

Music Broadcast (RADIOCIT IN)

Rating: HOLD | CMP: Rs27 | TP: Rs39

January 28, 2020

Q3FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	39		39	
Sales (Rs. m)	3,003	3,362	3,017	3,279
% Chng.	(0.5)	2.5		
EBITDA (Rs. m)	1,006	1,150	1,011	1,121
% Chng.	(0.5)	2.5		
EPS (Rs.)	1.9	2.4	1.9	2.2
% Chng.	0.1	5.3		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	3,247	2,663	3,003	3,362
EBITDA (Rs. m)	1,132	815	1,006	1,150
Margin (%)	34.9	30.6	33.5	34.2
PAT (Rs. m)	616	454	537	655
EPS (Rs.)	2.2	1.6	1.9	2.4
Gr. (%)	(75.4)	(26.3)	18.3	21.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	10.2	7.0	7.7	8.5
RoCE (%)	13.9	6.9	8.9	10.3
EV/Sales (x)	1.6	1.7	1.4	1.0
EV/EBITDA (x)	4.5	5.6	4.1	2.9
PE (x)	12.1	16.5	13.9	11.4
P/BV (x)	1.2	1.2	1.1	1.0

Key Data

MUSI.BO | RADIOCIT IN

52-W High / Low	Rs.66 / Rs.26
Sensex / Nifty	40,967 / 12,056
Market Cap	Rs.7bn / \$ 105m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.5.52m

Shareholding Pattern (%)

Promoter's	73.94
Foreign	0.83
Domestic Institution	15.57
Public & Others	9.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.9)	(47.4)	(52.2)
Relative	(2.5)	(51.3)	(58.4)

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Weak government spends a cause of concern

Quick Pointers

- Inventory utilization in legacy and phase III stations stood at ~55% and ~38% respectively. Government contribution was 7%.
- If the RBNL acquisition does not go through by March it will be re-evaluated.
- Board recommends bonus issue in the ratio of 1:4

We keep our estimates broadly unchanged (results were in-line with our estimates) as national advertisers continue to remain apprehensive due to weak macro-economic environment and government, the largest category, is continuing to witness unprecedented cut/delay in ad spends with no signs of revival at least in the near term. In the top 15 markets, all categories except for auto have reported a de-growth in ad volumes during 9MFY20. Given aggravating growth concerns we now expect sales & PAT to grow at a CAGR of 1.2% and 2.1% over FY19-22E. We maintain our target EV/EBITDA multiple to 7.5x and arrive at per share value of Rs39 per share. Our DCF enabled per share value now stands at Rs40. We arrive at blended TP (50% weight to each methodology) of Rs39 per share. Maintain HOLD.

Topline falters as ad volumes succumb amid slowdown blues: MBL's topline declined 20% YoY to Rs696mn (PL of Rs670mn) due to ~50-55% YoY fall in government revenue (contributed ~7% to sales). Volumes of all non-government categories except for auto (top 15 markets) have also declined during 9MFY20 further impacting the revenue.

Cost rationalization measures curtail fall in EBITDA: EBITDA declined 24.6% YoY to Rs216mn (PL of Rs224mn) with margin contracting 190bps to 31.0% amid loss in operating leverage due to poor top-line performance. However, MBL undertook cost rationalization measures (optimized salary, station level cost and royalty payments) which is expected to result in savings of Rs120-130mn in FY20. Amid poor operating performance, PAT declined 37.9% YoY to Rs102mn.

Con-call highlights: 1) Radio industry added 5,600 new local advertisers in top 15 markets in 3QFY20 2) Non-government receivable days have been reduced from 124 in 3QFY19 to 117 in 3QFY20 3) No payment has been done to BIG FM as yet. If the approval from MIB is not received by March, the deal will be re-evaluated. 4) Globally, the reach of FM radio/OTT is ~95%/~23%. In India, the reach of FM is ~60-70% while OTT's have a reach of ~6-7%. 5) Net cash on BS is Rs2.5bn as of Dec 2019. 6) During 9MFY20 volumes have declined 20% YoY while yields have increased 3% YoY. 7) Central government's share in ad pie declined 75% YoY resulting in a fall in contribution from 12% in 9MFY19 to 4% in 9MFY20 8) The share of radio ad spends in top 10-12 markets that contributes 70-80% of revenues is 8-9%.

