Entertainment Network (India) (ENIL IN)

Rating: HOLD | CMP: Rs384 | TP: Rs483

August 7, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		ACCUMULATE	
Target Price	483		645	
Sales (Rs. m)	6,846	7,682	6,967	7,890
% Chng.	*(1.7)*	*(2.6)*		
EBITDA (Rs. m)	1,996	2,305	1,749	1,980
% Chng.	*14.1*	*16.4*		
EPS (Rs.)	13.4	17.5	16.1	18.8
% Chng.	*(16.7)*	*(7.0)*		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	5,371	6,205	6,846	7,682
EBITDA (Rs. m)	1,166	1,398	1,996	2,305
Margin (%)	*21.7*	*22.5*	*29.2*	*30.0*
PAT (Rs. m)	352	539	637	833
EPS (Rs.)	7.4	11.3	13.4	17.5
Gr. (%)	*(35.5)*	*53.4*	*18.2*	*30.7*
DPS (Rs.)	1.0	1.0	1.0	1.5
Yield (%)	*0.3*	*0.3*	*0.3*	*0.4*
RoE (%)	*4.0*	*5.8*	*6.4*	*7.8*
RoCE (%)	*5.4*	*7.8*	*10.3*	*12.2*
EV/Sales (x)	3.3	2.7	2.2	1.8
EV/EBITDA (x)	15.1	12.0	7.6	6.0
PE (x)	52.0	33.9	28.7	21.9
P/BV (x)	2.1	2.0	1.8	1.7

Key Data

Key Data	ENIL.BO | ENIL IN
52-W High / Low	Rs.755 / Rs.360
Sensex / Nifty	36,691 / 10,856
Market Cap	Rs.18bn/ $ 258m
Shares Outstanding	48m
3M Avg. Daily Value	Rs.8.56m

Shareholding Pattern (%)

Promoter's	71.15
Foreign	8.76
Domestic Institution	12.75
Public & Others	7.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.7)	(30.0)	(48.2)
Relative	(2.7)	(29.5)	(46.8)

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Non-FCT business drives growth

Quick Pointers:

- Radio business was flat while non-FCT (solutions) business reported 42% YoY growth in 1QFY20.
- Batch 1 stations reported revenues of Rs191mn with EBITDA margin of 13.1%. Batch 2 stations reported revenues of Rs41mn with EBITDA margin of 11.6%.
- Non-FCT business contributed ~28% to the revenue with GM of 39%.

We cut our PAT estimates by 17%/7% for FY20/FY21 respectively due to weak advertising environment and Ind-AS transition (PAT impact of Rs16mn in 1QY20). While traditional radio business is under pressure, increasing share of fast growing non-FCT (~42% YoY growth in 1QFY20) business will enable ENIL to register double digit top-line growth over the next 2 years. While we have always been apprehensive of non-FCT's margin dilutive/volatile nature sequential performance over the last few quarters is noteworthy. Additionally, low capex and minimal working capital needs give us comfort as risk of capital misallocation is minimal if the venture fails to deliver in the long term. We believe non-FCT in this environment acts as a perfect hedge. However, given the decline in advertising volumes (pressure in the top 12-15 markets is higher) and bleak outlook we cut our target EV/EBITDA multiple to 9.5x (15.5x earlier; not directly comparable as EBITDA estimates have increased due to lease rental capitalization) and arrive at per share value of Rs464 per share. Our DCF enabled per share value stands at Rs502 per share. We arrive at blended TP (50% weight to each methodology) of Rs483 (Rs645 earlier) per share and downgrade the stock to a HOLD (Accumulate earlier).

Radio business was flat, non-FCT drives growth: ENIL's topline increased 8.2% YoY to Rs1,316mn (PLe of Rs1,335mn) due to 42% YoY growth in the non-FCT business. Radio business reported flattish growth. Inventory utilization of 35 phase 2, 17 batch 1 and 21 batch 2 stations was at ~80%, ~33% and ~16% respectively in 1QFY20.

Ind-AS adjusted EBITDA margin declines: EBITDA increased 16.5% YoY to Rs330mn. However, Ind-AS adjusted EBITDA declined 13.8%YoY to Rs244mn (PLe of Rs318mn) amid strong growth in non-FCT business which has lower margin trajectory. Ind-AS adjusted EBITDA margin declined 470bps YoY to 18.6%.

