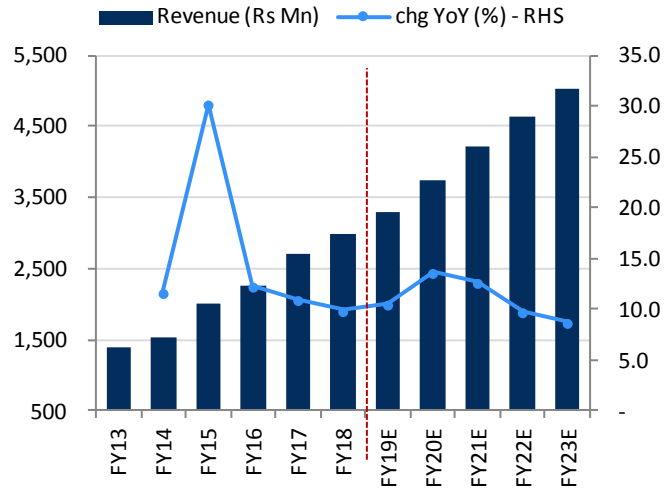
Source: Company, HDFC sec Inst Research

MBL's revenue to grow at 11% CAGR over FY18-23 led by 50:50 blends of price increase and utilization

EBITDA margin to improve from 32-33% to 35-38% led by higher utilization and improved pricing

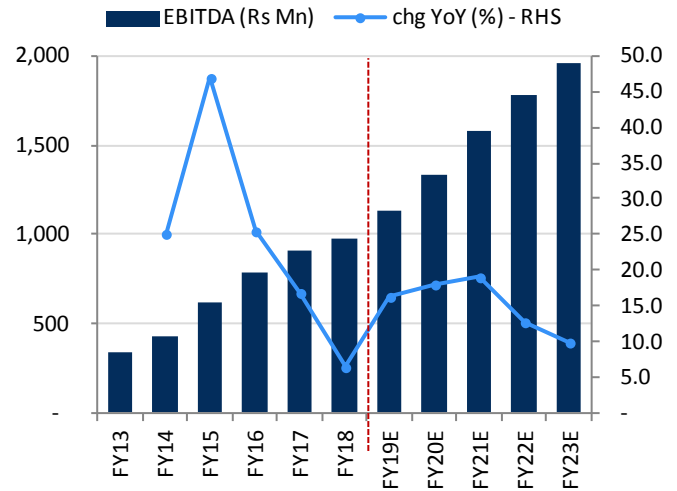
MBL's FCF generation is set to triple from current Rs 0.4-0.5bn p.a. in FY18 to Rs 1.2-1.3bn in FY23E

Revenue trend



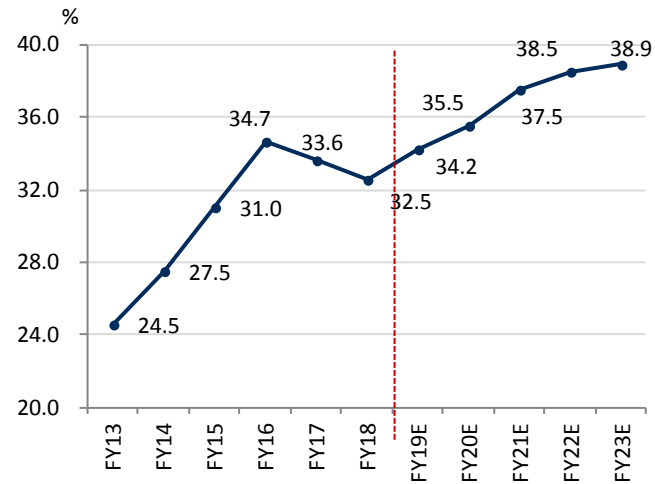
Source: Company, HDFC sec Inst Research

EBITDA trend



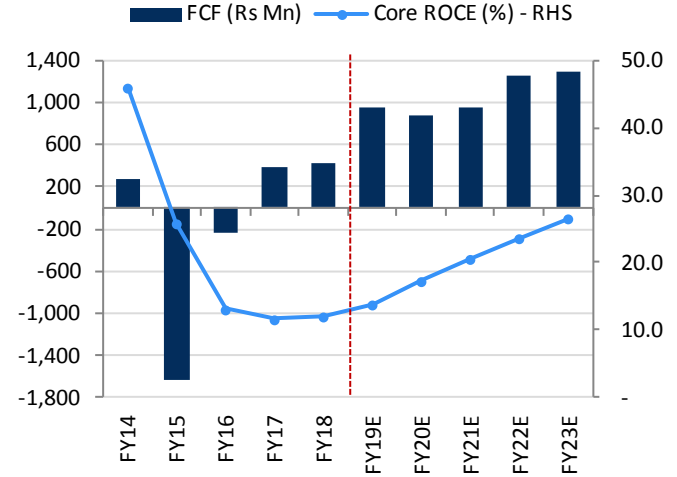
Source: Company, HDFC sec Inst Research

EBITDA margin trend



Source: Company, HDFC sec Inst Research

FCF and Core ROCE



Source: Company, HDFC sec Inst Research

Increase in one station in FY19 is owing to acquisition of Ananda Offset Kolkata station 'Friends FM'