Exhibit 1: Q3FY20 Result Overview (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr.	Q2FY20	9MFY20	9MFY19	YoY gr.
Net Sales	696	870	-20.0%	625	2,020	2428	-16.8%
License fees	50	55	-10.0%	49	149	163.9	-9.0%
As a % of sales	7.1%	6.3%		7.9%	7.4%	6.7%	
Employee expenses	148	167	-11.3%	120.2	430	526	-18.2%
As a % of sales	21.3%	19.2%		19.2%	21.3%	21.7%	
Other expenses	283	362	-21.9%	270.9	816	926	-11.9%
As a % of sales	40.6%	41.6%		43.3%	40.4%	38.1%	
Expenditure	481	584	-17.7%	440	1,395	1,616	-13.7%
EBITDA	216	286	-24.6%	185	624	812	-23.1%
EBITDA Margin	31.0%	32.9%		29.6%	30.9%	33.4%	
Depreciation	89	68	31.7%	87	262	202	29.5%
EBIT	127	218	-42.0%	98	363	610	-40.5%
EBIT Margin	18.2%	25.1%		15.7%	18.0%	25.1%	
Interest	25	14	81.0%	27	77	41	86.9%
Other income	42	45	-6.7%	50	124	105	18.7%
PBT	144	249	-42.4%	122	410	674	-39.1%
Tax	42	86	-51.2%	(63)	39	241	-83.8%
Tax Rate	29.1%	34.3%		NM	9.5%	35.8%	
Other comprehensive income	-	-	NM	-	-	-	NM
PAT	102	164	-37.9%	185	371	433	-14.2%
PAT Margin	14.6%	18.8%		29.6%	18.4%	17.8%	
EPS (Rs)	0.4	0.6	-37.3%	0.7	1.3	1.5	-12.4%

Source: Company, PL

Exhibit 2: Revenue assumptions for 28 legacy stations

Particulars	FY19	FY20E	FY21E	FY22E	FY23E
Inventory available (mn sec) in slots - Each slot is for 10 sec	16.6	16.6	16.6	16.6	16.6
Utilization level	70%	55%	60%	65%	70%
Inventory sold (mn sec) in slots	11.6	9.1	9.9	10.8	11.6
YoY growth	0.0%	-21.4%	9.1%	8.3%	7.7%
Realization per slot per station (Rs)	255	266	274	282	293
YoY growth	5.4%	4.2%	3.0%	3.0%	4.0%
Total revenues (Rs mn)	2,954.9	2,419.2	2,718.3	3,033.2	3,397.1

Source: Company, PL

Exhibit 3: Revenue assumptions for 11 batch 1 stations

Particulars	FY19	FY20E	FY21E	FY22E	FY23E
Inventory available (mn sec) in slots - Each slot is for 10 sec	6.5	6.5	6.5	6.5	6.5
Utilization level	50%	40%	45%	50%	60%
Inventory sold (mn sec) in slots	3.3	2.6	2.9	3.3	3.9
YoY growth	42.9%	-20.0%	12.5%	11.1%	20.0%
Realization per slot per station (Rs)	90	94	97	101	106
YoY growth	14.3%	4.5%	3.5%	4.0%	5.0%
Total revenues (Rs mn)	292.2	244.3	284.5	328.7	414.2

Source: Company, PL

Exhibit 4: EV/EBITDA valuation

Particulars (Rs mn)	FY21E
EV/EBITDA	7.5
EBITDA	1,006
EV	7,544
Less: Debt	586
Add: Cash & Investments	3,701
Equity Value	10,659
No of shares	277
Per share value	39

