Entertainment Network India (ENTNET)

ICICI direct Research

CMP: ₹ 144 | Target: ₹ 145 (1%) | Target Period: 12 months | HOLD

November 6, 2020

Ad recovery key for earnings revival…

Entertainment Network India (ENIL) reported a weak set of Q2FY21 numbers. Revenues came in at ₹ 48.4 crore (down 58.1% YoY) with core radio revenue de-growth of ~57% YoY in Q2FY21. The solutions business witnessed 62.5% YoY decline in revenues. Reported EBITDA loss came in at ₹ 6.3 crore against EBITDA of ₹ 28 crore in Q2FY20. Although ENIL managed cost reduction across all fronts, significant fall in revenues led to operating loss. Net loss was at ₹ 24.8 crore against net profit of ₹ 20 lakh in Q2FY20.

Sequential improvement; festive season pick up key

The radio business continued to report revenue de-growth in Q2FY21 as ad volume as well as pricing remained low. We note that ENIL's core radio revenue decline of 57.1% during Q2FY21 was higher than competitor in the industry. Radio revenue decline was mainly owing to weakness in IT, e-commerce, auto, government, real estate while ad spend from health & pharma, BFI, FMCG sector was better. The management said ad volume trend was varied across the country and states, metros most affected by Covid-19 spread reported sharper de-growth. Ad pricing was down 30% as company offered bonus spot to some clients. Revenues are expected to improve with festive season and full ad recovery is likely from Q4FY21E onwards. Accordingly, we revise our estimates and expect radio revenues to decline ~39% YoY in FY21E followed by a sharp recovery YoY in FY22E to ₹ 351 crore, on a depressed base.

Non-FCT business declines but margins stay healthy…

The solutions business revenue was down 62.5% YoY. Although solutions business de-grew, it reported healthy gross margins at 52.7%. Going ahead, we bake in 15% CAGR in solution business in FY20-22E to ₹ 206 crore. ENIL managed to reduce overall operating costs by 35% during the quarter. The management guided for ₹ 80 crore cost saving in FY21E and said the cost rationalisation will help achieve break-even in FY21E.

Valuation & Outlook

The radio sector remains the worst hit media segment due to Covid-19 led lockdown in FY21E. While sequential ad growth was witnessed during Q2, current ad revenue is still well below pre-Covid level. The gross margin growth of solutions business is a relief for ENIL in challenging times. We would monitor the traction, consistency in the same before turning constructive. ENIL's payout to shareholders is also less compared to its peer. The company has cash & cash equivalents of ~₹ 241 crore, which assures liquidity. However, a sharp recovery in ad volume as well as ad yield will be important during the current festive season, which holds the key for overall rerating of the stock. We believe full ad recovery is still a couple of quarters away. Hence, we maintain our **HOLD** rating on the stock with a target price of ₹ 145 (implying ~4x FY22E EV/EBITDA).

Result Update

ENTERTAINMENT NETWORK (INDIA) LTD.

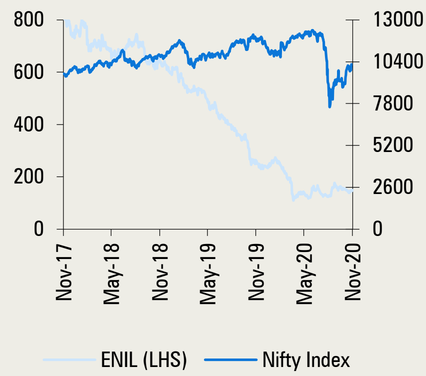
Particulars

Particular	Amount
Market Capitalization (₹Crore)	₹684.5 Crore
Total Debt (FY20)	₹0 Crore
Cash & Liquid Investments (FY20)	₹240.2 Crore
EV (₹Crore)	₹525.5 Crore
52 week H/L	277/101
Equity capital	47.7

Key Highlights

- Maintain HOLD rating with target price of ₹ 145, (implying ~4x FY22E EV/EBITDA)

Price Chart



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ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹crore)	537.1	620.8	548.1	333.4	565.0	1.5
EBITDA (₹crore)	116.6	139.1	125.3	24.4	151.1	9.8
Net Profit (₹crore)	35.6	53.9	10.7	(56.9)	34.5	79.5
EPS (₹	7.5	11.3	2.2	(11.9)	7.2	
P/E (x)	19.2	12.7	63.9	(12.0)	19.8	
Price / Book (x)	0.8	0.7	0.7	0.8	0.8	
EV/EBITDA (x)	5.3	3.8	3.5	17.9	2.6	
RoCE (%)	6.2	9.0	3.0	(5.6)	6.2	
RoE (%)	3.5	5.8	1.2	(6.6)	3.9	

