

Ad yield backed recovery awaited...

Music Broadcast (MBL) reported subdued set of numbers for Q3FY21. Revenues dipped sharply by 41.6% YoY to ₹ 40.7 crore on the back of lower ad yield. Reduction in operating costs during the quarter was again a positive. EBITDA was at ₹ 4.2 crore, down 80.7% YoY as operating performance was impacted by lower topline. Consequently, the company reported PAT of ₹ 7.3 lakh, down ~99% YoY.

Ad volume grows YoY; realisation to improve gradually...

MBL's revenue decline trend continued for a straight seventh quarter owing to reduced ad yield. While surge of 9% YoY in ad volume is encouraging, lower ad yield led to YoY drop in ad revenue. On QoQ basis, ad volume grew 60%. During the quarter, ad inventory utilisation was 60%. At industry level, food & soft drinks (63%), real estate (28%), auto (18%), finance (18%) sectors registered ad growth while ad spend by government was down 10% YoY. The management said discount and schemes were offered to clients during the festive quarter that impacted ad realisations. As the company has started withdrawing discounts, realisations will improve gradually. The management expects ad realisation to normalise from H2FY22 onwards. The management guided that MBL will clock pre-Covid revenues in FY23E in a realistic scenario. We revise our estimates and now build in ~49% revenue decline in FY21 followed by sharp recovery on a lower base. We build in revenue of ₹ 273 crore at CAGR of 3.3% in FY20-23E.

Cost reduction to lift margins

The management said that annual cost saving is likely to be ₹ 50-55 crore. The management expects half of cost saving to be permanent in nature, which will lead to 300 bps gains in margins (FY20 being the base year). License fee, as per latest IPAB order, will increase marginally to 2.4% compared to 2.3% earlier. Impact of royalty cost will be more with smaller stations given the lower topline. MBL has a strong liquidity position with cash and cash equivalents of ₹ 235 crore, which is a positive.

Valuation & Outlook

Radio remains the worst hit media segments during Covid-19 induced lockdown. While ad volumes are back (and above) pre-Covid levels and ad volume growth of 9% YoY is a positive sign, ad realisation is still lower sharply. We believe ad yield backed full revenue recovery is still few quarters away. Strong liquidity position and reduced opex will offer comfort to MBL in near term. Issue of NCRPS is still attractive to shareholders at the CMP (~42% pre-tax yield). We roll over our valuations to FY23E and maintain **BUY** rating on the stock with a target price of ₹ 27/share (vs. earlier TP of ₹ 25/share). We value the stock at an average of 7x FY23E EV/EBITDA and 17x FY23E EPS.



Particulars

| Particular | Amount |
|--------------------------|---------------|
| Market Capitalization | ₹ 798.5 Crore |
| Total Debt (FY20) | ₹ 0 Crore |
| Cash & Liquid Inv (FY20) | ₹ 220.9 Crore |
| EV | ₹ 577.6 Crore |
| 52 week H/L | 27/ 12 |
| Equity capital (₹ crore) | 55.3 |
| Face value | 2.0 |

Key Highlights

- Revenues saw sharp fall of 41.6% YoY, owing to drop in ad yields
- Maintain BUY with revised target price of ₹ 27/share

Key risk to our call

- Slower than anticipated recovery in ad realisations affecting operating performance
- Ad spend from government, a key sector has declined further and sustainable delay in recovery leading to lower revenues

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Key Financial Summary

| (Year-end March) | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|----------------------|-------|-------|---------|-------|-------|-----------------|
| Net Sales (₹ crore) | 324.7 | 247.8 | 127.4 | 255.8 | 273.1 | 3.3 |
| EBITDA (₹ crore) | 113.2 | 57.2 | (1.8) | 69.1 | 87.4 | 15.2 |
| Net Profit (₹ crore) | 61.6 | 28.2 | (13.8) | 42.3 | 58.7 | 27.7 |
| EPS (₹) | 2.2 | 0.8 | (0.4) | 1.2 | 1.7 | |
| P/E (x) | 10.5 | 28.7 | NM | 19.2 | 13.8 | |
| Price / Book (x) | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 | |
| EV/EBITDA (x) | 5.6 | 10.3 | (294.4) | 8.0 | 5.9 | |
| RoCE (%) | 15.0 | 6.2 | (2.8) | 9.8 | 13.0 | |
| RoE (%) | 10.2 | 4.5 | (2.2) | 6.8 | 9.2 | |