~30% of the incremental revenue to be contributed by 11 new stations. Share of 11 stations to increase from 6% in FY18 to ~17% in FY23E

Increasing utilization levels of 11 new stations launched in 2HFY17 and price increase in major markets to drive growth

Key Operating assumptions

	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
No of stations						
- established	28	29	29	29	29	29
- Phase 3, Batch 1	11	11	11	11	11	11
Total	**39**	**40**	**40**	**40**	**40**	**40**
Inventory Available (mn 10 sec slots)*						
- established	16.6	16.6	16.9	17.2	17.2	17.2
- Batch 1, phase 3	6.6	6.6	6.6	6.6	6.6	6.6
Total	**23.2**	**23.2**	**23.5**	**23.8**	**23.8**	**23.8**
Inventory Sold (mn 10 sec slots)*						
- established	11.6	11.8	12.3	12.7	12.9	12.9
- Batch 1, phase 3	2.0	3.0	3.7	4.3	4.7	5.0
Total	**13.7**	**14.8**	**16.0**	**17.0**	**17.6**	**17.9**
Inventory Sold (% chg YoY)						
- established		1.7	4.4	3.2	1.0	0.5
- Batch 1, phase 3		46.4	23.0	15.6	10.4	6.6
Total		**8.4**	**8.1**	**6.1**	**3.4**	**2.1**
Utilization %						
- established	70.0	71.2	73.0	74.1	74.8	75.2
- Batch 1, phase 3	31.3	45.8	56.3	65.0	71.8	76.5
Average	**59.0**	**64.0**	**68.3**	**71.6**	**74.0**	**75.5**
Realization/slot/station						
- established	239	251	265	283	303	324
- Batch 1, phase 3	97	114	131	144	157	169
Average	**218**	**222**	**234**	**248**	**264**	**281**
Realization/slot/station (% chg YoY)						
- established		4.8	5.5	7.0	7.0	7.0
- Batch 1, phase 3		17.3	14.9	10.6	8.4	7.8
Total		**2.0**	**5.1**	**6.2**	**6.2**	**6.4**
Revenue (Rs Mn)						
- established	2,784	2,955	3,264	3,604	3,895	4,188
- Batch 1, phase 3	199	341	482	616	737	848
Total	**2,982**	**3,296**	**3,746**	**4,220**	**4,632**	**5,036**
Revenue (% chg YoY)						
- established		6.2	10.4	10.4	8.1	7.5
- Batch 1, phase 3		71.7	41.2	27.8	19.7	15.0
Total		**10.5**	**13.6**	**12.7**	**9.8**	**8.7**

Source: HDFC Sec Inst Research * MBL calculates inventory at 15min/hour for 18 hours a day

Reduction in estimates for FY19/20 is led by shift of Kolkata radio acquisition to 3QFY20 vs 4QFY19 earlier

Re-rating of radio companies multiple is dependent on sustained revenue growth

Change in estimates

	New			Old			Change in % / bps		
	FY19	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**	***FY19***	***FY20***	***FY21***
Revenue (Rs Mn)	3,296	3,746	4,220	3,318	3,801	4,220	*(0.7)*	*(1.4)*	-
EBITDA (Rs Mn)	1,128	1,331	1,584	1,148	1,373	1,571	*(1.7)*	*(3.1)*	*0.8*
EBITDA Margin (%)	*34.2*	*35.5*	*37.5*	*34.6*	*36.1*	*37.2*	*-37 bps*	*-59 bps*	*30 bps*
PAT (Rs Mn)	614	764	934	624	781	925	*(1.7)*	*(2.2)*	*1.0*
EPS (Rs)	10.8	13.4	16.4	10.9	13.7	16.2	*(1.7)*	*(2.2)*	*1.0*

Source: HDFC Sec Inst Research

Valuation Snapshot: ENIL and MBL

	FY18E	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**
ENIL*						
FCFE (Rs Mn)	732	791	1,226	1,408	1,802	2,073
Target Multiple (x)	25	25	25	25	25	25
Implied Mcap (Rs Mn)	18,299	19,769	30,659	35,191	45,059	51,830
Implied TP (Rs)	**384**	**415**	**643**	**738**	**945**	**1,087**
Upside to CMP (%)	**(32.5)**	**(27.1)**	**13.1**	**29.8**	**66.3**	**91.2**
MBL						
FCFE (Rs Mn)**	272	1,158	832	913	1,224	1,274
Target Multiple (x)	25	25	25	25	25	25
Implied Mcap (Rs Mn)	6,802	28,956	20,792	22,830	30,594	31,839
Implied TP (Rs)	**119**	**521**	**374**	**411**	**551**	**573**
Upside to CMP (%)	**(58.5)**	**81.3**	**30.2**	**42.9**	**91.5**	**99.3**