*Source: Company, ICICI Direct Research **

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	48.4	115.6	38.5	-58.1	25.8	Revenues fell owing to drop in ad volumes as well as yield
Other Income	4.5	3.3	5.8	34.5	-23.2	
Marketing Expenses	9.4	18.9	11.7	-50.6	-19.8	
Administrative Expenses	14.9	21.5	16.6	-30.5	-10.2	
License Fee	8.0	8.5	7.9	-6.2	1.6	
Employee Expenses	20.0	32.8	26.3	-39.1	-24.1	
Other Expenses	2.4	5.8	1.9	-58.1	25.8	
EBITDA	-6.3	28.0	-25.9	-122.6	-75.6	
EBITDA Margin (%)	-13.1	24.2	-67.4	-3730 bps	5437 bps	
Depreciation	25.6	25.9	25.3	-1.5	1.1	
Interest	5.3	4.9	4.7	NA	11.4	
Total Tax	-7.9	0.3	-12.2	-2,927.9	-35.3	
PAT	-24.8	0.2	-37.9	-13,094	-34.7	
Key Metrics						
Op. Revenue growth	-57%	-8%	-72%			
Rate/Slot	166.6	326.1	328.5	-48.9	-49.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹Crore)	Old	New	% Change	Old	New	% Change	
Revenue	377.9	333.4	-11.8	554.5	565.0	1.9	Realign estimates post Q2 performance
EBITDA	62.0	24.4	-60.6	150.8	151.1	0.2	
EBITDA Margin (%)	16.4	7.3	-908 bps	27.2	26.7	-45 bps	
PAT	-27.6	-56.9	106.0	33.7	34.5	2.4	
EPS (₹	-5.8	-11.9	106.0	7.1	7.2	2.4	

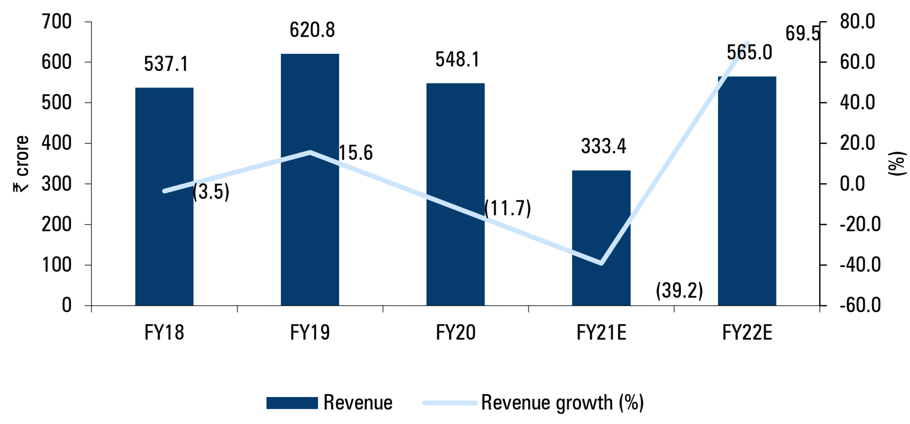
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Ad volume trend varies across country:** The management said ad volume trend was varied across the country. States and metros most affected by Covid-19 spread reported sharper de-growth. Ad volume in Maharashtra, Delhi, AP, Karnataka and Kerala declined in range of 55-80%. States with lower Covid-19 spread reported ad de-growth 35-50% while Rajasthan, Himachal Pradesh, Chhattisgarh, J&K and Assam reported growth ranging from 3-75%. Radio companies with larger non-metro presence did relatively better. Also, ad spend from FMCG, BFI, education, pharma sectors improved while ad spend from IT, e-commerce, government (down 27%), real estate, auto declined. The management said media companies generally follow economic recovery with a quarter lag
- **Ad revenue de-growth to slow:** Ad revenue drop was owing to a fall in ad volume as well as pricing. Ad volume in top eight cities declined 51% while it declined 11% in the rest of cities. Ad prices were down 30% as the company offered bonus spots to clients. Ad pricing is expected to improve in the coming quarter. Revenue de-growth YoY in Q2 was less compared to Q1 and it will slow, going ahead. Revenues are likely to recover by Q4. The management informed radio revenue was not affected by IPL
- **Cost realisation to help break-even:** The management said ENIL managed to reduce overall operating costs on all fronts by 35% while license fee and rental costs were reduced by a small amount. Cost saving for H1 was ₹ 39 crore and total cost saving will be ₹ 80+ crore in FY21E. The cost saving will help company to breakeven at operating level in FY21 as revenue picks up in H2FY21. During the quarter, gross margins of solution business was 54% while radio margins were at 60%
- **Strong sequential growth across segments: The management said digital segment reported sequential growth of 67%**. The company offers multimedia solutions, which includes original content and solutions. Solutions business grew 34% QoQ on a like-to-like basis while radio grew sequentially 131.8%
- **Buyback decision later in FY21E; music royalty issue in front of IPAB**: ENIL has cash reserves of ₹ 241 crore and the management said the decision over payout to shareholders in form of buyback will be taken by the end of FY21E. On music royalty issue, the management added that currently issue is in front of IPAB and decision regarding the same is expected by November end
- **Other highlights:** i) Revenue of 35 legacy stations de-grew 58.7% YoY ii) Batch 1 revenues during the quarter were at ₹ 6.5 crore, down 61.4% and EBITDA loss: ₹ 2.5 crore (Q2FY20 profit of ₹ 2.5 crore). Revenues from Batch 2 stations down 47.8% and were at ₹ 2 crore with EBITDA loss of ₹ 1.1 crore (Q2FY20 loss of ₹ 7 lakh) iii) Capacity utilisation: Top 8 stations: 43%, Legacy stations: 50%, Batch 1 stations: 41%, Batch 2 stations: 14%, overall utilisation: 32%