Con-call highlights: 1) Legacy/batch 1 stations reported pricing growth of 0.7%/5% respectively. 2) Radio/Non-FCT business reported EBITDA margin (Ind-AS adjusted) of 19%/~18.5-19% respectively. 3) As per latest IRS data, weekly/monthly listenership of Mirchi is 32mn/45mn respectively. 4) Car listenership in radio is ~28% 5) 35 legacy stations reported EBITDA margin of ~32% 6) Cash distribution policy will be revisited if the TV Today acquisition does not culminate in 3-6 months. 7) Maintenance capex will be in the region of Rs100mn 8) OCF for FY20 should be upwards of Rs1bn. 9) Right to use asset & lease liability capitalization amid Ind AS transition is Rs2bn/2.3bn respectively. 10) Digital business is expected to achieve topline of Rs750mn in next few years.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
Net Sales	**1,316**	**1,216**	***8.2%***	**1,755**	***-25.0%***
Employee expenses	355	331	*7.3%*	245	*45.2%*
As a % of sales	*27.0%*	*27.2%*		*13.9%*	
Programming & royalty expenses	287	204	*41.2%*	602	*-52.2%*
As a % of sales	*21.9%*	*16.7%*		*34.3%*	
License fees	89	84	*6.6%*	96	*-7.1%*
As a % of sales	*6.8%*	*6.9%*		*5.5%*	
Other expenses	253	314	*-19.3%*	374	*-32.3%*
As a % of sales	*19.3%*	*25.8%*		*21.3%*	
Expenditure	985	932	*5.7%*	1,317	*-25.2%*
EBITDA	**330**	**284**	***16.5%***	**438**	***-24.5%***
EBITDA Margin	*25.1%*	*23.3%*		*24.9%*	
Depreciation	241	152	*58.4%*	180	*33.8%*
EBIT	**90**	**132**	***-31.8%***	**258**	***-65.1%***
EBIT Margin	*6.8%*	*10.8%*		*14.7%*	
Interest	46	9	*402.9%*	4	*957.6%*
Other income	31	28	*12.8%*	47	*-33.8%*
Exceptional items	-	-	*NM*	-	*NM*
PBT	**74**	**150**	***-50.4%***	**300**	***-75.2%***
Tax	26	58	*-54.8%*	102	*-74.4%*
Tax Rate	*35.1%*	*38.5%*		*34.0%*	
Other comprehensive income	(1.2)	0.1	*NM*	(0.5)	*NM*
PAT	**47.1**	**92.3**	***-48.9%***	**197.5**	***-76.1%***
PAT Margin	*3.6%*	*7.6%*		*11.3%*	
EPS (Rs)	**1.0**	**1.9**	***-47.5%***	**4.2**	***-75.6%***

Source: Company, PL

Exhibit 2: Revenue assumption of 35 legacy stations

Particulars	FY19	FY20E	FY21E	FY22E	FY23E
Inventory available (mn sec) in slots - Each slot is for 10 sec	16.9	16.9	16.9	16.9	16.9
Utilization level	*85%*	*86%*	*87%*	*88%*	*90%*
Inventory sold (mn sec) in slots	14.4	14.6	14.7	14.9	15.2
YoY growth	*7.0%*	*0.8%*	*1.2%*	*1.1%*	*2.3%*
Realization per slot per station (Rs)	349	368	390	410	432
YoY growth	*6.4%*	*5.5%*	*5.8%*	*5.3%*	*5.4%*
Total revenues (Rs mn)	**5,200.0**	**5,365.1**	**5,742.3**	**6,116.1**	**6,592.9**

Source: Company, PL

Exhibit 3: Revenue assumptions for 17 batch 1 stations

Particulars	FY19	FY20E	FY21E	FY22E	FY23E
Inventory available (mn sec) in slots - Each slot is for 10 sec	8.2	8.2	8.2	8.2	8.2
Utilization level	*35%*	*40%*	*45%*	*50%*	*55%*
Inventory sold (mn sec) in slots	2.9	3.3	3.7	4.1	4.5
YoY growth	*48.8%*	*14.3%*	*12.5%*	*11.1%*	*10.0%*
Realization per slot per station (Rs)	333	341	353	368	384
YoY growth	*-3.2%*	*2.5%*	*3.5%*	*4.2%*	*4.5%*
Total revenues (Rs mn)	**958.1**	**1,122.3**	**1,306.8**	**1,513.0**	**1,739.2**