Exhibit 1: Variance Analysis

| | Q3FY21 | Q3FY20 | Q2FY21 | YoY (%) | QoQ (%) | Comments |
|-------------------|--------|--------|--------|---------|---------|---|
| Revenue | 40.7 | 69.6 | 30.1 | -41.6 | 35.2 | Revenues saw sharp fall due to drop in ad yield |
| Other Income | 5.0 | 4.2 | 2.9 | 20.6 | 71.8 | |
| License fees | 4.7 | 5.0 | 4.6 | -4.7 | 2.3 | |
| Employee Expenses | 12.2 | 14.8 | 11.4 | -18.0 | 6.5 | |
| Other expenses | 19.6 | 28.3 | 17.1 | -30.6 | 14.9 | |
| EBITDA | 4.2 | 21.6 | -3.0 | -80.7 | NA | EBITDA remains weak due to to lower topline |
| EBITDA Margin (%) | 10.2 | 31.0 | -10.1 | | | |
| Depreciation | 8.2 | 8.9 | 8.3 | -7.4 | -0.5 | |
| Interest | 0.8 | 2.5 | 1.0 | -66.7 | -13.9 | |
| Total Tax | 0.0 | 4.2 | -2.9 | -99.2 | NA | |
| PAT | 0.1 | 10.2 | -6.5 | -99.3 | NA | |

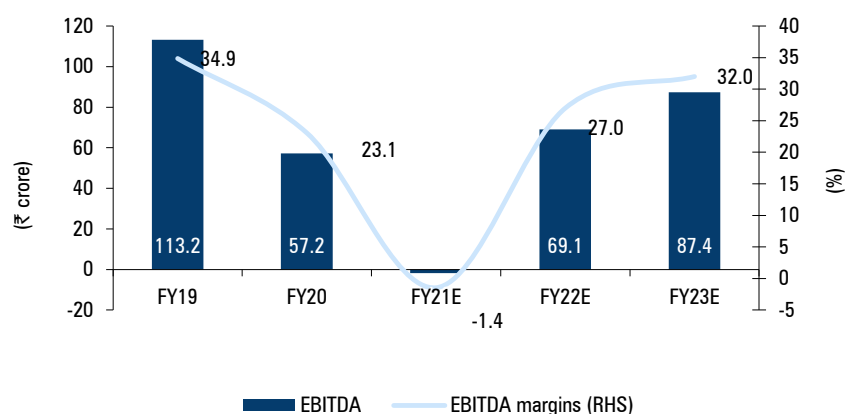
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| ₹ Crore) | FY21E | | | FY22E | | | FY23E | Comments |
|-------------------|-------|-------|----------|-------|-------|----------|------------|---|
| | Old | New | % Change | Old | New | % Change | Introduced | |
| Revenue | 140.9 | 127.4 | -9.6 | 247.4 | 255.8 | 3.4 | 273.1 | Align our estimates post Q3 performance |
| EBITDA | 6.5 | -1.8 | -128.4 | 85.4 | 69.1 | -19.1 | 87.4 | |
| EBITDA Margin (%) | 4.6 | -1.4 | -606 bps | 34.5 | 27.0 | -750 bps | 32.0 | |
| PAT | -1.6 | -13.8 | NM | 53.4 | 42.3 | -20.9 | 58.7 | |
| EPS (₹) | 0.0 | -0.4 | NM | 1.5 | 1.2 | -20.9 | 1.7 | |

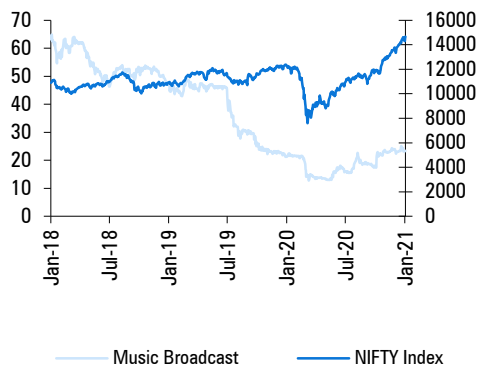
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 4: Price Performance



