MOTILAL OSWAL

Thematic | July 2017

Radio

Well tuned to flourish

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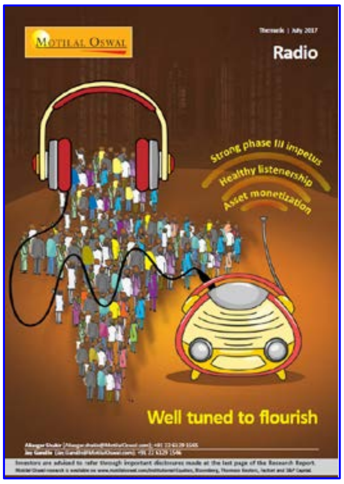
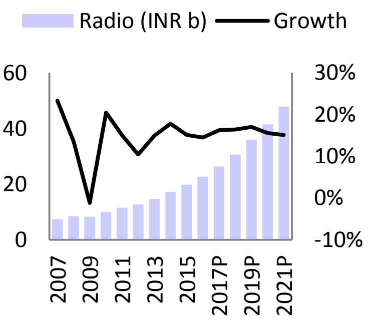
Contents: Well tuned to flourish

Radio



Radio industry to grow at ~16% next 5 years



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- **Over the past 18 months, the Indian radio industry has witnessed a 66% increase in the number of channels to reach 407, led by phase-III auctions and phase-II license renewals. The launch of these channels over the last six months is likely to drive radio industry revenue CAGR of 16% over CY16-21E, ~1.4x of traditional media (ex-digital).**
- **Despite the evolution of the digital medium, radio remains a stable advertising medium globally, backed by its localized and interactive content. Notably, radio operators have introduced digital radio to mitigate the risk of losing share to digital medium. We believe the radio listenership base in India is likely to increase going forward, driven by (i) wider footprint and (ii) phase-III-led content differentiation avenues.**
- **Entertainment Network India Limited (ENIL)/Music Broadcast's (MBL) heavy upfront investment of INR7.1b/3.4b in phase-III auctions and phase II renewals led to single-digit return ratios in FY17. However, ENIL/MBL are expected to reach RoIC of 20%/25% by FY20, led by improving EBITDA margins and asset turns.**
- **Large operators like ENIL/MBL with market shares of 30%/14% have strong execution capabilities. Inventory addition should help ENIL/MBL to record revenue growth of 16%/15% and EBITDA CAGR of 30%/20% over FY17-20.**
- **We initiate coverage on ENIL with a Neutral rating and a TP of INR 928, assigning 20x on FY19E EBITDA of INR2.1b, led by its healthy growth and market leadership. We initiate coverage on MBL with Buy rating and a TP of INR 469, assigning 18x EV/EBITDA on FY19E EBITDA of INR1.3b, as we believe the company should improve its market share led by an increasing listenership base.**

Asset monetization phase to improve sector RoIC

Phase-III opens up growth opportunities

The Indian radio industry has witnessed significant inventory (advertising time) growth over the past 18 months. Notably, over this period, the number of radio channels in the country increased 66% to 407 from 245, while the total number of cities with presence of private FM operators has grown to 113 from 85. This has led to steady growth in advertising time in an otherwise inventory-starved radio industry. Additionally, the renewal of Phase-II licenses in FY16 for 15 years has provided much-needed clarity on long-term business continuity and mitigated the risk of high license cost. Also, we note that the radio industry's current share of India's overall ad pie at ~4% has grown from 1.5% during the Phase-I period. The new frequencies should increase the ad share further, helping catch up with the world average of 7% and the US' 11% (ex-digital). With significant inventory addition, radio (market size of INR23b in CY16) is likely to emerge as the fastest growing ad market (+16%, 1.4x of the traditional ad market, over CY16-21E, ex-digital) in India.

Digital unlikely to hurt radio market

Radio is largely associated with music/songs in India. With the advent of various digital platforms, IPods/MP3 players, etc., it was widely expected that the need to listen to radio would reduce over time. However, we note that radio listenership and ad market has grown consistently, with radio operators bringing in interactive RJ talk shows, local city updates and other interesting programs to the table, giving listeners a feeling of two-way communication. A similar trend is observed globally –

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radio remains a stable advertising medium in most developed markets, despite the advent of the digital platforms (~7% share of the total ad pie). We believe that the radio listenership base is likely to improve in India, with (i) an increase in the number of cities under radio coverage and (ii) content differentiation (multiple frequencies, allowance of news/current affairs). Also, with increasing internet penetration, radio operators have started introducing digital radio (offering music of different genre, mood, artist and time period). We note that due to the lack of listeners and a viable revenue model in the digital medium, radio operators for now are only offering limited content (music). However, as digital medium evolves, we believe the operators should expand their offering to include localized content, RJ talks, etc., to de-risk their businesses.

Content Differentiation and Interactive medium provides radio an edge over digital media

ENIL, MBL: Strong execution capability, leadership position to drive industry-leading revenue growth

CAGR FY17-20E	ENIL (%)	MBL (%)
Revenue	16	15
EBITDA	30	20
PAT	43	41

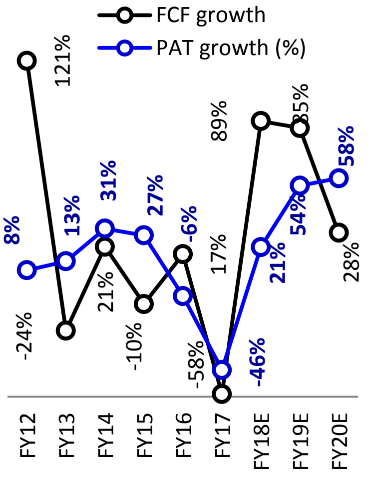
Entertainment Network India Limited (ENIL) and Music Broadcast (MBL) remain the top two players in the radio space, with market shares of 30% and 14%, respectively. At 13% and 17%, ENIL and MBL's revenue growth has remained resilient over the last five years. ENIL added 42 stations over the last two years to be the largest operator with 73 channels (excluding three Oye FM stations), while MBL added 11 channels to take its total channel count to 39. Fresh inventory with the launch of new channels is likely to help ENIL/MBL record revenue growth of 16%/15% over the next three years (FY17-20E). Additionally, operating leverage from an inherent fixed cost structure and networking of new channels are expected to drive profit margins. We thus expect EBITDA/PAT CAGR (FY17-20) of 30%/43% for ENIL and 20%/41% for MBL.

Heavy lifting concluded; asset monetization mode (RoIC, FCF)

Phase-III has seen overall INR13b cumulative investment in upfront license cost, which is ~60% of the private FM market size. ENIL and MBL have spent >INR7b and INR3.4b, respectively, toward Phase-III license acquisition, set-up cost and renewal of Phase-II licenses (i.e. nearly 60-70% of their balance sheet size). This has resulted in their RoCE and RoEs plummeting from average 20-25% to currently below cost of capital. However, incremental maintenance capex should be a meager INR50-60m, driving steep FCF and RoIC growth. We expect ENIL and MBL to reach RoIC of 20%/25% by FY20, led by improving EBITDA margins and asset turns. Also, their FCF yield should improve to ~5%, with FCF generation of INR4.3b for ENIL and INR2.6b for MBL over the next three years (FY17-20).

Meagre incremental maintenance capex will drive FCF and RoIC growth post the huge investments in phase III

FCF and PAT growth for ENIL



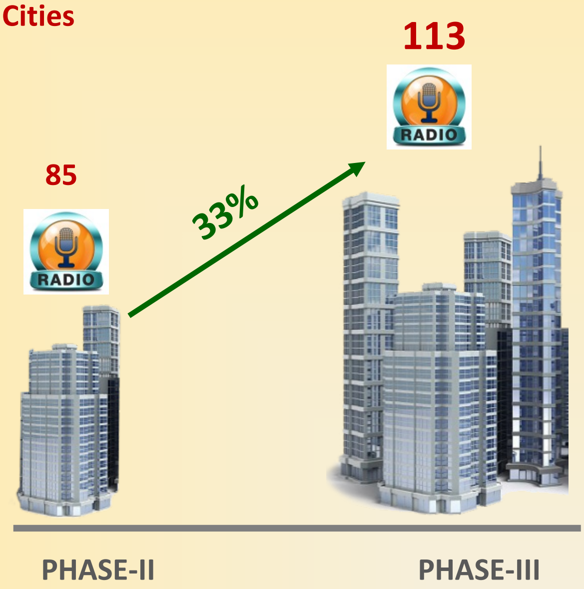
Valuation: ENIL (Neutral); MBL (Buy) – it's a three-year story

Global radio companies with low-single-digit growth garner ~10-12x EV/EBITDA on a one-year forward basis. At current price, ENIL is trading at EV/EBITDA of 25x/20x and P/E of 70x/45x for FY18E/19E. The company's strong execution capability is evident from its intact leadership position (30% market share over the last 10 years), despite operating in a homogeneous product market. We assign 20x on FY19E EBITDA of INR2.1b, arriving at a target price of 928, which is 2% above CMP. We initiate coverage with a **Neutral** recommendation. ENIL is expected to witness super-normal growth over FY18-20, RoIC recovery to ~20% and high FCF generation with FCF yield of 5%. Subsequently, if we assign 15x EV/EBITDA on weighted-average 1QFY22E EBITDA of INR3.6b, we arrive at a target price of 1,270/share. Including the valuation of the three 'Oye' FM stations (which may be acquired by March'18) of INR51/share, the combined TP is INR 1,321, implying 45% upside over a three-year period (+15% annually). We think the current price captures large portion of ENIL's growth potential.