Source: PL

Exhibit 5: DCF cash flow assumptions

Particulars	Rs mn
PV of cash flow	8,656
Less: Debt	316
Add: Cash	671
Add: Investments	2,046
Net Asset Value	11,055
No of shares	277
Per share value (Rs)	40

Source: PL

Exhibit 6: Weighted average valuation

Particulars (Rs)	Weight assigned	Target price	Weighted average target price
EV/EBITDA approach	50%	39	19
DCF approach	50%	40	20
Weighted average target price			39

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	3,247	2,663	3,003	3,362
YoY gr. (%)	8.9	(18.0)	12.7	12.0
Cost of Goods Sold	-	-	-	-
Gross Profit	3,247	2,663	3,003	3,362
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	690	581	646	723
Other Expenses	1,426	1,268	1,351	1,489
EBITDA	1,132	815	1,006	1,150
YoY gr. (%)	16.6	(28.0)	23.4	14.3
Margin (%)	34.9	30.6	33.5	34.2
Depreciation and Amortization	271	348	350	358
EBIT	861	467	655	792
Margin (%)	26.5	17.5	21.8	23.6
Net Interest	56	101	108	101
Other Income	151	165	171	185
Profit Before Tax	955	531	719	876
Margin (%)	29.4	19.9	23.9	26.1
Total Tax	339	77	181	221
Effective tax rate (%)	35.5	14.5	25.2	25.2
Profit after tax	616	454	537	655
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	616	454	537	655
YoY gr. (%)	19.1	(26.3)	18.3	21.9
Margin (%)	19.0	17.1	17.9	19.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	616	454	537	655
YoY gr. (%)	19.1	(26.3)	18.3	21.9
Margin (%)	19.0	17.1	17.9	19.5
Other Comprehensive Income	0	-	-	-
Total Comprehensive Income	616	454	537	655
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	2.2	1.6	1.9	2.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	3,995	4,338	4,410	4,491
Tangibles	898	1,233	1,296	1,366
Intangibles	3,097	3,105	3,114	3,125
Acc: Dep / Amortization	896	1,243	1,594	1,951
Tangibles	149	297	447	605
Intangibles	746	946	1,146	1,346
Net fixed assets	3,100	3,095	2,816	2,539
Tangibles	748	936	848	761
Intangibles	2,351	2,159	1,968	1,778
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	130	107	116	125
Net Deferred tax assets	46	42	57	70
Other Non-Current Assets	68	59	73	99
Current Assets				
Investments	1,703	2,046	2,046	2,046
Inventories	-	-	-	-
Trade receivables	1,254	1,036	1,176	1,326
Cash & Bank Balance	788	1,151	1,655	2,135
Other Current Assets	178	146	165	185
Total Assets	7,305	7,714	8,141	8,566
Equity				
Equity Share Capital	553	553	553	553
Other Equity	5,480	5,934	6,472	7,127
Total Network	6,033	6,487	7,025	7,680
Non-Current Liabilities				
Long Term borrowings	156	316	316	-
Provisions	-	-	-	-
Other non current liabilities	42	34	36	41
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	247	228	274	333
Other current liabilities	827	379	221	241
Total Equity & Liabilities	7,305	7,714	8,141	8,566

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	955	531	719	876
Add. Depreciation	271	348	350	358
Add. Interest	56	101	108	101
Less Financial Other Income	151	165	171	185
Add. Other	(158)	2	(18)	(12)
Op. profit before WC changes	1,125	982	1,160	1,323
Net Changes-WC	(87)	213	(114)	(122)
Direct tax	(183)	(77)	(181)	(221)
Net cash from Op. activities	855	1,118	864	979
Capital expenditures	(384)	(343)	(72)	(81)
Interest / Dividend Income	-	-	-	-
Others	(56)	(313)	(13)	(13)
Net Cash from Invst. activities	(440)	(656)	(85)	(94)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	270	-	-
Dividend paid	-	-	-	-
Interest paid	(56)	(101)	(108)	(101)
Others	(343)	(267)	(167)	(304)
Net cash from Fin. activities	(399)	(98)	(275)	(405)
Net change in cash	16	364	504	480
Free Cash Flow	898	194	493	776