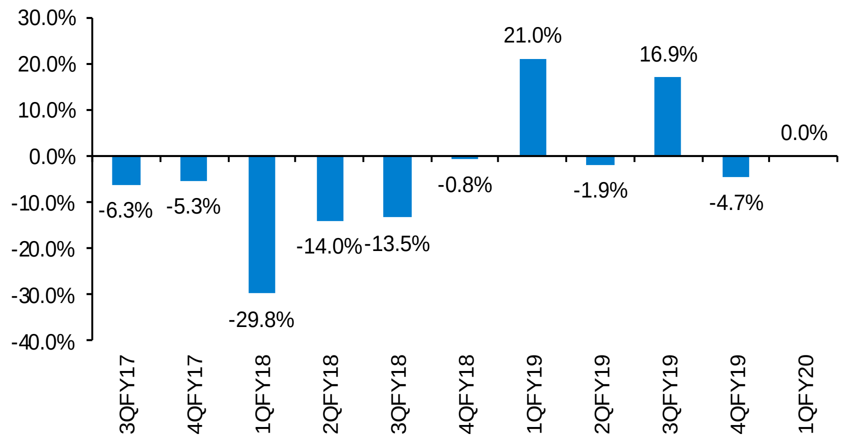
Source: Company, PL

Exhibit 4: Revenue assumptions for 21 batch 2 stations

Particulars	FY19	FY20E	FY21E	FY22E	FY23E
Inventory available (mn sec) in slots - Each slot is for 10 sec	7.6	10.2	10.2	10.2	10.2
Utilization level	*11%*	*20%*	*30%*	*40%*	*55%*
Inventory sold (mn sec) in slots	0.8	2.0	3.0	4.1	5.6
YoY growth	*NA*	*142.4%*	*50.0%*	*33.3%*	*37.5%*
Realization per slot per station	57.2	59.8	62.3	64.8	67.3
YoY growth	*NA*	*4.5%*	*4.2%*	*4.0%*	*3.8%*
Total revenues	**48.0**	**121.6**	**190.1**	**263.6**	**376.2**

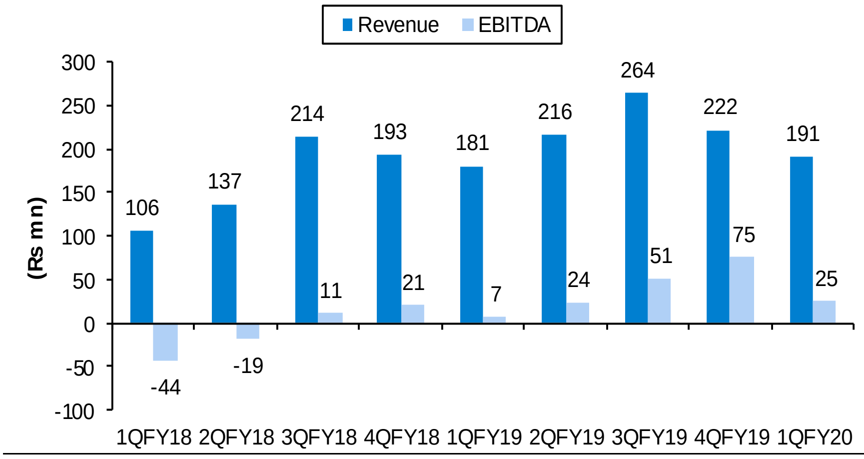
Source: Company, PL

Exhibit 5: Volume growth trend of 35 legacy stations



Source: Company, PL

Exhibit 6: Revenue & EBITDA trend of batch 1 stations



Source: Company, PL

Exhibit 7: Weighted average valuation

Particulars (Rs)	Weight assigned	Target price	Weighted average target price
EV/EBITDA approach	50%	464	232
DCF approach	50%	502	251
Weighted average target price			**483**