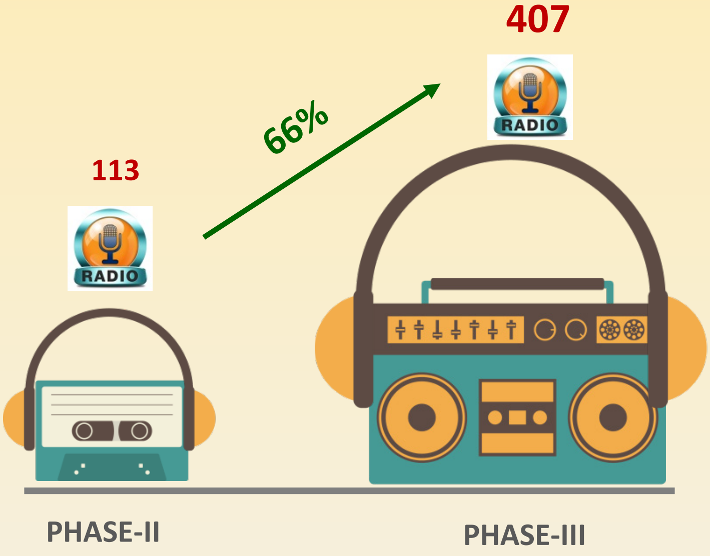
MBL is trading at EV/EBITDA of 13x/10x and P/E of 22x/17x for FY18/19E. The company is trading at ~30-35% discount to ENIL in terms of FY19E EV/EBITDA, despite its healthy growth and RoIC/FCF potential. We believe there is strong likelihood of shrinking of this discount. We value the company at 18x EV/EBITDA on FY19E EBITDA of INR1.3b, arriving at a TP of INR469/share, ~29% upside from the CMP of INR365. We initiate coverage with **Buy**. The high multiple is provided to capture the super-normal EBITDA/PAT CAGR opportunity of 20%/41% over the next three years (FY17-20). MBL's growth is a three-year story, as RoIC is likely to recover from current 13% to 25% over the next three years. Subsequently, if we assign 15x EV/EBITDA on weighted average 1QFY22E EBITDA of INR1.9b, we arrive at a TP of 626/share, implying 72% upside over a three-year period.

Phase-III: Total number of channels increased by two thirds and cities by one thirds

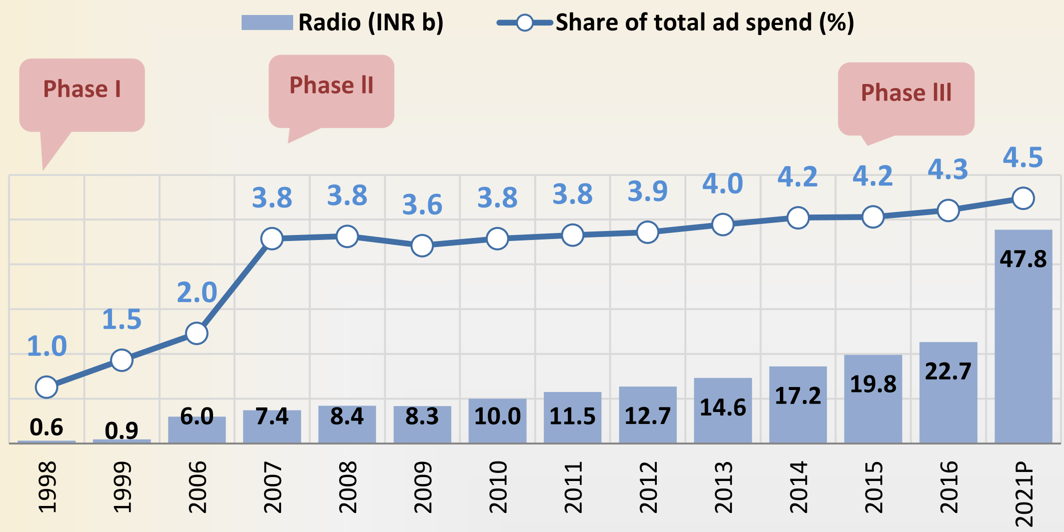
Cities



Channels'

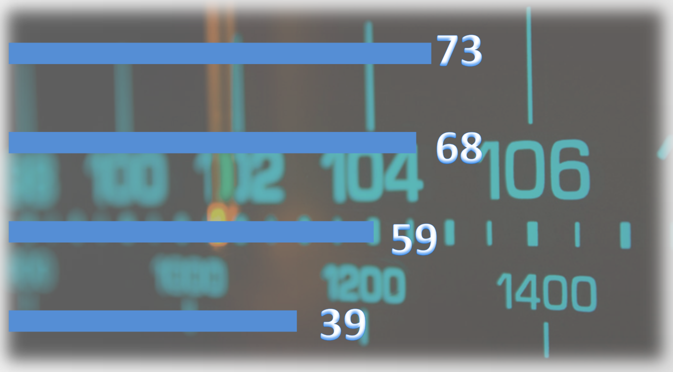


Strong growth expected with addition of new licenses

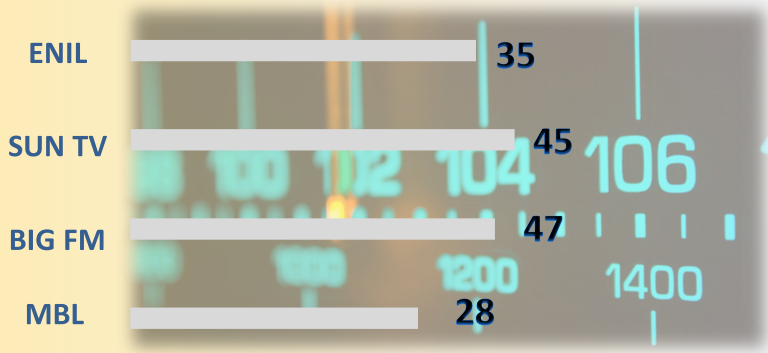


Top players of the Indian Radio market

PHASE-III



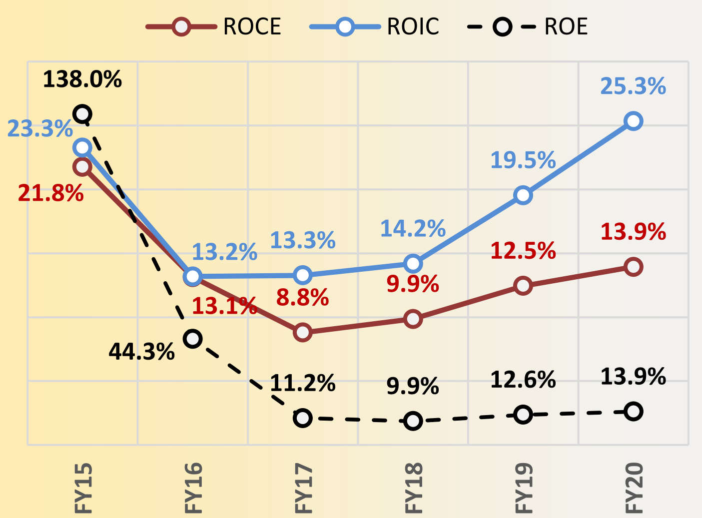
PHASE-II



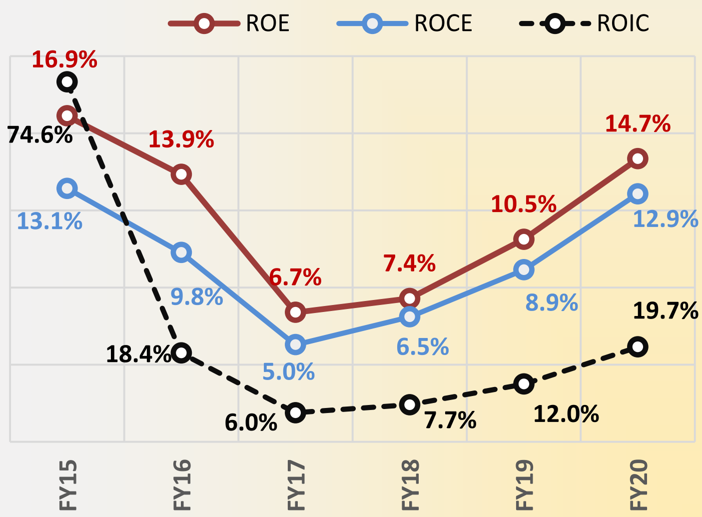
Phase III norms to favor radio market

1. Allowance of multiple frequencies
2. Full-scale networking now permitted
3. Extension of the radio license period to 15 years
4. Lock-in of three years v/s five years earlier

MBL: Return ratios to improve from FY18



ENIL: Asset monetization mode – Return Ratios to have a steady growth



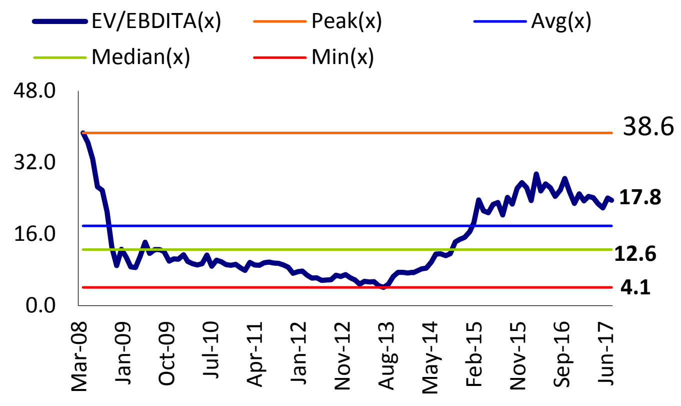
Global peer comparison

Exhibit 8: Radio: Global radio peer comparison

Company Name	MCap	Revenue (USD b)			EBITDA Margin (%)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	USD b	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E
Germany																
Bauer	0.5	1.5	1.6	1.7	11.5	11.7	12.0	17.3	17.1	13.6	5.4	6.9	6.4	3	4	5
USA																
Entercom Comm.	0.4	0.5	0.5	0.5	23.4	22.9	24.8	16.0	9.9	7.6	10.2	8.1	7.3	10	NA	NA
Entravision Comm.	0.6	0.3	0.4	0.3	24.8	15.7	27.3	31.7	40.0	20.9	13.4	13.2	10.3	12	12	21
Townsquare Media	0.2	0.5	0.5	0.5	19.6	20.2	21.1	10.8	11.4	9.4	7.0	6.9	6.4	6	6	7
Sirius XM Holdings	25.5	5.0	5.3	5.7	33.9	38.0	38.8	27.5	30.7	24.8	15.7	15.4	14.2	NA	-44	-51
UK																
Sky	21.7	17.8	17.0	17.9	16.5	15.9	16.7	21.7	17.5	15.0	10.8	11.9	10.8	20	25	25
Luxembourg																
RTL Group	11.9	6.9	7.4	7.7	21.6	21.9	22.0	14.9	13.3	12.9	8.7	7.9	7.6	24	24	23
France																
NRJ	1.1	0.4	0.4	0.4	14.8	15.2	16.5	22.2	41.0	33.9	10.6	13.2	11.9	6	4	5
India (USD m)	**MCap**	**Revenue (USD m)**			**EBITDA Margin (%)**			**PE (x)**			**EV/EBIDTA (x)**			**RoE (%)**		
ENIL	675	75	84	103	29.1	24.7	26.8	37.5	73.1	52.2	26.7	32.6	24.5	14	8	9
MBL	323	36	NA	50	33.8	NA	35.2	NA	NA	44.8	NA	NA	16.2	52	NA	8