Source: Company Data, PL Research

Key Financial Metrics

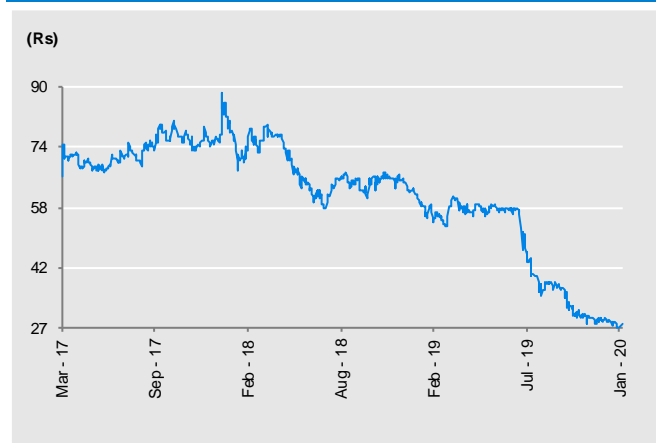
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	2.2	1.6	1.9	2.4
CEPS	3.2	2.9	3.2	3.7
BVPS	21.8	23.5	25.4	27.8
FCF	3.2	0.7	1.8	2.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	13.9	6.9	8.9	10.3
ROIC	15.5	10.6	12.4	13.4
RoE	10.2	7.0	7.7	8.5
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Net Working Capital (Days)	113	111	110	108
Valuation(x)				
PER	12.1	16.5	13.9	11.4
P/B	1.2	1.2	1.1	1.0
P/CEPS	8.4	9.3	8.4	7.4
EV/EBITDA	4.5	5.6	4.1	2.9
EV/Sales	1.6	1.7	1.4	1.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	819	698	625	696
YoY gr. (%)	7.8	(7.8)	(22.0)	(20.0)
Raw Material Expenses	-	-	-	-
Gross Profit	819	698	625	696
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	320	224	185	216
YoY gr. (%)	16.8	(14.2)	(30.3)	(24.6)
Margin (%)	39.0	32.1	29.6	31.0
Depreciation / Depletion	69	86	87	89
EBIT	251	138	98	127
Margin (%)	30.6	19.7	15.7	18.2
Net Interest	15	26	27	25
Other Income	46	33	50	42
Profit before Tax	282	145	122	144
Margin (%)	34.4	20.8	19.5	20.6
Total Tax	98	61	(63)	42
Effective tax rate (%)	34.8	41.9	(52.0)	29.1
Profit after Tax	184	84	185	102
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	184	84	185	102
YoY gr. (%)	12.9	(37.6)	38.3	(37.9)
Margin (%)	22.4	12.1	29.6	14.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	184	84	185	102
YoY gr. (%)	12.9	(37.6)	38.3	(37.9)
Margin (%)	22.4	12.1	29.6	14.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	183	84	185	102
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	0.7	0.3	0.7	0.4

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	39	28
2	11-Nov-19	Hold	39	30
3	3-Oct-19	Hold	48	37
4	29-Jul-19	Hold	58	46
5	4-Jul-19	BUY	75	57
6	28-May-19	BUY	75	59
7	3-May-19	BUY	81	59
8	16-Apr-19	BUY	81	57
9	5-Apr-19	BUY	81	58
10	29-Jan-19	BUY	405	288

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	287	260
3	Indian Railway Catering and Tourism Corporation	BUY	1,339	1,004
4	Inox Leisure	BUY	437	376
5	Music Broadcast	Hold	39	28
6	Navneet Education	BUY	142	92
7	PVR	Accumulate	2,053	1,900
8	S Chand and Company	Accumulate	92	75
9	V.I.P. Industries	BUY	501	440
10	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

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