

Weak performance; bonus issue key highlight...

Music Broadcast (MBL) reported a weak set of Q2FY21 numbers. Revenues dipped sharply by 51.9% YoY to ₹ 30.1 crore on lower ad volumes as well as yield. Reduction in operating costs during the quarter was again a positive. However, EBITDA loss was at ₹ 3 crore as the operating performance was impacted by lower topline. Consequently, the company reported a net loss of ₹ 6.5 crore against PAT of ₹ 18.5 crore in Q2FY20.

Festive boost key for ad volume outlook...

MBL's revenue declined for a straight sixth quarter owing to reduced ad spend. Fall in ad volume coupled with yield drop led to ad revenue decline of 51.9% YoY. However, ad volume improved sequentially by 171%. MBL witnessed MoM increase in ad revenue each month during the quarter. Ad yields were down ~30% owing to promotional offers and volume growth being led by small markets. The management said small cities saw faster recovery compared to metros. With the commencement of IPL, ad volume in big cities is also picking up. In the current quarter, inventory utilisation has increased 15% compared to September, 2020. The upcoming festive season is expected to boost ad revenue further. Accordingly, we adjust our estimates and now build in 43% revenue decline in FY21 followed by a sharp recovery on a depressed base in FY22E. Among positives, MBL managed to reduce operating cost, which led to cash profit of ₹ 44 lakh during the quarter. MBL has a strong liquidity position with cash & investments of ₹ 243 crore. Receivables in H1FY21 also reduced by ₹ 28 crore.

Bonus issue of redeemable preference shares

MBL announced bonus issue of non-cumulative redeemable preference shares (NCRPS) to non-promoter shareholders in the ratio of 1:10 (one bonus NCRPS for 10 equity shares). The issue size is ₹ 89.7 crore with price of each share at ₹ 100 (FV: ₹ 10 + premium: ₹ 90). Redemption price will be ₹ 120 on expiry of 36 months from allotment date. The shares will be listed post regulatory approval while the expected record date will be around March. We believe the payout to minority shareholders at the issue price (~47% pre-tax at CMP) is an attractive proposition.

Valuation & Outlook

Radio remains the worst hit media segment during Covid-19 induced lockdown. While a sharp sequential recovery was witnessed, ad flow is still lower compared to pre-Covid level. The upcoming festive season will be crucial for ad recovery, especially in metro cities. We believe a full recovery in ad revenue is still a few quarters away. Strong liquidity position and reduced opex will offer comfort to MBL in the near term. Issue of NCRPS is a positive and will provide value to shareholders. We upgrade our rating on the stock to **BUY** (vs. HOLD, earlier) with a target price of ₹ 25/share (average of 7x FY22E EV/EBITDA and 16x FY22E EPS).



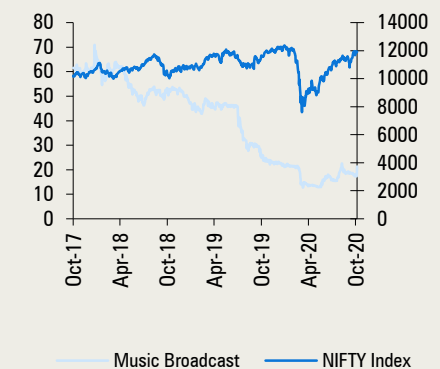
Particulars

Particular	Amount
Market Capitalization	₹ 738 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Liquid Inv (FY20)	₹ 220.9 Crore
EV	₹ 517.1 Crore
52 week H/L	27/ 12
Equity capital (₹ crore)	55.3
Face value	2.0

Key Highlights

- Revenues witnessed sharp fall of 51.9% YoY, owing to fall in ad volume as well as yields
- Upgrade to BUY with target price of ₹ 25/share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹ crore)	298.3	324.7	247.8	140.9	247.4	(0.1)
EBITDA (₹ crore)	97.1	113.2	57.2	6.5	85.4	22.2
Net Profit (₹ crore)	51.7	61.6	28.2	(1.6)	53.4	37.6
EPS (₹)	1.9	2.2	0.8	(0.0)	1.5	
P/E (x)	11.4	9.6	26.2	NM	13.8	
Price / Book (x)	1.0	1.0	1.2	1.2	1.1	
EV/EBITDA (x)	5.7	5.0	9.0	72.8	5.4	
RoCE (%)	14.3	15.0	6.2	(0.1)	11.8	
RoE (%)	8.6	10.2	4.5	(0.3)	8.3	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	30.1	62.5	14.4	-51.9	109.5	Revenues saw sharp fall due to low volumes as well as yield
Other Income	2.9	5.0	4.7	-41.5	-38.3	
License fees	4.6	4.9	4.5	-5.9	3.1	
Employee Expenses	11.4	12.0	11.6	-5.0	-1.6	
Other expenses	17.1	27.1	13.5	-37.0	26.3	
EBITDA	-3.0	18.5	-15.3	NA	NA	Weak topline led to operating loss
EBITDA Margin (%)	-10.1	29.6	-106.2			
Depreciation	8.3	8.7	8.5	-4.5	-2.7	
Interest	1.0	2.7	0.7	-63.8	37.1	
Total Tax	-2.9	-6.3	-5.8	NA	NA	
PAT	-6.5	18.5	-13.9	NA	NA	