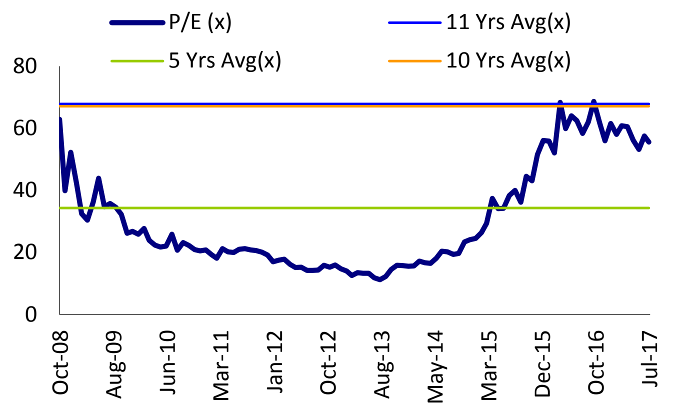
Source: Bloomberg

Exhibit 9: ENIL – EV/EBITDA



Source: MOSL

Exhibit 10: ENIL – P/E



Source: MOSL

Industry landscape

- **With Phase-III, FM radio coverage has increased substantially, with the number of channels/cities under coverage growing 66%/33%, offering huge opportunities. The government raised INR13b from Batch 1 and 2 of Phase-III.**
- **Batch 1 of phase-III involved only the existing cities; auctions helped the government garner 153% of the reserve price. The two large radio stations Radio Mirchi and Radio City acquired 17 and 11 channels, respectively.**
- **Batch 2 of phase-III opened up 69 fresh cities (17 new cities), but the high reserve prices led to lower participation, leading to only 6% increase in reserve price. ENIL and Sun TV were the only two participants among the larger players.**
- **Migration of Phase-II licenses without auction helped in two ways: 1) provided business visibility with a 15-year license period and 2) resolved the risk of high renewal price.**

Radio still on aggressive growth path

Phase-III opens up growth opportunities

	Phase 2	Phase 3
Cities	85	113
Channels	245	407

Radio is the only ad market wherein inventory is capped through licensing. In 2016, (10 years after Phase-II), the government released fresh radio frequencies through Phase-III auctions. Over the last 18 months, led by Phase-III licensing, the radio industry witnessed the number of channels grow by 66% to 407 (from 245 in Phase-II). Total cities under private FM coverage too grew by ~33% to 113 from 85. This has led to steady growth in radio ad inventory in an otherwise inventory-starved industry.

Exhibit 11: Phase-III –Total number of channels increased by two thirds

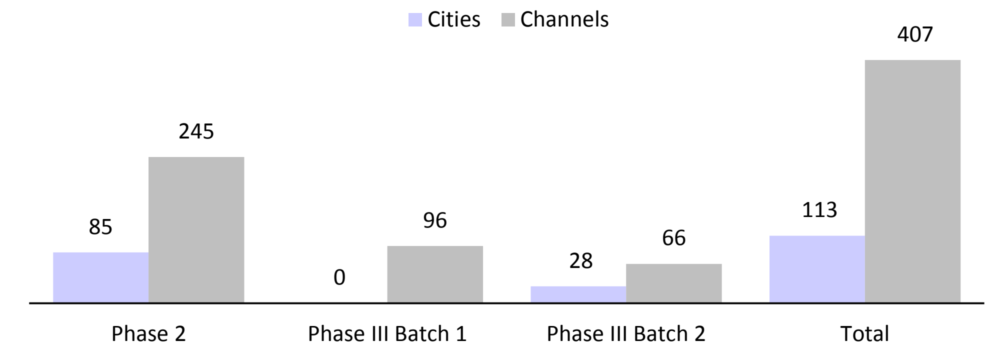
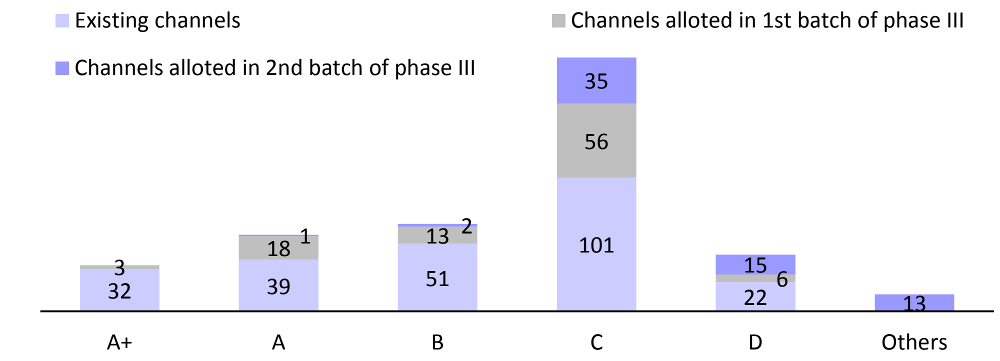


Exhibit 12: Phase III: Lower reserve prices and high growth potential in category C circles



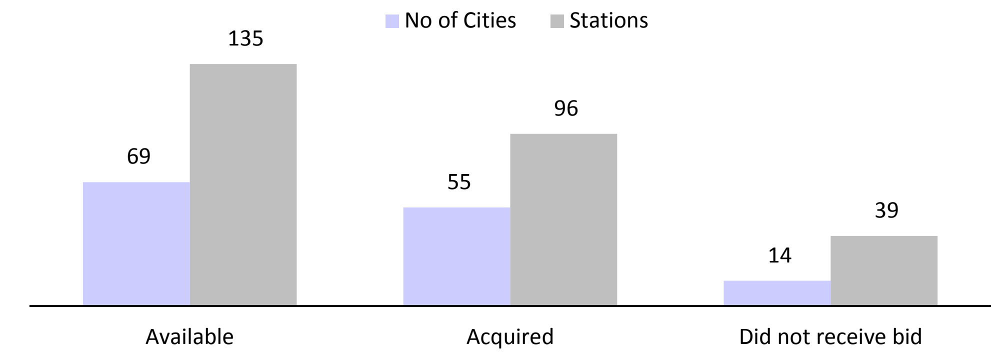
Source: FICCI-KPMG 2017, MOSL

Company	Investment (INR b)
ENIL	3.4
HT Media	3.4
Sun TV	1.8
BIG FM	1.2

Existing cities breathe a new life in Batch 1 of Phase-III

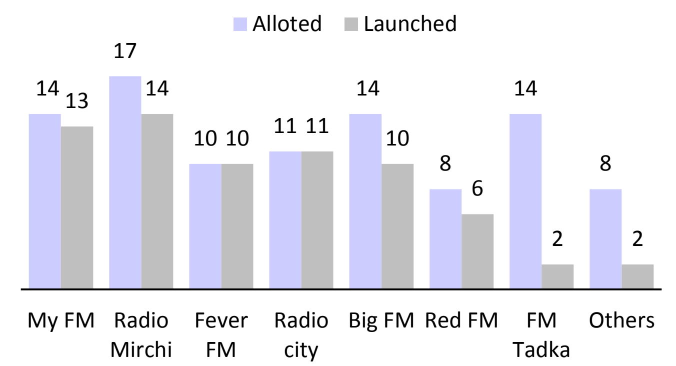
Batch 1 of the Phase-III auction rolled out 135 channels for auction in 69 existing cities. We note that since there was no new station for the last 10 years, ad inventory was largely exhausted in most of the existing cities, particularly of big operators like ENIL. Thus, the auction allowed significant supply support to drive growth in the sector. Operators participated in 55 of these 69 cities, with 96 of the 135 channels being acquired. The government garnered INR11b via the auction, which is 153% higher than the reserve price, highlighting the huge interest in the sector. Among the top spenders were HT Media (INR3.4b for 10 channels), ENIL Group (INR3.39b for 17 channels), Sun TV-led Digital Radio Group (INR1.8b for 8 channels) and Big FM (INR1.2b for 14 channels). Many operators added second frequencies in the existing cities – the largest was ENIL, adding nine channels through second frequencies; HT Media added second frequency in two large cities (Delhi and Mumbai).

Exhibit 13: Batch 1 Phase-III: Channels acquired in 55 cities



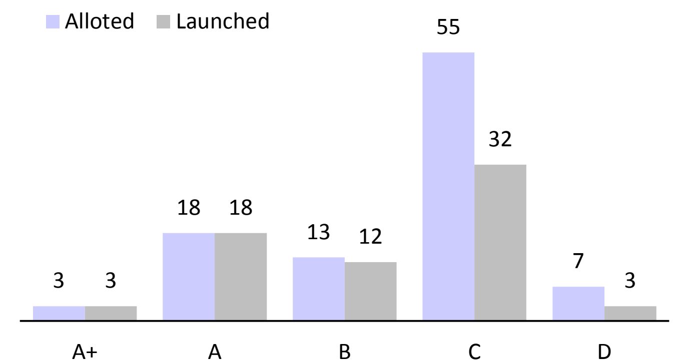
Source: FICCI-KPMG 2017, MOSL

Exhibit 14: Batch 1 Phase-III: ENIL bought maximum channels



Source: I&B Ministry, MOSL

Exhibit 15: Batch 1 Phase-III: Channels launched in top cities



Source: I&B Ministry, MOSL

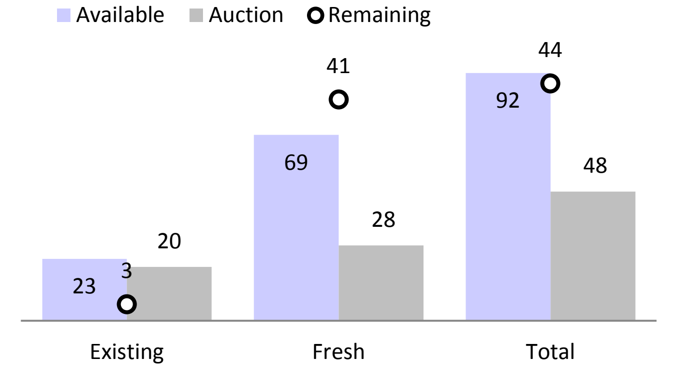
Government gained only 6% higher price in Batch 2 compared to 153% in Batch 1

High reserve price highlights low interest in Batch 2 of Phase-III auctions

In the Batch 2 of Phase-III auctions, there were a total of 266 channels available in 92 cities. Out of these, 69 were fresh cities with 227 stations. The auction also included 39 unsold channels from 23 cities of Batch 1 of Phase-III. The Batch 2 of Phase-III saw limited interest, with only ENIL and Sun TV showing interest among the large radio brands. The high reserve price linked to the highest auction price circles in each zone filtered on the basis of population led to the lack of interest. The reserve price did not factor in the varying market size and the potential of each city/town, despite similar population. Of the 69 fresh cities, only 28 cities saw participation with acquisition of 43 channels.