Source: HDFC Sec Inst Research

* We have added back Rs 1.7bn in FCF of ENIL to be paid towards acquisition of Ishq FM stations and Rs 250mn in MBL for acquisition of Kolkata station of Anand Offset in FY20E

** MBL's FY18 FCF is subdued owing to Rs 390mn increase in working capital on acocunt of receivables as also decline in Payables

Peer Set Comparison

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Zee Ent	362.5	377	BUY	512	12.3	16.8	18.7	21.1	30.6	22.5	20.2	17.9	16.8	13.0	11.5	9.9	16.6	19.7	18.9	18.6
Dish TV	41.7	22	BUY	50	(0.0)	0.5	1.0	1.4	Nmf	43.0	21.5	15.7	4.6	2.8	2.4	2.0	(0.0)	1.4	2.8	3.8
ENIL	27.1	569	BUY	714	6.6	10.7	14.7	17.5	86.4	53.1	38.7	32.5	22.7	19.1	13.4	11.6	3.6	5.6	7.3	8.3
MBL	**16.4**	**288**	**BUY**	**402**	**9.1**	**10.8**	**13.2**	**16.4**	**31.7**	**26.7**	**21.8**	**17.6**	**14.9**	**13.1**	**10.8**	**8.8**	**9.0**	**10.4**	**12.6**	**14.7**

Source: HDFC Sec Inst Research *nmf = not meaningful

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
Net Sales	**2,714**	**2,982**	**3,296**	**3,746**	**4,220**
Growth (%)	***20.4***	***9.9***	***10.5***	***13.6***	***12.7***
Program & Loyalty exp	228	254	264	281	316
License fee	192	213	220	236	256
Employee cost	651	689	710	787	850
Mktg exps	240	268	264	281	316
Other exps	491	588	710	830	898
Total Operating Cost	1,802	2,012	2,168	2,415	2,636
EBIDTA	**913**	**971**	**1,128**	**1,331**	**1,584**
EBIDTA (%)	***33.6***	***32.5***	***34.2***	***35.5***	***37.5***
EBIDTA Growth (%)	***16.8***	***6.4***	***16.2***	***18.0***	***19.0***
Depreciation	197	263	270	280	291
EBIT	**716**	**708**	**858**	**1,051**	**1,292**
Interest	190	150	54	40	32
Other Income	44	194	140	129	134
PBT	**570**	**752**	**944**	**1,140**	**1,394**
Tax	203	235	330	376	460
EO loss/(gain)	-	-	-	-	-
RPAT	**367**	**517**	**614**	**764**	**934**
APAT	**367**	**517**	**614**	**764**	**934**
APAT Growth (%)	***(11.0)***	***41.1***	***18.7***	***24.5***	***22.3***
AEPS	**6.4**	**9.1**	**10.8**	**13.4**	**16.4**
EPS Growth (%)	***(34.4)***	***41.1***	***18.7***	***24.5***	***22.3***

Source: Company, HDFC sec Inst Research

* 4QFY16 included acquisition of eight radio mantra stations from Jagran group company. Thus YoY growth is not comparable (adjusted revenue grew by 12% YoY)