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	**5,371**	**6,205**	**6,846**	**7,682**
YoY gr. (%)	*(3.4)*	*15.5*	*10.3*	*12.2*
Cost of Goods Sold	-	-	-	-
Gross Profit	-	-	-	-
Margin (%)	-	-	-	-
Employee Cost	1,185	1,262	1,369	1,521
Other Expenses	3,019	3,545	3,481	3,857
EBITDA	**1,166**	**1,398**	**1,996**	**2,305**
YoY gr. (%)	*(7.4)*	*19.9*	*42.7*	*15.5*
Margin (%)	*21.7*	*22.5*	*29.2*	*30.0*
Depreciation and Amortization	635	671	978	1,000
EBIT	**531**	**727**	**1,017**	**1,305**
Margin (%)	*9.9*	*11.7*	*14.9*	*17.0*
Net Interest	47	40	181	188
Other Income	88	149	130	146
Profit Before Tax	**615**	**837**	**966**	**1,263**
Margin (%)	*11.4*	*13.5*	*14.1*	*16.4*
Total Tax	263	297	328	429
Effective tax rate (%)	*42.8*	*35.6*	*34.0*	*34.0*
Profit after tax	**352**	**539**	**637**	**833**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**352**	**539**	**637**	**833**
YoY gr. (%)	*(35.5)*	*53.4*	*18.2*	*30.7*
Margin (%)	*6.5*	*8.7*	*9.3*	*10.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**352**	**539**	**637**	**833**
YoY gr. (%)	*(35.5)*	*53.4*	*18.2*	*30.7*
Margin (%)	*6.5*	*8.7*	*9.3*	*10.8*
Other Comprehensive Income	2	(2)	-	-
Total Comprehensive Income	353	537	637	833
Equity Shares O/s (m)	**48**	**48**	**48**	**48**
EPS (Rs)	**7.4**	**11.3**	**13.4**	**17.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	**8,246**	**9,086**	**11,226**	**11,518**
Tangibles	950	1,348	3,468	3,737
Intangibles	7,295	7,738	7,758	7,781
Acc: Dep / Amortization	**1,507**	**2,162**	**3,141**	**4,141**
Tangibles	364	521	969	1,415
Intangibles	1,143	1,642	2,172	2,726
Net fixed assets	**6,738**	**6,923**	**8,085**	**7,377**
Tangibles	586	827	2,499	2,322
Intangibles	6,152	6,096	5,586	5,055
Capital Work In Progress	626	220	-	-
Goodwill	5	5	5	5
Non-Current Investments	293	337	345	367
Net Deferred tax assets	(246)	(346)	(290)	(379)
Other Non-Current Assets	221	98	219	238
Current Assets				
Investments	1,553	1,352	1,352	1,352
Inventories	-	-	-	-
Trade receivables	1,702	2,002	2,251	2,631
Cash & Bank Balance	180	214	1,700	2,995
Other Current Assets	211	244	226	246
Total Assets	**11,552**	**11,423**	**14,213**	**15,241**
Equity				
Equity Share Capital	477	477	477	477
Other Equity	8,366	8,846	9,435	10,197
Total Networth	**8,843**	**9,322**	**9,912**	**10,674**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	92	101	103	113
Current Liabilities				
ST Debt / Current of LT Debt	1,040	-	-	-
Trade payables	1,049	1,263	1,196	1,311
Other current liabilities	284	390	432	485
Total Equity & Liabilities	**11,552**	**11,423**	**14,213**	**15,241**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	615	837	966	1,263
Add. Depreciation	635	671	978	1,000
Add. Interest	47	40	181	188
Less Financial Other Income	88	149	130	146
Add. Other	(117)	(112)	(54)	101
Op. profit before WC changes	1,180	1,436	2,072	2,552
Net Changes-WC	(52)	(33)	(379)	(254)
Direct tax	(150)	(199)	(328)	(429)
Net cash from Op. activities	**977**	**1,204**	**1,364**	**1,869**
Capital expenditures	(255)	(290)	(2,141)	(292)
Interest / Dividend Income	-	-	-	-
Others	(396)	279	220	-
Net Cash from Invt. activities	**(651)**	**(11)**	**(1,921)**	**(292)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(57)	(57)	(48)	(72)
Interest paid	(1)	(1)	(181)	(188)
Others	(274)	(1,100)	2,271	(22)
Net cash from Fin. activities	**(333)**	**(1,158)**	**2,042**	**(281)**
Net change in cash	**(6)**	**35**	**1,485**	**1,295**
Free Cash Flow	617	826	(748)	1,337