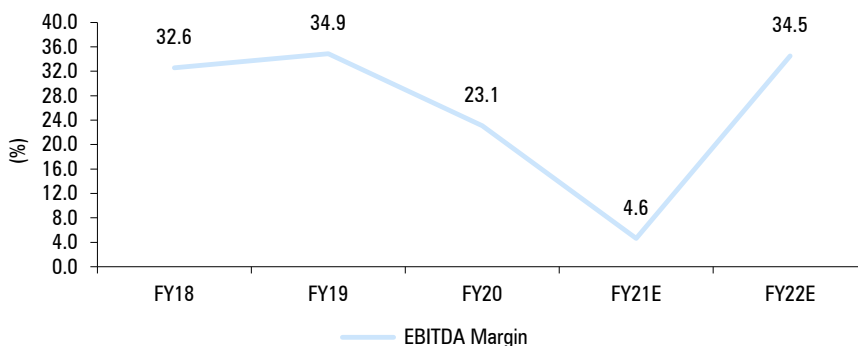
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	178.8	140.9	-21.2	259.6	247.4	-4.7	Lower our estimates post Q2 performance
EBITDA	35.1	6.5	-81.5	78.0	85.4	9.5	Build in lower operating costs for FY22E as per management guidance
EBITDA Margin (%)	19.6	4.6	-1499 bps	30.0	34.5	446 bps	
PAT	14.2	-1.6	-111.3	45.8	53.4	16.5	
EPS (₹)	0.4	0.0	-111.3	1.3	1.5	16.5	

Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin trend



Source: Company, ICICI Direct Research

Conference Call Highlights

- Ad volume dip; expected to improve in festive season:** The management said ad revenue fell due to a drop in ad volumes as well as yields. However, the ad volume improved sequentially by 171%. Ad volume growth is being led by local advertisers from smaller cities while ad spend in metros is still lower. Ad spend from local advertisers currently constitute 60% of total spend. In Q2FY21, for radio industry, ad volume from the finance sector was up 18% while pharma and food/soft drinks reported ad volume growth of 23% and 26%, respectively. **At industry level, Auto, real estate and government registered de-growth of 8%, 11% and 30%, respectively. In small markets, inventory utilisation was almost similar YoY while in bigger cities, it was down 30% in September. In the first half of October, inventory utilisation was up 15% compared to September. With IPL commencement, ad spend in big cities has also increased.** The management said ad volume will further improve in festive season. Revenue trend during the quarter: ₹ 8 crore, ₹ 10 crore and 12 crore in July, August and September, respectively. **The management guided that ad volume will witness 30-40% growth QoQ assuming normalcy in Q3FY21**
- Ad yields drop:** The management said ad yield dropped due to special promotional offers & contribution of smaller markets being higher. Blended yield was down 30% YoY during the quarter. Adjusting for promotional offers, yield was down 5-6% YoY. **Ad yield should recover, going forward, as the company indicated at withdrawing promotional offers in the festive season. Impact of promotional offers on yield was 50% in July & August and 40% in September, respectively. It has currently reduced up to 30%. If volume growth trend continues, ad yields will follow the recovery and may reach normal levels in Q4FY21**
- Bonus issue of non-cumulative redeemable preference shares (NCRPS):** MBL announced a bonus issue of redeemable preference shares to non-promoter shareholders in ratio of 1:10 (one bonus NCRPS for 10 equity shares). The issue size is ₹ 89.7 crore with price of each share at ₹ 100 (FV: ₹ 10 + premium: ₹ 90). Redemption price will be ₹ 120 on expiry of 36 months from allotment date. The management said shares will be listed post regulatory approval while they expect the record date to be around March. Cash outflow for the company is expected to happen only on expiry date (sometime in March, 2024)
- Cost rationalisation provides relief; liquidity position:** MBL reduced its operating cost by ₹ 28.7 crore in H1FY21 through cost control measures on both fixed and variable front. **The management expects annual cost saving of ₹ 45 crore and said that ₹ 15 crore saving will be sustainable.** The company has ₹ 243 crore of cash, cash equivalents & investments
- Exploring new opportunities; decision over music royalty expected soon:** The management said MBL is exploring new opportunities through deals and new client base. The company will jointly sell inventory with Spotify for radio and digital medium. The management said digital medium will increase overall ad pie and will not affect radio ad. With respect to royalties paid to music companies, the management said arguments have been made to IPAB from both parties and hearing on the matter will take place in November
- Other highlights:** i) Revenue from legacy stations was 88% while revenue from new stations was 12%, ii) the management indicated that the BIG FM deal is unlikely to happen, iii) the management said that no major player has suspended operations during the lockdown and iv) out of total ₹ 78 crore receivables, ₹ 35 crore is from the government