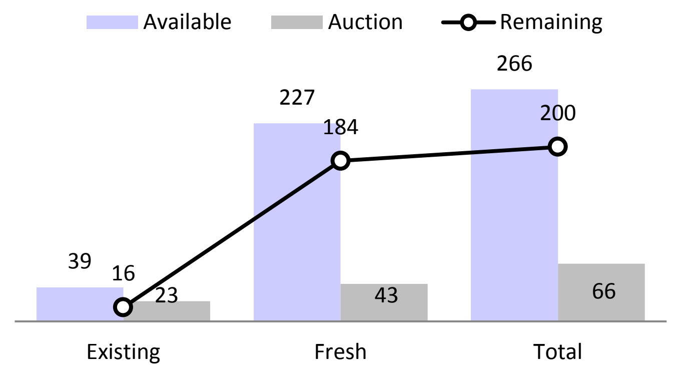
Overall, 66 channels in 28 cities were acquired in Batch 2 of Phase-III. The government garnered INR2b, i.e. 6% higher than the reserve price (A category witnessed a 30% increase, while bids for the rest of the categories were close to their reserve price). Sun Group and ENIL were the only two large radio operators participating in the auction. Sun Group acquired 13 channels for INR806m (was the biggest spender) via Kal Radio and South Asia FM, while ENIL acquired 21 channels for INR513m. We believe the lack of interest will likely propel the government to re-evaluate the auction prices. Lower prices should expand radio penetration and help reach in smaller cities, improving the share of radio in the total ad pie.

Exhibit 16: Batch 2 – Phase-III: 28 new cities gets FM



Source: FICCI-KPMG 2017, MOSL

Exhibit 17: Batch 2 – Phase-III: Participation in only 43 new channels



Source: FICCI-KPMG 2017, MOSL

Exhibit 18: Batch 2 Phase-III: FM deepens footprint in category C&D circles

Channel	A+	A	B	C	D	Others
Radio Mirchi	0	0	1	14	6	0
Red FM	0	1	0	10	1	1
Others	0	0	1	11	8	12

Source: MOSL

ENIL and SUN TV – Acquired channels in 10 & 7 fresh cities respectively in Batch 2

Focus on newer markets to expand the listenership base

In Batch 2, channels were acquired in 28 new cities. Of these cities, there were 17 with no operational FM stations. This gives the companies a huge first-mover advantage with potential to boost the listenership base. ENIL's Radio Mirchi acquired channels in 10 fresh cities, while Sun TV-operated South Asia FM and Kal Radio acquired channels in five and two cities, respectively.

Exhibit 19: Batch 2 Phase-III: FM extended to fresh cities

Company	City	FM Frequency
ENIL	Amravati	92.1
	Bhavnagar	91.5
	Hubli-Dharwad	98.3
	Jamnagar	95
	Ujjain	91.9
	Bharuch	92.3
	Junagarh	95
	Mehsana	91.9
	Palanpur	93.7
	Raigarh	91.1
Sun TV	Erode	91.9
	Hubli	93.5
	Nellore	93.5
	Salem	93.9
	Vellore	93.9
	Dehradun	93.5
	Leh	93.5

Source: MOSL

Renewal of Phase-II license brings end to a major uncertainty

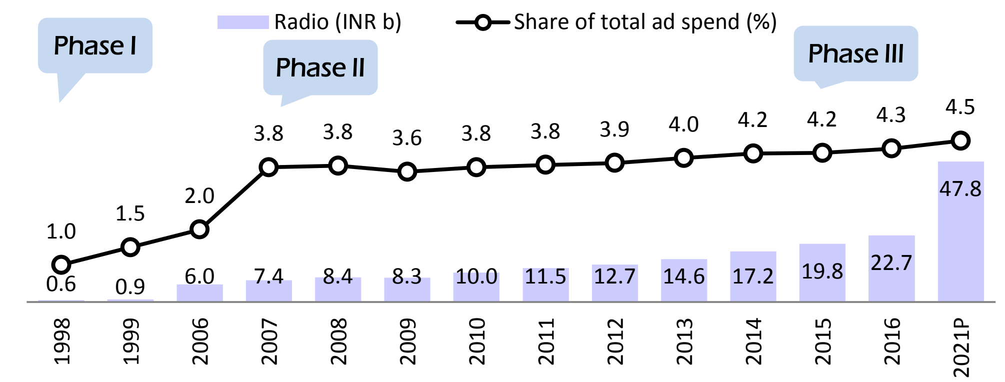
Phase-II licenses that expired in 2015 were renewed via Phase-III migration without any auction process. Renewal of Phase-II licenses (which happened in FY16) mitigated two key risks: 1) license period and 2) renewal price. Unlike telecom (where spectrum renewal has been a thorn in the flesh due to high pricing), radio saw a much better solution. First, the uncertainty around the continuation of the business on the lines of telecom was removed, with the license period being extended to 15 years from 10 years earlier. Second, the risk of high price for renewal was removed, with the government benchmarking the increase in license cost against the previous auction price. This capped the license cost increase to ~50% of the previous highest bids, mitigating the risk of high renewal costs. Phase-II renewal is a big positive as the existing business now has clear business visibility for the next 15 years without any hefty payments.

Radio remains the fastest growing ad medium

- **The Indian radio industry expected to grow at a 16% CAGR over CY16-21, the fastest rate after digital media. Radio's share of total ad spend is also set to increase.**
- **Acquisition of Phase-III channels and allowance of multiple frequencies will be the key drivers in expanding the listenership base and also the ad market.**
- **Home listeners still form more than 75% of the total listenership base. In the top cities, Radio Mirchi and Radio City lead the charts.**
- **ENIL consistently holds ~30% of the revenue market share. MBL remains the third largest player with a 14% market share.**

The Indian radio market (size of INR22.7b) is the fastest ad medium after digital, growing at a 15% CAGR over CY11-16. Since its privatization, radio's share of the total ad pie has been improving steadily (from just 1.5% in early 2000s to ~ 4.3% now) with addition of new licenses.

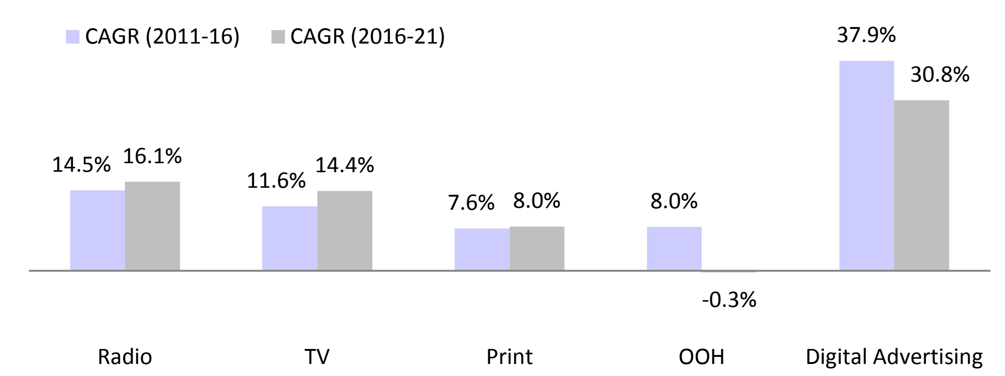
Exhibit 20: Strong growth expected with addition of new licenses



Source: Company, MOSL

Radio to grow at a CAGR of 16% over CY16-21 (exdigital) and form 4.5% share of the total ad pie by FY21

Exhibit 21: Digital and Radio: Two biggest growth engines of the ad industry

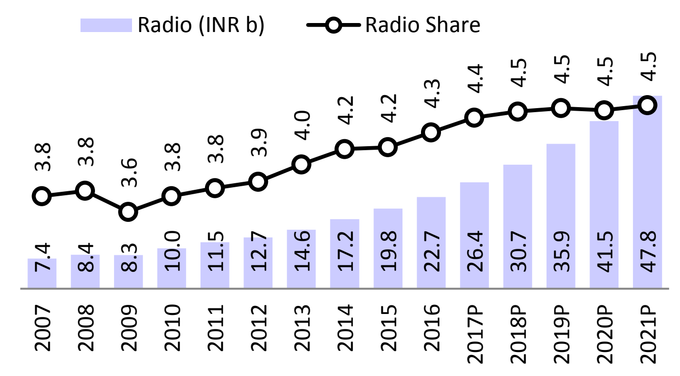


Source: FICCI-KPMG 2017, MOSL

Phase-III to increase radio's share of total media pie

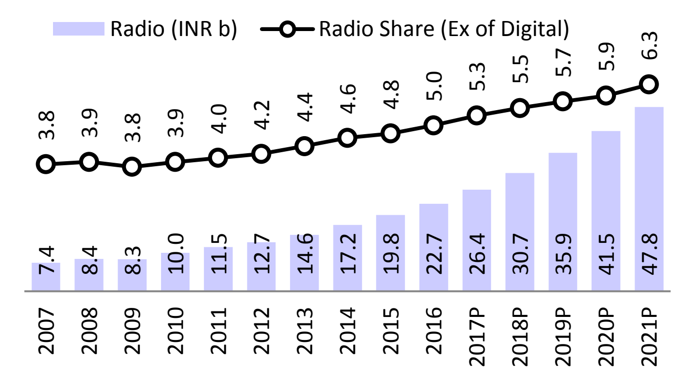
The Indian radio market is likely to record a 16% CAGR (~1.4x of the traditional ad market, excl. digital) over the next five years (CY16-21), outpacing the media industry ex digital growth of 11%, according to KPMG FICCI 2017 report. Subsequently, radio's share of the total ad pie is likely to reach 4.5% by FY21, factoring in Batch 1 and 2 licenses. Excluding the digital media, radio's share is likely to grow from 5% in CY16 to 6.3% in CY21.