Source: Company, ICICI Direct Research

Conference Call Highlights

- Ad volume surges; realisation to improve gradually:** The management said ad volume surged 9% YoY while it increased 60% on a QoQ basis. However, ad yield was down due to promotions and schemes offered to clients. Ad minutes per hour in Q3 was at eight to nine minutes. MBL started reducing scheme and discounts from festivities onwards but there will be some overflow in Q4. Ad yield is expected to normalise from Q1FY22 onwards. The management expects ad revenue for Q4FY21 to be flattish YoY. Currently, ad share of national and local advertisers is in ratio of 35:65 compared to 45: 55 earlier. During the quarter, ad growth categories for radio industry were food & soft drinks (63%), real estate (28%), auto (18%), finance (18%), etc, while government ad spend dipped 10% YoY. The management guided that ad revenue of FY20 level is likely to be achieved in FY23E in a realistic scenario
- Cost rationalisation provides relief; liquidity position:** MBL reduced its operating cost by ₹ 40 crore in 9MFY21 and total of ₹ 50-55 crore cost saving was guided during FY21. The management said ~50% of cost saving will be sustainable. Hence, the company expects 300 bps gains in margin (FY20 being the base year) once revenues are normalised. The company has ₹ 235 crore of cash, cash equivalents & investments
- No major impact of latest IPAB order:** The management said MBL's royalty cost will be at 2.4% compared to 2.3% earlier. Small stations will be impacted more due to IPAB order as fixed costs will rise. MBL will challenge the order related to underlying works in court
- Other Highlights:** i) Revenue from legacy stations was 87% while revenue from new stations was 13%. The overall inventory utilisation was 60% ii) The monthly break up for Q3 revenue: October - ₹ 14 crore, November - ₹ 14.5 crore, December - ₹ 12.5 crore, iii) The management indicated that there is status quo on BIG FM deal, iv) Sebi is currently reviewing the proposed NCRPS issue and a decision is expected in April-May

Financial summary

| Exhibit 5: Profit and loss statement | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (₹ Crore) | FY20 | FY21E | FY22E | FY23E |
| Total operating Income | 247.8 | 127.4 | 255.8 | 273.1 |
| Growth (%) | -23.7 | -48.6 | 100.7 | 6.8 |
| Production Cost | 0.0 | 0.0 | 0.0 | 0.0 |
| License Fee | 0.0 | 0.0 | 0.0 | 0.0 |
| Administrative Expenses | 135.3 | 83.9 | 127.9 | 124.2 |
| Employee Expenses | 55.4 | 45.4 | 58.8 | 61.4 |
| Total Operating Expenditure | 190.7 | 129.3 | 186.7 | 185.7 |
| EBITDA | 57.2 | -1.8 | 69.1 | 87.4 |
| Growth (%) | -49.5 | -103.2 | -3,843.7 | 26.5 |
| Depreciation | 34.8 | 33.1 | 32.0 | 32.8 |
| Interest | 9.8 | 3.2 | 3.0 | 3.0 |
| Other Income | 16.3 | 17.9 | 22.4 | 26.9 |
| Exceptional Items | - | - | - | - |
| PBT | 28.9 | -20.3 | 56.5 | 78.5 |
| MI/PAT from associates | - | - | - | - |
| Total Tax | 0.7 | -6.5 | 14.2 | 19.8 |
| PAT | 28.2 | -13.8 | 42.3 | 58.7 |
| Growth (%) | -54.2 | -148.9 | LP | 39.0 |
| EPS (₹) | 0.8 | -0.4 | 1.2 | 1.7 |