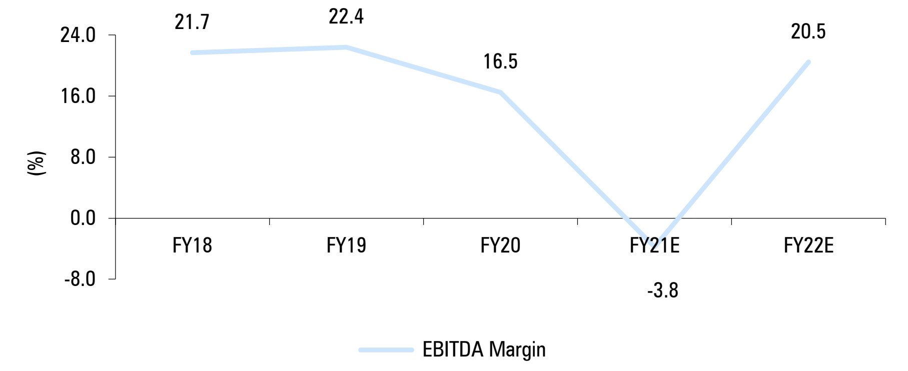
Story in Charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend (ex- Ind-AS trend)



Source: Company, ICICI Direct Research

Exhibit 5: Excerpt of P&L (excluding Ind-AS 116)

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	**620.8**	**548.1**	**333.4**	**565.0**
Growth (%)	15.6	-11.7	-39.2	69.5
Other Costs	319.1	287.3	208.4	291.2
License Fee	36.4	35.6	34.2	33.9
Employee Expenses	126.2	134.8	103.3	124.3
Total Operating Expenditure	481.7	457.7	345.9	449.4
EBITDA	**139.1**	**90.4**	**-12.6**	**115.6**
Growth (%)	19.3	-35.0	-113.9	-1,020.2
Margins (%)	**22.4**	**16.5**	**-3.8**	**20.5**

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	**620.8**	**548.1**	**333.4**	**565.0**
Growth (%)	15.6	-11.7	-39.2	69.5
Other Costs	319.1	252.4	171.4	255.7
License Fee	36.4	35.6	34.2	33.9
Employee Expenses	126.2	134.8	103.3	124.3
Total Operating Expenditure	481.7	422.8	308.9	413.9
EBITDA	**139.1**	**125.3**	**24.4**	**151.1**
Growth (%)	19.3	-9.9	-80.5	518.3
Depreciation	67.1	104.2	103.3	104.5
Interest	4.0	19.5	19.0	20.0
Other Income	15.7	13.4	19.3	20.0
Exceptional Items	-	-	-	-
PBT	83.7	15.1	-78.5	46.6
MI/PAT from associates	-	-	-	-
Total Tax	29.8	4.4	-21.7	12.1
PAT	**53.9**	**10.7**	**-56.9**	**34.5**
Growth (%)	51.2	-80.1	-630.7	-160.7
EPS (₹)	**11.3**	**2.2**	**-11.9**	**7.2**