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	571	571	556	556	556
Reserves	4,911	5,428	5,250	5,636	6,005
Total Shareholders Funds	**5,481**	**5,999**	**5,806**	**6,192**	**6,561**
Long Term Debt	499	499	399	319	256
Short Term Debt	1,010	-	-	-	-
Total Debt	**1,509**	**499**	**399**	**319**	**256**
Other Non current liabilities	54	36	55	61	63
TOTAL SOURCES OF FUNDS	**7,044**	**6,534**	**6,260**	**6,572**	**6,880**
APPLICATION OF FUNDS					
Net Block	3,116	2,969	2,809	2,899	2,719
Other Non current assets	381	266	417	445	470
Non Current Assets	**3,497**	**3,235**	**3,226**	**3,343**	**3,189**
Trade Receivables	817	1,104	1,109	1,233	1,457
Other Current Assets	229	219	274	301	333
Current Assets	**1,046**	**1,323**	**1,383**	**1,534**	**1,790**
Trade Payables	329	223	324	367	381
Other Current Liabilities	239	230	324	328	370
Current Liabilities	**567**	**452**	**647**	**695**	**751**
Net current Assets	**479**	**871**	**736**	**838**	**1,040**
Cash & Equivalents	3,068	2,428	2,299	2,390	2,651
TOTAL APPLICATION OF FUNDS	**7,044**	**6,534**	**6,260**	**6,572**	**6,880**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY17*	FY18	FY19E	FY20E	FY21E
PAT from Operations	367	517	614	764	934
Interest	190	150	54	40	32
Depreciation	197	263	270	280	291
Working Capital Change	(24)	(392)	134	(102)	(201)
OPERATING CASH FLOW (a)	**729**	**538**	**1,072**	**981**	**1,056**
Capex	(352)	(116)	(110)	(110)	(111)
Free Cash Flow	**377**	**422**	**962**	**872**	**945**
Investments & Others	160	97	(132)	(282)	(23)
INVESTING CASH FLOW (b)	**(192)**	**(19)**	**(242)**	**(392)**	**(134)**
Capital Issuance	150	-	(15)	-	-
Debt Issuance	(1,559)	(1,010)	(100)	(80)	(64)
Interest	(190)	(150)	(54)	(40)	(32)
Dividend	-	-	(236)	(378)	(565)
Others	3,691	0	(555)	(0)	(0)
FINANCING CASH FLOW (c)	**2,092**	**(1,159)**	**(960)**	**(498)**	**(661)**
NET CASH FLOW (a+b+c)	**2,629**	**(640)**	**(129)**	**92**	**261**
Closing Cash	**3,068**	**2,428**	**2,299**	**2,390**	**2,651**

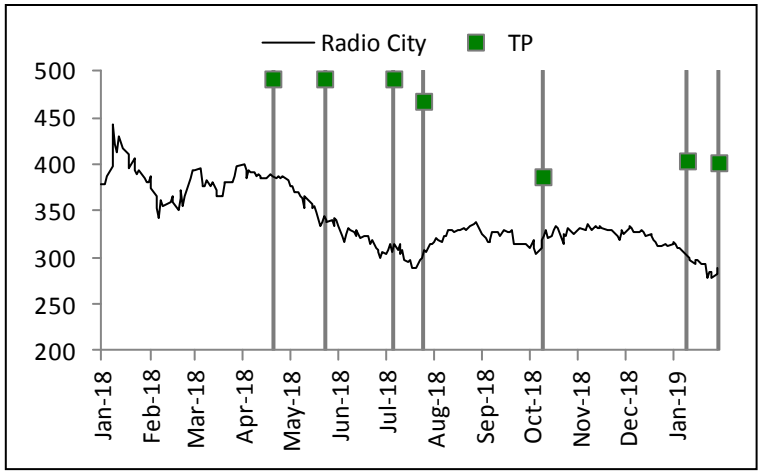
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17*	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	91.6	91.5	92.0	92.5	92.5
EBITDA Margin	33.6	32.5	34.2	35.5	37.5
EBIT Margin	26.4	23.7	26.0	28.1	30.6
APAT Margin	13.5	17.3	18.6	20.4	22.1
RoE	10.9	9.0	10.4	12.7	14.6
Core ROCE	11.6	12.0	13.8	17.3	20.6
RoCE	8.1	7.2	8.7	11.0	12.9
EFFICIENCY					
Tax Rate (%)	35.7	31.2	35.0	33.0	33.0
Asset Turnover (x)	0.9	1.0	1.2	1.3	1.6
Debtors (days)	110	135	123	120	126
Payables (days)	44	27	36	36	33
Cash Conversion Cycle (days)	64	107	82	82	90
Debt/EBITDA (x)	(1.7)	(2.0)	(1.7)	(1.6)	(1.5)
Net D/E	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Interest Coverage	3.8	4.7	16.0	26.3	40.5
PER SHARE DATA					
EPS (Rs/sh)	6.4	9.1	10.8	13.4	16.4
CEPS (Rs/sh)	1.0	1.4	1.6	1.9	2.2
DPS (Rs/sh)	-	-	3.8	6.0	9.0
BV (Rs/sh)	96.1	105.1	104.5	111.5	118.1
VALUATION					
P/E	44.7	31.7	26.7	21.5	17.6
P/BV	3.0	2.7	2.8	2.6	2.4
EV/EBITDA	16.3	14.9	12.9	10.8	8.8
OCF/EV (%)	4.9	3.7	7.4	6.8	7.5
FCF/EV (%)	2.5	2.9	6.6	6.1	6.7
FCFE/Mcap (%)	1.2	1.7	5.7	5.2	5.7
EV/Revenues	5.5	4.9	4.4	3.8	3.3
Dividend Yield (%)	-	-	1.3	2.1	3.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-Apr-18	388	BUY	492
23-May-18	337	BUY	492
6-Jul-18	312	BUY	492
25-Jul-18	308	BUY	468
9-Oct-18	310	BUY	387
9-Jan-19	303	BUY	404
29-Jan-19	288	BUY	402

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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