Exhibit 22: Radio's share of the ad pie to increase steadily



Source: FICCI-KPMG 2017, MOSL

Exhibit 23: Radio share ex of digital should reach 6% by CY21



Source: FICCI-KPMG 2017, MOSL

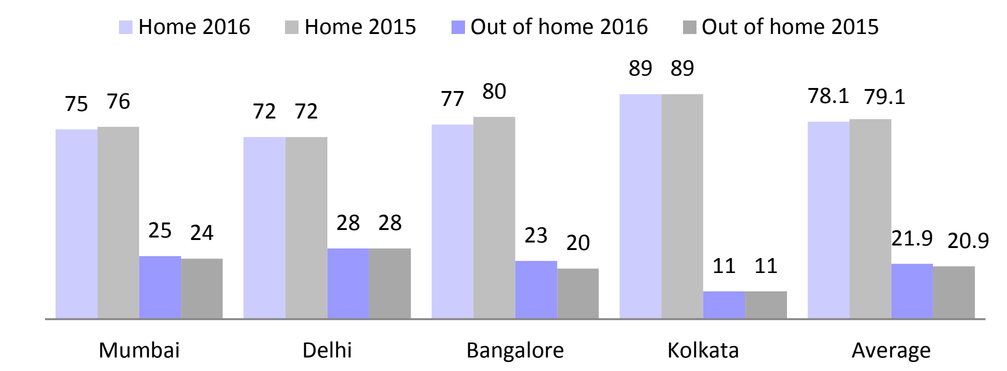
This should be driven by two key factors: 1) Capacity-hungry radio industry which was running at over 100% utilization level in top cities has been dropping ad buyers due to low inventory. However, they can now be serviced with additional inventory obtained from Phase-III channels. 2) With multiple frequencies, alternative content can be tested. Both these factors would boost the listenership base, expanding the ad market.

The launch of Batch 1 and 2 frequencies will take the total number of channels to 407 (from 245 channels in 85 cities now). Subsequently, Phase-III targets to offer additional 676 channels, which will significantly expand radio's reach in the country, supporting demand growth.

70% radio listenership is at home

At home listeners are still the biggest consumers of the radio markets constituting ~75% of the listenership base

Exhibit 24: Radio listenership at home – still above 75%



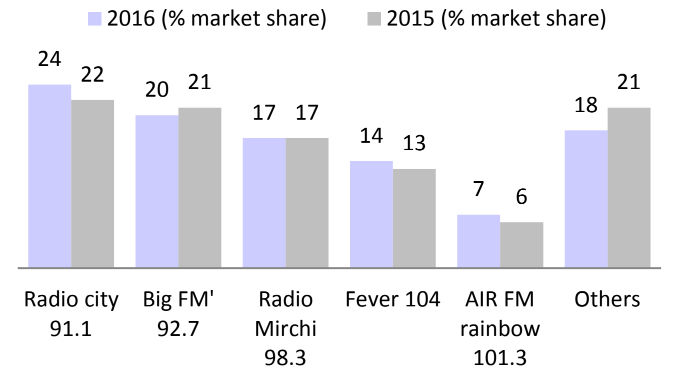
Source: FICCI-KPMG 2017, MOSL

Radio listenership in cars and out-of-home category is known to be flipping continuously to miss ads. However, the home category of listeners, have lesser channel-flipping possibilities. Radio listenership share of over 70% of the home category (sticky listeners) highlights that the risk of flipping while playing ads is significantly low.

Radio Mirchi and Radio City remain prominent in top cities

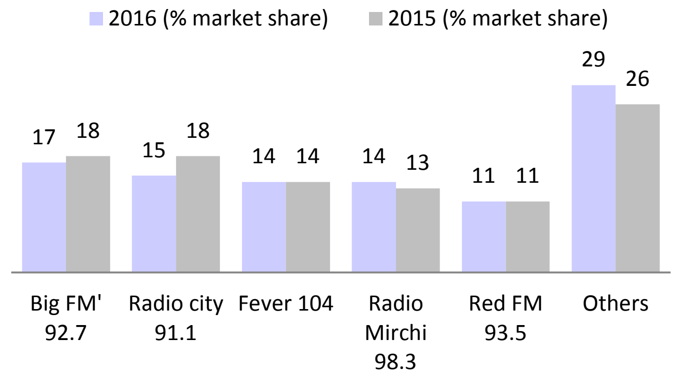
One of the key concerns about radio is that there is limited independent and authentic listenership research. This has led to each radio company relying on its own independent research. RAM does research of the top four ad markets, which indicates that ENIL's Radio Mirchi ranks among the top 3 in terms of listenership base. MBL's Radio City is in the top 2 in Bengaluru and Mumbai; it does not have operations in Kolkata.

Exhibit 25: Radio City – Gaining popularity in Bengaluru



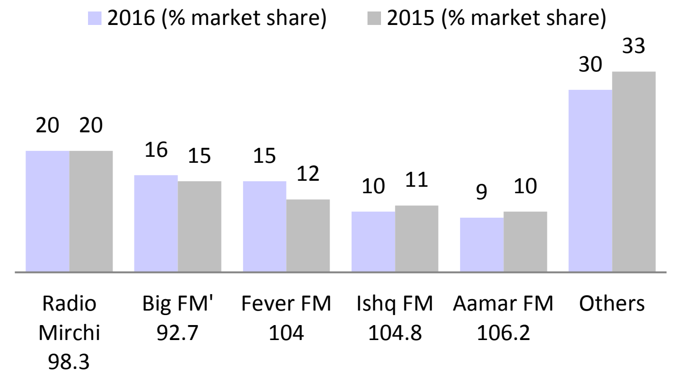
Source: FICCI-KPMG 2017, MOSL

Exhibit 26: BIG FM – No. 1 in Mumbai



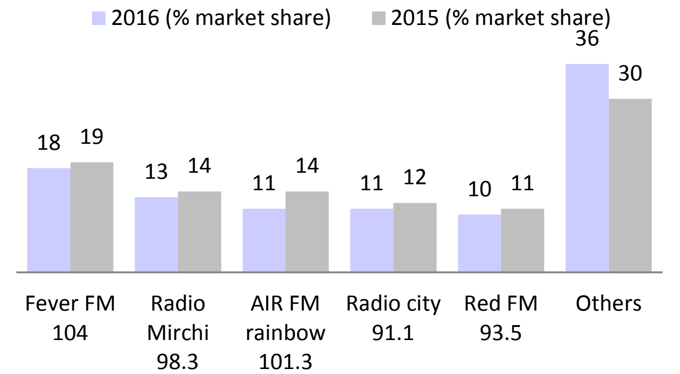
Source: FICCI-KPMG 2017, MOSL

Exhibit 27: Radio Mirchi – Retains top spot in Kolkata



Source: FICCI-KPMG 2017, MOSL

Exhibit 28: HT Media's Fever FM – Top FM station in Delhi



Source: FICCI-KPMG 2017, MOSL

Smaller stations to increasingly shift toward local advertisers

Local advertising has grown significantly

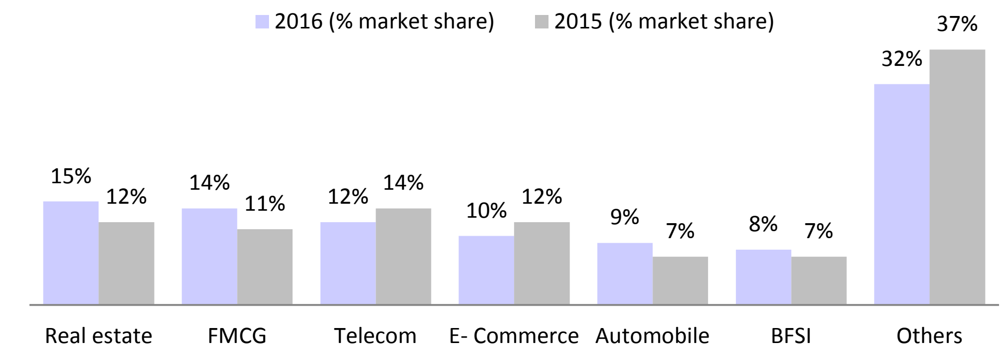
Sectorial mix of advertising to change considering the demonetization effects

The share of local advertising in the radio market has increased from 20-30% in early-2000s to 60% currently. Radio's key USP is that it caters to the local market, allowing advertisers to target specific markets (unlike TV). This also allows radio companies to garner better pricing, as local advertisers' budgets are of small ticket size and thus can be squeezed.

Local advertisers remain the mainstay

Sector-wise, apart from local advertisers, real estate remained the largest contributor (15% share), followed by FMCG (14%). Other major contributors include telecom and e-commerce. This sectorial mix could change in CY17, with demonetization already impacting retail/real estate contribution and e-commerce players tightening their strings over freebies.

Exhibit 29: Real estate/FMCG led in 2016 – impact of demonetization possible in FY17



Source: FICCI-KPMG 2017, MOSL

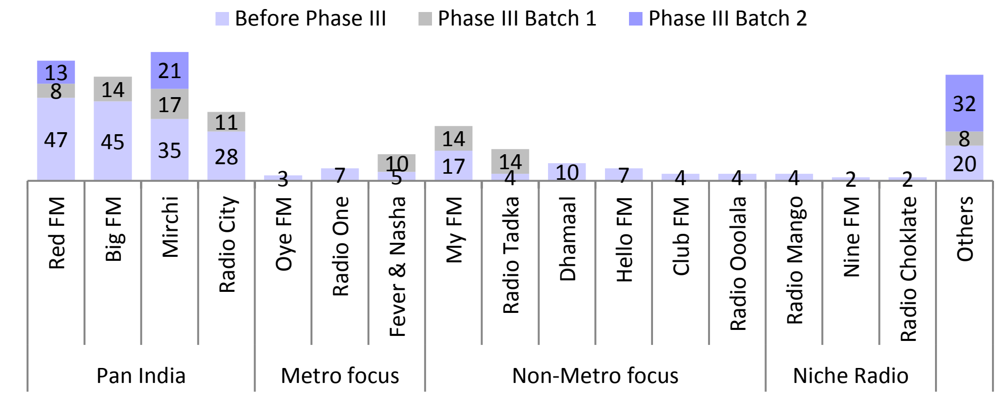
Top Players	Channels
ENIL	73
SUN TV	68
BIG FM	59
MBL	39

Top four national players hold the widest presence

ENIL is among the top radio players in the market, with a largest network of 73 stations (excluding three Oye FM stations). ENIL operates four brands: Radio Mirchi, Mirchi Love, Ishq FM and Mirchi 95. Post the completion of the lock-in period in March 2018, ENIL is likely to acquire TV Today's three more channels, taking the count to 76. Reliance and Sun TV, which were the top players in terms of network pre-Phase-III, now have 59 and 68 channels, respectively. Reliance Group's venture – Big FM – is now 49% acquired by Zee Group, and may be fully acquired post the completion of the lock-in period. Sun TV's 68 channels are operated under two brands – Red FM (a pan-India brand) and Kal Radio (a regional brand).