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	53.9	10.7	-56.9	34.5
Add: Depreciation	67.1	104.2	103.3	104.5
Add: Interest Piad	4.0	19.5	19.0	20.0
(Inc)/dec in Current Assets	-22.9	28.3	49.4	-96.6
Inc/(dec) in CL and Provisions	33.4	3.6	-55.3	52.7
CF from operating activities	**135.5**	**166.3**	**59.5**	**115.2**
(Inc)/dec in Investments	19.5	-90.7	0.0	-50.0
(Inc)/dec in Fixed Assets	-45.1	-46.7	-15.0	-25.0
Others	9.9	-0.3	-15.0	-15.0
CF from investing activities	**-15.7**	**-137.8**	**-30.0**	**-90.0**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-104.0	0.0	0.0	0.0
Interest paid	-4.0	-19.5	-19.0	-20.0
Dividend outflow	-5.7	-4.8	-4.8	-9.5
Others	-0.3	-24.0	0.0	0.0
CF from financing activities	**-114.0**	**-48.3**	**-23.7**	**-29.5**
Net Cash flow	5.9	-19.8	5.8	-4.4
Opening Cash	18.0	23.9	4.1	9.9
Closing Cash	**23.9**	**4.1**	**9.9**	**5.6**

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	47.7	47.7	47.7	47.7
Reserve and Surplus	887.6	869.6	808.0	832.9
Total Shareholders funds	935.3	917.3	855.6	880.6
Total Debt	0.0	0.0	0.0	0.0
Others	34.0	223.8	208.8	193.8
Total Liabilities	**969.3**	**1,141.1**	**1,064.4**	**1,074.4**
Assets				
Gross Block	1,225.0	1,292.8	1,307.8	1,332.8
Less: Acc Depreciation	532.5	636.7	740.0	844.6
Net Block	692.4	656.1	567.7	488.2
Capital WIP	22.0	0.8	0.8	0.8
Total Fixed Assets	714.4	656.9	568.6	489.1
Goodwill	0.5	0.0	0.0	0.0
Investments	145.3	236.1	236.1	286.1
Inventory	-	-	-	-
Debtors	200.5	160.7	127.9	193.5
Loans and Advances	23.4	24.1	20.5	33.0
Other Current Assets	37.3	48.1	35.1	53.5
Cash	23.9	4.1	9.9	5.6
Total Current Assets	285.0	236.9	193.4	285.6
Creditors	126.7	142.4	100.5	139.3
Provisions	12.0	11.9	8.4	11.6
Other Current Liabilities	37.2	25.1	15.3	25.9
Total Current Liabilities	175.9	179.5	124.1	176.9
Net Current Assets	109.1	57.5	69.2	108.7
Other non Current Assets	0.0	0.0	0.0	0.0
Application of Funds	**969.3**	**1,141.1**	**1,064.4**	**1,074.4**

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	11.3	2.2	-11.9	7.2
Cash EPS	25.4	24.1	9.8	29.2
BV	196.2	192.4	179.5	184.7
DPS	1.2	1.0	1.0	2.0
Cash Per Share	5.0	0.9	2.1	1.2
Operating Ratios (%)				
EBITDA Margin	22.4	22.9	7.3	26.7
PBT / Total Operating income	11.6	3.9	-23.7	8.2
PAT Margin	8.7	2.0	-17.1	6.1
Inventory days	0.0	0.0	0.0	0.0
Debtor days	117.9	107.0	140.0	125.0
Creditor days	74.5	94.8	110.0	90.0
Return Ratios (%)				
RoE	5.8	1.2	-6.6	3.9
RoCE	9.0	3.0	-5.6	6.2
RoIC	9.1	3.0	-12.6	7.9
Valuation Ratios (x)				
P/E	12.7	63.9	-12.0	19.8
EV / EBITDA	3.8	3.5	17.9	2.6
EV / Net Sales	0.8	0.8	1.3	0.7
Market Cap / Sales	1.1	1.2	2.1	1.2
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.3	1.5	1.6
Quick Ratio	1.5	1.3	1.5	1.6

Source: Company, ICICI Direct Research

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