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	7.4	11.3	13.4	17.5
CEPS	20.7	25.4	33.9	38.5
BVPS	185.5	195.6	207.9	223.9
FCF	12.9	17.3	(15.7)	28.0
DPS	1.0	1.0	1.0	1.5
Return Ratio(%)				
RoCE	5.4	7.8	10.3	12.2
ROIC	10.1	12.2	14.0	15.1
RoE	4.0	5.8	6.4	7.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	44	43	56	63
Valuation(x)				
PER	52.0	33.9	28.7	21.9
P/B	2.1	2.0	1.8	1.7
P/CEPS	18.5	15.1	11.3	10.0
EV/EBITDA	15.1	12.0	7.6	6.0
EV/Sales	3.3	2.7	2.2	1.8
Dividend Yield (%)	0.3	0.3	0.3	0.4

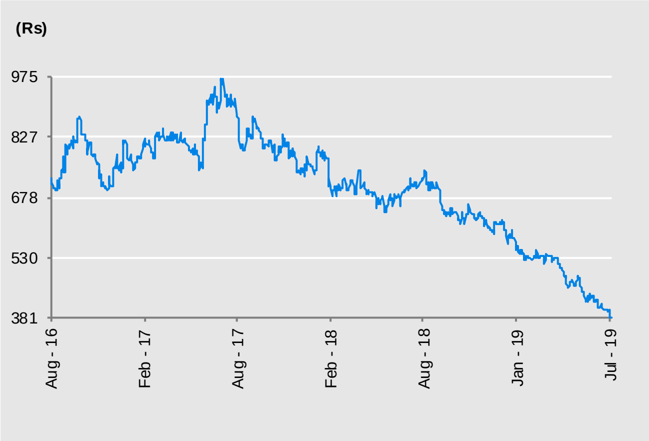
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	**1,225**	**2,009**	**1,755**	**1,316**
YoY gr. (%)	*(2.2)*	*35.9*	*10.1*	*8.2*
Raw Material Expenses	-	-	-	-
Gross Profit	-	-	-	-
Margin (%)	-	-	-	-
EBITDA	**273**	**404**	**438**	**330**
YoY gr. (%)	*(3.9)*	*13.5*	*23.6*	*16.5*
Margin (%)	*22.3*	*20.1*	*24.9*	*25.1*
Depreciation / Depletion	166	174	180	241
EBIT	**108**	**230**	**258**	**90**
Margin (%)	*8.8*	*11.5*	*14.7*	*6.8*
Net Interest	11	15	4	46
Other Income	33	42	47	31
Profit before Tax	**130**	**257**	**300**	**74**
Margin (%)	*10.6*	*12.8*	*17.1*	*5.7*
Total Tax	40	97	102	26
Effective tax rate (%)	*31.1*	*37.8*	*34.0*	*35.1*
Profit after Tax	**89**	**160**	**198**	**48**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**89**	**160**	**198**	**48**
YoY gr. (%)	*50.2*	*22.2*	*69.2*	*(47.6)*
Margin (%)	*7.3*	*7.9*	*11.3*	*3.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**89**	**160**	**198**	**48**
YoY gr. (%)	*50.2*	*22.2*	*69.2*	*(47.6)*
Margin (%)	*7.3*	*7.9*	*11.3*	*3.7*
Other Comprehensive Income	-	(2)	-	(1)
Total Comprehensive Income	**90**	**158**	**198**	**47**
Avg. Shares O/s (m)	48	48	48	48
EPS (Rs)	**1.9**	**3.3**	**4.2**	**1.0**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	645	424
2	31-May-19	Accumulate	645	478
3	3-May-19	Accumulate	662	495
4	16-Apr-19	Accumulate	662	526
5	5-Apr-19	BUY	776	534
6	7-Feb-19	BUY	776	548
7	7-Jan-19	BUY	832	620
8	5-Nov-18	BUY	836	635
9	5-Oct-18	BUY	843	640
10	11-Sep-18	BUY	843	645

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	645	424
3	Music Broadcast	Hold	58	46
4	Navneet Education	BUY	142	108
5	S Chand and Company	Hold	125	85
6	V.I.P. Industries	BUY	488	386
7	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

ANALYST CERTIFICATION

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