The other three large players that have expanded their network significantly are: a) MBL's Radio City (to 39 channels from 28 channels), HT Media's Fever (to 15 channels from 5 channels) and DB's My FM (to 31 channels from 17 channels). MBL also acquired Radio Mantra's eight channels and additional 11 from Phase-III auction to reach ~60% of radio presence. HT Media acquired Radio Ahaa FM and additional 10 channels, of which two are of multiple frequency (in Delhi and Mumbai), while DB added 14 channels (mainly in category B and C circles).

Exhibit 30: Mirchi, Sun Group and BIG – top three by number of channels owned

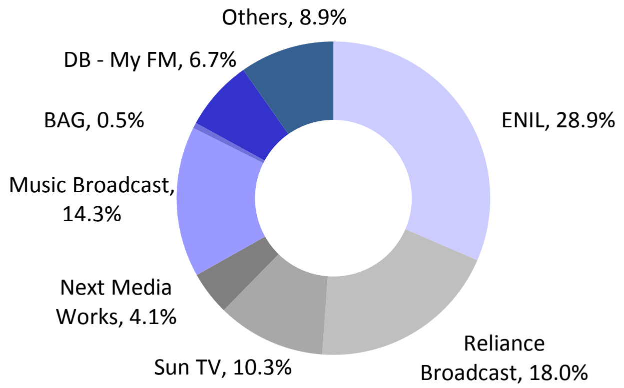


Source: FICCI-KPMG 2017, MOSL

Revenue market share and profitability – ENIL remains the biggest player

ENIL has been the dominant player in the radio industry for the past 15 years (since radio was liberalized), currently holding 30% revenue market share. This is significantly ahead of the second largest player Reliance Broadcast (Big FM; 18% market share) and MBL (Radio City; 14% market share). ENIL's share also includes contribution from non-FCT (~30% of revenues) related to activation and concerts.

Exhibit 31: ENIL – still the biggest player in the Indian radio industry by revenue

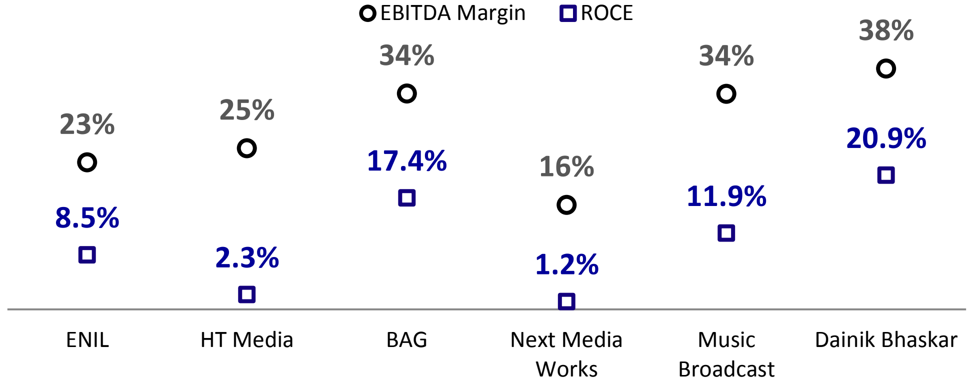


Source: FICCI-KPMG 2017, MOSL

Player/EBITDA Margin	FY17 (%)	FY20E (%)
ENIL	23	32
MBL	34	38

Radio industry average EBITDA margin remains at ~33-35%. Margins of all radio operators were languishing as of FY17 due to the rollout of Phase-III stations. We expect margins to recover to ~30% as the launch of fresh stations stabilizes with inventory gains in ~2-3 years. ENIL's standalone radio business has been profitable for more than 12 years due to its larger revenue base, which allows it to leverage fixed costs.

Exhibit 32: Dainik Bhaskar's MY FM – EBITDA margin and RoCE above peers



Source: FICCI-KPMG 2017, MOSL

Global radio market remains steady

- **Globally, the radio market has grown, despite the increasing appeal of digital content. The global radio market holds 7% of the overall ad pie (excluding digital media).**
- **The Indian radio market, with an expected CAGR of ~16% over CY16-21, should reach 6% of the country's total ad pie (excluding digital).**

Radio's average share of the global ad pie is 5%, and 7% excluding digital media. In the US, the share of radio is 11% ex-digital, while in most of the other European countries, it ranges from 5-8%. One of the key points to note is that the radio ad market continues to grow in most developed countries, despite the advent of digital content. Global radio growth was 5% in 2015, at par with TV and internet. Thus, radio has remained a fairly stable industry, eliminating fears of a shift to digital media. India has so far lagged due to radio's presence in only 85 cities, which have already reached nearly full capacity. However, with increased capacity, radio's share in overall ads in India should reach closer to the world average of 7-8%.

Exhibit 33: Limited presence in India – radio ad spend share lower than global average

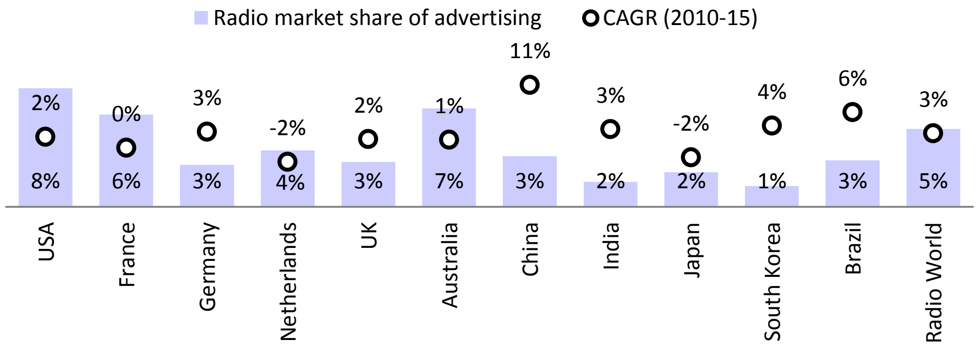


Exhibit 34: With new licenses, India's radio ad spend can match global average

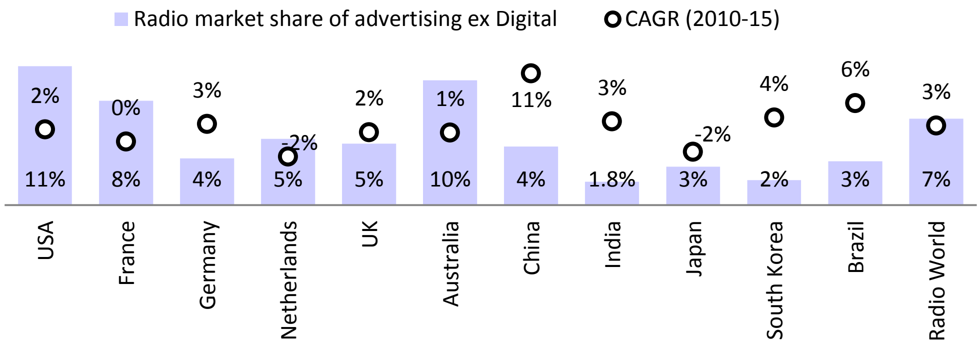
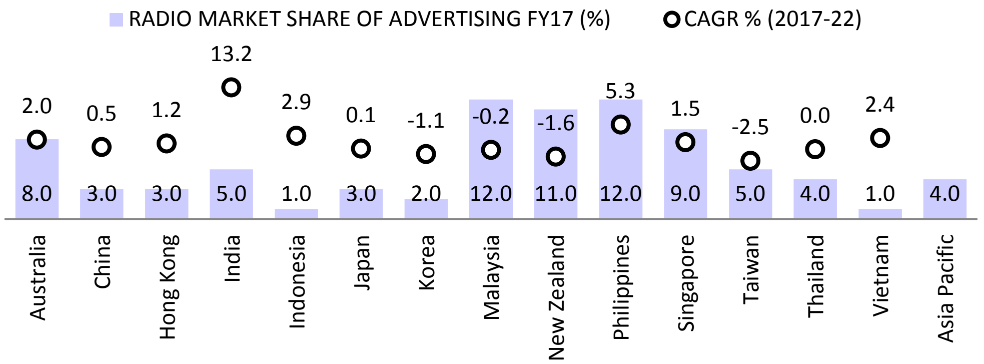


Exhibit 35: India –Highest CAGR expected over 2017-22

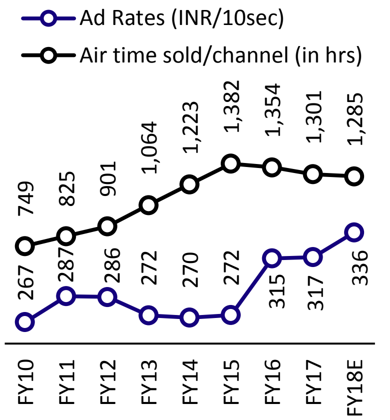


Source: Zenith OptiMedia, MOSL

Pricing remains firm

- **Industry has not witnessed pricing pressure due to Phase-III-led new station launches.**
- **Minimal 15-20% capacity addition in capacity-dearth market has not created any excess supply concerns.**
- **ENIL and MBL have taken price increases.**

Ad rates for ENIL have remained steady over the past few years



Limited capacity addition to abate pricing issues

With increased inventory in the radio industry, the key risk facing the radio companies is a price decline on account of excess ad airtime supply in the market. However, over the last 18 months, companies have not witnessed price declines, and we believe the risk is overdone, given:

- In Phase-II, capacity increased ~50%, i.e. 3-4 channels over the existing 4-5 channels, which led to excess supply and affected pricing. On the contrary, in Phase-III, capacity increased 10-15%, i.e. 1-2 channels over 7-8 existing channels. This would lead to less supply glut in the system.
- Currently, operators are running at full capacity in the top cities. The free commercial time (FCT) is running at an excess of 20-25 minutes per hour in peak time v/s 13-15 minutes per hour policy. ENIL has in fact started reducing ad inventory gradually to improve listenership and subsequently offset it by price increases.
- Unlike Phase-II when radio was getting established sales had to first market the advertisement impact of radio medium and then test the strength of the Radio brand, content and listenership base. With over 10-15 years of established brand across wider markets, the radio medium as well as brand is well established. This should help in faster ramp-up of capacity utilization and absorb supply of large players.
- Most operators with revenue market share of 15-20% have seen an increase in license fees in several cities due to a hike in the auction price. The license condition of 4% of revenue or 2.5% auction value, whichever is higher, has been increased owing to a sharp rise in auction value of existing station licenses. In such a scenario, the radio industry should witness cost-push inflationary price increase.
- With the advent of multiple new stations, where radio operators can hold more than one frequency in the same city, the second station may operate at lower pricing in the initial 1-2 years of its operations. However, we do not see any pricing risk for the primary frequency. Due to the second frequency's differentiated content strategy and listenership target market, it may not have a direct bearing on pricing of the primary frequency.

Phase III norms to favor radio market

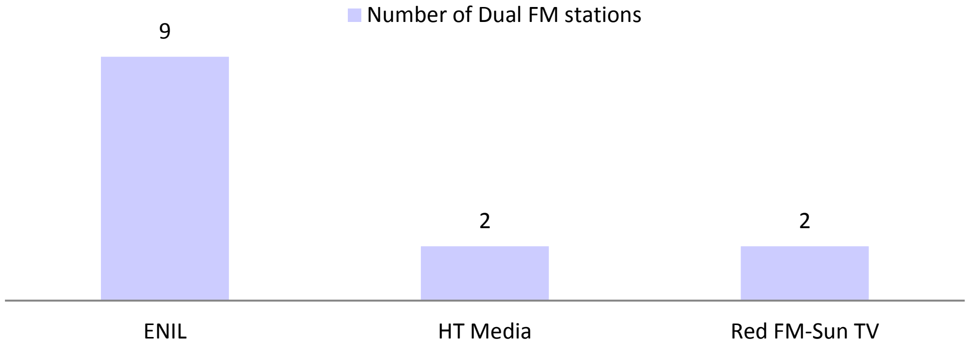
- **We believe the Phase-III norms are in favor of the radio companies. Now that the FM companies are allowed to hold multiple frequencies in the same city, companies can increase their bottom line at very low incremental costs.**
- **The government has allowed networking, which will help companies reduce their capex and opex. Also, the extension of the license period to 15 years brings in business certainty.**
- **In recent changes, FM stations will be allowed to broadcast current affairs and news from All-India Radio (AIR). This was prohibited previously, but this change will benefit the FM companies.**

Allowance of multiple frequencies

Key drivers for future growth of radio market:
Dual Frequencies
Networking
Radio license period increased to 15 years vs. 10 years earlier
Reduction in Lock-in period

One of the key concerns in the radio industry until Phase-II was that companies were not allowed to own more than one channel in a city. This is contrary to the TV or print businesses, wherein one can add multiple channels or pages to expand capacity. This has been one of the key factors for slower growth in the top cities, where bigger players like ENIL had exhausted capacity, leaving limited growth through pricing or extending ad per hour. With the allowance of multiple frequencies, ENIL, HT and other larger operators (which have acquired second frequencies in multiple cities) can see higher growth. Also, as the lock-in period of Phase-II licenses expires by March 2018, many smaller operators are likely to consolidate, opening up opportunities for growth. ENIL's acquisition of three TV Today channels (hold multiple frequencies in Mumbai, Delhi and Kolkata), which is stuck due to the lock-in clause, should be cleared by March 2018.

Exhibit 36: ENIL – dual frequencies in nine cities with the launch of Mirchi Love FM



Source: FICCI-KPMG 2017, MOSL

The ownership of multiple frequencies would also address the key issue of lack of content differentiation among channel operators. A second frequency can be operated from the same premises as the main frequency with minimal increase in capex. Further, operating costs are much lower as it encourages shared infrastructure and services. Thus, the operators will be able to target niche markets to attain listenership loyalty. ENIL has branded its second frequency with a love theme 'Mirchi Love'. HT and Red FM have adopted retro themes with Radio Nasha and REDTRO brands, respectively.

Full-scale networking has been permitted

The government has approved networking, which would improve viability of the radio operators in smaller towns as it will reduce both capex and opex. The set-up cost in smaller cities ranges from INR10-20m per station, while the operating cost is INR5-10m for smaller stations. With the introduction of networking, there would be ~50% of capex and opex cost savings. This would allow the radio business to operate on a lower asset base, allowing faster EBITDA breakeven and higher margins.

Extension of the radio license period to 15 years

The Broadcasting Ministry has extended the radio license period to 15 years from 10 years in the Phase-II regime, which could mean significant cost savings for companies and thus improved business certainty.

News content and current affairs

Until Phase-II, radio was restricted from broadcasting news and current affairs, limiting the flexibility of the radio companies. However, Phase-III allows news and current affair broadcasting, which has to be streamed from AIR. We believe this is a step in the right direction to increase content differentiation for the radio companies.

Lock-in of three years v/s five years earlier

The reduction in the lock-in period (will be over by March 2018) will be a key trigger point for consolidation of the smaller regional channels into large networks. This should enhance marketability of the large operators, with much more aggressive push and wider reach. ENIL and Zee already have marketing tie-ups with TV Today and Big FM. MBL has marketing tie-ups with ITM Software and Entertainment, and Ananda Offset (may be acquired post the completion of the lock-in period). This will accelerate growth of the overall radio industry, in our view.

Digital: Unlikely to hurt radio market

- **Digital medium was seen as a big threat to the radio industry. However, its impact has been limited as passive listeners continue to prefer radio due to its interactive nature.**
- **Digital content is still evolving. Top FM brands can enter this space and prove to be competitive with their in-house content generation and execution capabilities.**
- **New stations, multiple frequencies, content differentiation and increased inventory after Phase-III auctions will benefit the radio industry.**

Radio remains one of the oldest broadcasting mediums. It is largely associated with music/songs in India. With the advent of various digital platforms, IPods/MP3 players, digital radio streaming, etc., it was widely expected that the need to listen to radio would reduce over time. However, radio is expected to grow at 16% CAGR over CY16-21E) will continue remaining the second fastest growing media vertical after digital.

Radio is passive, yet interactive

Even before the entry of digital platforms, radio faced threat from the availability of IPods and MP3 players. However, we note that radio listenership and ad market has grown consistently in the past. This could be attributed to two things: (1) most people listen to radio while doing some other activity (e.g. driving, household chores). Active music listeners may not prefer radio, but the target audience of radio is passive, which prefer radio over MP3 players/IPods. (2) Despite passive listening, consumer research indicates the preference for radio due to the interactive RJ talks and local city updates, which gives a feeling of two-way communication.

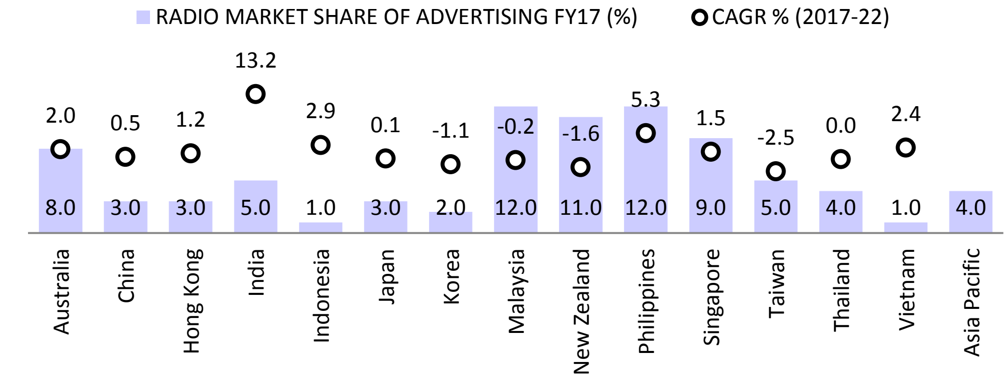
Digital radio evolving

As internet penetration improves, there would be listeners who would prefer digital radio due to its wider content and possibility of more localized content. Most radio operators thus have introduced digital radio, which offers a playlist of different genre, mood, artist and time period. Currently, due to the lack of listeners, digital content just involves a simple playlist without any localized content and RJ talks. However, as this medium evolves, companies are likely to accelerate the shift toward digital to de-risk their businesses. Digital radio has limited entry barriers and could thus see threat from new entrants; however, we believe that large radio operators with strong brands and execution capability would be well placed to tackle competition.

Global market remains firm

Most developed countries continue to witness growth in the radio market, despite exponential growth in the digital medium over the past few years. On an average, radio contributes ~7-8% of the global ad market, which is far higher than 4-5% in India. This could be mainly attributed to better content differentiation, particularly in the developed markets. We also note that, globally, radio is not just associated with music – there is a huge listenership base for alternate content like talk shows, news, sports and others.

Exhibit 37: Radio witnessing growth across the globe (ex of digital)



Source: Zenith OptiMedia 2013, MOSL

Content differentiation

With Phase-III, the Indian government introduced two key favorable steps to increase listenership: 1) multiple frequencies and 2) allowance of news and current affairs. Multiple frequencies (similar to TV) will allow the radio players to operate more than one channel in each city. With the first channel largely focusing on the mass listeners and the second one operating at lower incremental cost, we should see content differentiation. This has already started with the launch of retro channels. Even though news/current affairs are only allowed from AIR, we believe it is a welcome step. Gradually, we should see content differentiation playing a key role in increasing the listenership base and supporting growth of the sector.