Source: Company, ICICI Direct Research

| Exhibit 6: Cash flow statement | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
| Profit after Tax | 28.2 | -13.8 | 42.3 | 58.7 |
| Add: Depreciation | 34.8 | 33.1 | 32.0 | 32.8 |
| Add: Interest Paid | 9.8 | 3.2 | 3.0 | 3.0 |
| (Inc)/dec in Current Assets | 17.7 | 53.1 | -51.2 | -7.9 |
| Inc/(dec) in CL and Provisions | -15.4 | -18.3 | 19.5 | 2.6 |
| CF from operating activities | 75.1 | 57.3 | 45.5 | 89.2 |
| (Inc)/dec in Investments | -36.7 | 0.0 | 0.0 | 0.0 |
| (Inc)/dec in Fixed Assets | -15.7 | -7.5 | -7.5 | -7.5 |
| Others | -5.4 | 0.0 | 0.0 | 0.0 |
| CF from investing activities | -57.7 | -7.5 | -7.5 | -7.5 |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | -74.1 | 0.0 | 0.0 | 0.0 |
| Interest paid | -9.8 | -3.2 | -3.0 | -3.0 |
| Dividend outflow | 0.0 | 0.0 | -41.5 | -41.5 |
| Others | 0.3 | 0.0 | 0.0 | 0.0 |
| CF from financing activities | -83.6 | -3.2 | -44.5 | -44.5 |
| Net Cash flow | -66.2 | 46.6 | -6.4 | 37.2 |
| Opening Cash | 78.8 | 12.6 | 59.2 | 52.7 |
| Closing Cash | 12.6 | 59.2 | 52.7 | 90.0 |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance sheet | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
| Liabilities | | | | |
| Equity Capital | 69.1 | 69.1 | 69.1 | 69.1 |
| Reserve and Surplus | 562.7 | 548.8 | 549.6 | 566.9 |
| Total Shareholders funds | 631.8 | 618.0 | 618.8 | 636.0 |
| Total Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Lease Liabilities | 18.3 | 18.3 | 18.3 | 18.3 |
| Total Liabilities | 650.1 | 636.3 | 637.1 | 654.3 |
| Assets | | | | |
| Gross Block | 433.7 | 441.2 | 448.7 | 456.2 |
| Less: Acc Depreciation | 124.6 | 157.7 | 189.7 | 222.4 |
| Net Block | 309.1 | 283.5 | 259.0 | 233.7 |
| Capital WIP | - | - | - | - |
| Total Fixed Assets | 309.1 | 283.5 | 259.0 | 233.7 |
| Investments | 208.4 | 208.4 | 208.4 | 208.4 |
| Deferred tax assets | 10.0 | 10.0 | 10.0 | 10.0 |
| Debtors | 106.3 | 73.3 | 105.1 | 112.2 |
| Loans and Advances | 21.7 | 11.2 | 22.4 | 23.9 |
| Other Current Assets | 19.8 | 10.2 | 18.3 | 17.6 |
| Cash | 12.6 | 59.2 | 52.7 | 90.0 |
| Total Current Assets | 160.3 | 153.8 | 198.6 | 243.8 |
| Creditors | 24.6 | 12.7 | 25.4 | 27.1 |
| Provisions | 4.2 | 2.2 | 4.3 | 4.6 |
| Other Current Liabilities | 8.9 | 4.6 | 9.1 | 9.8 |
| Total Current Liabilities | 37.7 | 19.4 | 38.9 | 41.5 |
| Net Current Assets | 122.6 | 134.4 | 159.7 | 202.2 |
| Application of Funds | 650.1 | 636.3 | 637.1 | 654.3 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|------------------------------|---------|--------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
| Per share data (₹) | | | | |
| EPS | 0.8 | -0.4 | 1.2 | 1.7 |
| Cash EPS | 1.8 | 0.6 | 2.1 | 2.6 |
| BV | 18.3 | 17.9 | 17.9 | 18.4 |
| DPS | 0.0 | 0.0 | 1.0 | 1.0 |
| Cash Per Share | 0.4 | 1.7 | 1.5 | 2.6 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 23.1 | -1.4 | 27.0 | 32.0 |
| PBT / Total Operating income | 9.0 | -27.4 | 14.5 | 20.0 |
| PAT Margin | 11.4 | -10.8 | 16.5 | 21.5 |
| Inventory days | 0.0 | 0.0 | 0.0 | 0.0 |
| Debtor days | 156.5 | 210.0 | 150.0 | 150.0 |
| Creditor days | 36.3 | 36.3 | 36.3 | 36.3 |
| Return Ratios (%) | | | | |
| RoE | 4.5 | -2.2 | 6.8 | 9.2 |
| RoCE | 6.2 | -2.8 | 9.8 | 13.0 |
| RoIC | 5.3 | -9.8 | 10.1 | 15.8 |
| Valuation Ratios (x) | | | | |
| P/E | 28.7 | -58.7 | 19.2 | 13.8 |
| EV / EBITDA | 10.3 | -294.4 | 8.0 | 5.9 |
| EV / Net Sales | 2.4 | 4.3 | 2.1 | 1.9 |
| Market Cap / Sales | 3.3 | 6.4 | 3.2 | 3.0 |
| 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 | 3.9 | 4.9 | 3.8 | 3.7 |
| Quick Ratio | 3.9 | 4.9 | 3.8 | 3.7 |

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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