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Total operating Income	324.7	247.8	140.9	247.4
Growth (%)	20.4	-23.7	-43.1	75.6
Production Cost	0.0	0.0	0.0	0.0
License Fee	0.0	0.0	0.0	0.0
Administrative Expenses	142.6	135.3	87.5	108.9
Employee Expenses	69.0	55.4	46.9	53.2
Total Operating Expenditure	211.5	190.7	134.4	162.1
EBITDA	113.2	57.2	6.5	85.4
Growth (%)	16.8	-49.5	-88.6	1,213.4
Depreciation	27.1	34.8	26.1	29.7
Interest	5.6	9.8	3.2	3.0
Other Income	15.1	16.3	18.8	18.8
Exceptional Items	-	-	-	-
PBT	95.5	28.9	-4.0	71.4
MI/PAT from associates	-	-	-	-
Total Tax	33.9	0.7	-2.4	18.0
PAT	61.6	28.2	-1.6	53.4
Growth (%)	32.7	-54.2	-105.7	LP
EPS (₹)	2.2	0.8	0.0	1.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	61.6	28.2	-1.6	53.4
Add: Depreciation	27.1	34.8	26.1	29.7
Add: Interest Paid	5.6	9.8	3.2	3.0
(Inc)/dec in Current Assets	-14.0	17.7	43.1	-36.5
Inc/(dec) in CL and Provisions	4.3	-15.4	-16.3	16.2
CF from operating activities	84.6	75.1	54.4	65.8
(Inc)/dec in Investments	-15.8	-36.7	0.0	0.0
(Inc)/dec in Fixed Assets	-40.1	-15.7	-7.5	-7.5
Others	13.6	-5.4	0.0	0.0
CF from investing activities	-42.4	-57.7	-7.5	-7.5
Issue/(Buy back) of Equity	-56.4	0.0	0.0	0.0
Inc/(dec) in loan funds	24.2	-74.1	0.0	0.0
Interest paid	-5.6	-9.8	-3.2	-3.0
Dividend outflow	0.0	0.0	0.0	-41.5
Others	-1.7	0.3	0.0	0.0
CF from financing activities	-39.6	-83.6	-3.2	-44.5
Net Cash flow	2.6	-66.2	43.8	13.9
Opening Cash	76.2	78.8	12.6	56.4
Closing Cash	78.8	12.6	56.4	70.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	55.3	69.1	69.1	69.1
Reserve and Surplus	548.0	562.7	561.1	573.0
Total Shareholders funds	603.3	631.8	630.2	642.1
Total Debt	74.1	0.0	0.0	0.0
Lease Liabilities	0.0	18.3	18.3	18.3
Total Liabilities	677.4	650.1	648.5	660.4
Assets				
Gross Block	399.7	433.7	441.2	448.7
Less: Acc Depreciation	89.8	124.6	150.6	180.3
Net Block	310.0	309.1	290.6	268.4
Capital WIP	-	-	-	-
Total Fixed Assets	310.0	309.1	290.6	268.4
Investments	171.7	208.4	208.4	208.4
Deferred tax assets	4.6	10.0	10.0	10.0
Debtors	125.4	106.3	81.1	101.7
Loans and Advances	22.2	21.7	12.4	21.7
Other Current Assets	17.8	19.8	11.2	17.7
Cash	78.8	12.6	56.4	70.2
Total Current Assets	244.2	160.3	161.0	211.4
Creditors	24.7	24.6	14.0	24.6
Provisions	4.9	4.2	2.4	4.2
Other Current Liabilities	23.5	8.9	5.0	8.8
Total Current Liabilities	53.1	37.7	21.4	37.6
Net Current Assets	191.1	122.6	139.6	173.7
Application of Funds	677.4	650.1	648.5	660.4

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	1.8	0.8	0.0	1.5
Cash EPS	3.2	1.8	0.7	2.4
BV	21.8	18.3	18.2	18.6
DPS	0.0	0.0	0.0	1.0
Cash Per Share	2.8	0.4	1.6	2.0
Operating Ratios (%)				
EBITDA Margin	34.9	23.1	4.6	34.5
PBT / Total Operating income	26.5	9.0	-13.9	22.5
PAT Margin	19.0	11.4	-1.1	21.6
Inventory days	0.0	0.0	0.0	0.0
Debtor days	141.0	156.5	210.0	150.0
Creditor days	27.7	36.3	36.3	36.3
Return Ratios (%)				
RoE	10.2	4.5	-0.3	8.3
RoCE	15.0	6.2	-0.1	11.8
RoIC	20.4	5.3	-5.2	15.0
Valuation Ratios (x)				
P/E	9.6	26.2	-461.5	13.8
EV / EBITDA	5.0	9.0	72.8	5.4
EV / Net Sales	1.7	2.1	3.4	1.9
Market Cap / Sales	2.3	3.0	5.2	3.0
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.7	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	3.1	3.9	4.9	3.8
Quick Ratio	3.1	3.9	4.9	3.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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