Expanding footprint should increase listeners, depth will attract advertisers

One of the key factors restricting growth of the radio industry and its share of the total ad pie is that private FM radio has been limited to only 85 cities in the country until now. With Phase-III, the government plans to expand FM radio to over 280 additional cities, which will increase the share of radio. We believe the lackluster response in the previous Phase-III auction will force the government to reduce pricing, thereby increasing auction interest and expanding radio to more cities.

Companies

BSE Sensex: 32,246 **S&P CNX: 9,966** **July 2017**

Entertainment Network India

Music Broadcast

Entertainment Network India

BSE SENSEX	S&P CNX
32,246	9,966

CMP: INR911 **TP: INR928 (2%)** **Neutral**

Maintaining dominant Position

Portfolio boost post Phase-III; Phase -II license renewal ushers in smooth play

Entertainment Network India's (ENIL) strong execution capabilities are evident from its: i) **intact leadership position**, with ~30% share in a homogeneous market, ii) **strong execution capability**, with revenue CAGR of 14% and EBITDA CAGR of 20% over FY10-15 via diversification in its non-FCT business (30% of overall revenue), which is particularly impressive given the prevailing volatile ad market with supply constraints. ENIL's radio portfolio has strengthened significantly over the last two years, led by i) addition of 17 channels in Phase-III and four Oye stations (excluding three Oye stations awaiting regulatory approval), ii) renewal of Phase-II licenses for INR3.4b with a 15-year license period and iii) addition of 21 stations through batch 2 of Phase-III.

Three-pronged growth opportunity

ENIL's growth is expected to be led by: 1) **Pricing increase in the existing stations**: In the existing 32 stations, we expect ~6-8% revenue growth led by pricing. 2) **Volume growth** led by the launch of 17 new stations, and additional 21 stations in the batch 2 of phase-III. 3) **Growth in non-FCT business**: Revenue growth of the non-FCT business (on-ground activation, concerts and events) is estimated at 10-12%. Subsequently, we expect revenue CAGR of 16% over FY17-20E to INR8.6b.

EBITDA margin to scale new highs

EBITDA margin is expected to be on upward trajectory, as: i) batch 1 of phase-III stations, which incurred loss of INR299m in FY17, should breakeven in FY18, ii) margin of non-FCT business is expected to improve from single-digit currently to ~20% as the concerts segment turns margin-accretive, and iii) margin of the existing channels is expected to be supported by networking and operating leverage. Subsequently, we expect overall margin to expand 920bp to 31.9% over FY17-20E, driving 30% EBITDA CAGR to INR2.8b. The investment for incremental 21 stations in batch 2 of phase-III should not have significant impact on overall EBITDA, given its lower contribution.

Asset monetization phase to drive RoIC, FCF

ENIL has completed heavy lifting with capex of INR7.5b over the last two years, including license and set-up cost, without any equity dilution and net cash position of INR100m as of FY17. Front-ended capex and large inventory availability would allow ENIL to add cumulative FCF of INR4.3b over the next three years (FY17-20), with annual FCF of INR1.5b in FY18/19E. We expect ENIL's RoIC to start rebounding to reach 20% in FY20, led by healthy asset monetization phase, license period extension to 15 years and low maintenance capex.

Stock Info

Bloomberg	ENIL IN
Equity Shares (m)	47.7
52-Week Range (INR)	1088/667
1,6,12 Rel. Perf. (%)	-6/-1/11
M.Cap. (INR b)	43.4
M.Cap. (USD b)	0.7
Avg Val, INRm	15.0
Free float (%)	28.9

Financials Snapshot (INR b)

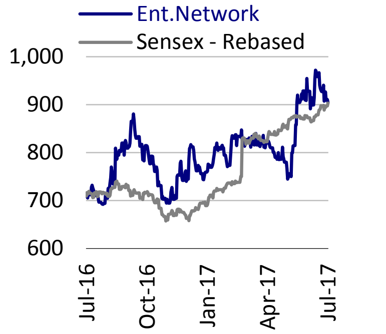
Y/E MARCH	FY17	FY18E	FY19E
Sales	5.6	6.4	7.4
EBITDA	1.3	1.6	2.1
NP	0.5	0.7	1.0
EPS (Rs)	11.4	13.8	21.2
EPS Gr. (%)	-45.5	20.7	53.7
BV/Sh. (INR)	179.3	191.9	211.9
P/E (x)	79.7	66.0	43.0
P/BV (x)	5.1	4.7	4.3
EV/EBITDA (x)	35.3	27.2	20.2
EV/Sales (x)	8.0	6.8	5.7
RoE (%)	6.7	7.4	10.5
RoCE (%)	5.0	6.5	8.9

Shareholding pattern (%)

As On	Jun-17	Mar-17	Jun-16
Promoter	71.2	71.2	71.2
DII	4.3	3.6	2.3
FII	15.7	16.5	16.6
Others	8.9	8.8	10.0

FII Includes depository receipts

Stock Performance (1-year)



Rich valuations

ENIL is trading at rich valuations of EV/EBITDA of 25x/20x on FY18/19E. On P/E, it is trading at 70x/45x on FY18/19E. We assign 20x on FY19E EBITDA of INR2.1b, arriving at a target price of INR928, 2% above CMP. We initiate coverage with a **Neutral** recommendation. The rich valuation can be ascribed to the super-normal EBITDA/PAT CAGR of 30%/43% over FY17-20E, as the new stations turn profitable, RoIC trajectory improves and annual FCF generation increases consistently. Subsequently, if we assign 15x EV/EBITDA on weighted average 1QFY22E EBITDA of INR3.6b, we arrive at a target price of 1,270. Including the three Oye FM stations' valuation of INR51/share, the combined TP works out to INR1,321, implying 45% upside over a three-year period (15% annually).

CAGR	Pre-Phase III (%) FY10-15	Post-Phase III (%) FY17-20E
Revenue	14	16
EBITDA	20	30
PAT	43	43

Strong execution capabilities

ENIL's strong execution capabilities are evident from two points. First, the company has maintained its leadership position with ~30% market share, despite operating in a homogeneous market. This highlights the strong brand value created by management.

Second, despite operating in a weak ad market with supply constraints, ENIL posted revenue/EBITDA CAGR of 14%/20% over FY10-15 (pre-phase-III period). To protect profitability, ENIL ventured into the innovative and complementary FCT segment in FY12, which includes on-the-ground activation and concert businesses, among others. This has allowed the company to maintain growth and market share over the past five years, with over 25% revenue coming from the activation business.

Exhibit 38: Sales to grow with increasing utilization levels of even new stations

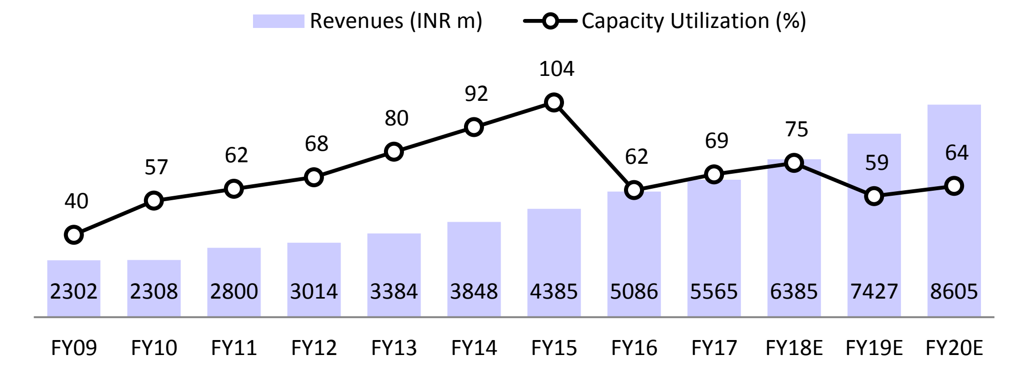


Exhibit 39: ENIL's revenues grew at 14% CAGR over FY10-15

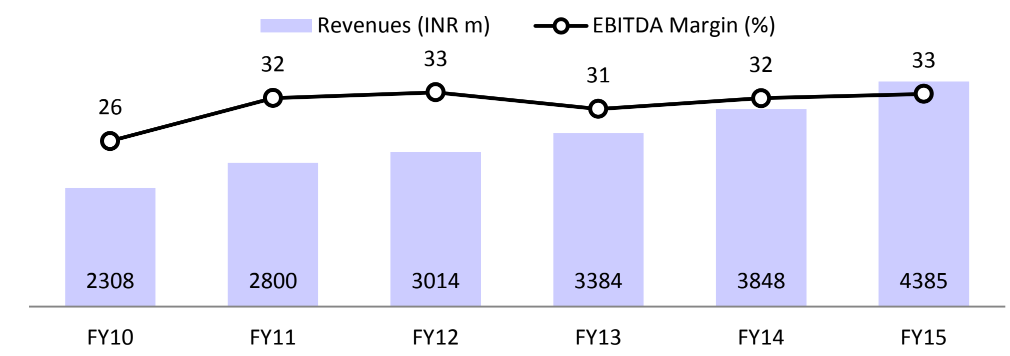
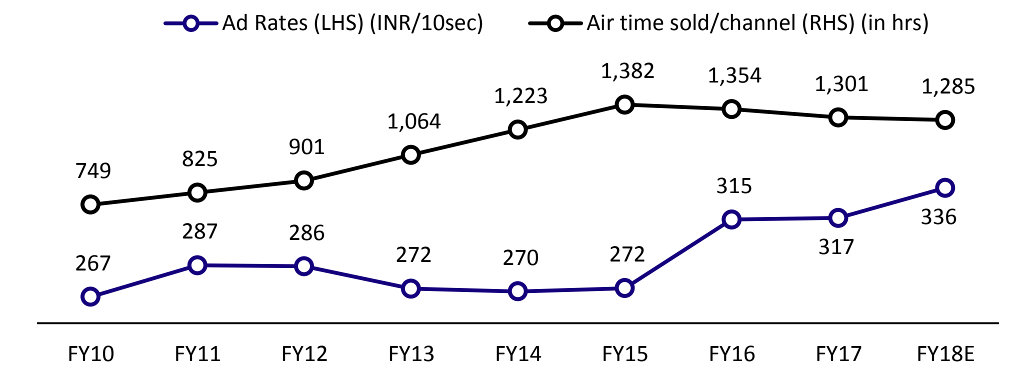


Exhibit 40: Ad rates and volumes both increasing steadily



Source: ENIL, MOSL

Portfolio strength boost with phase-III

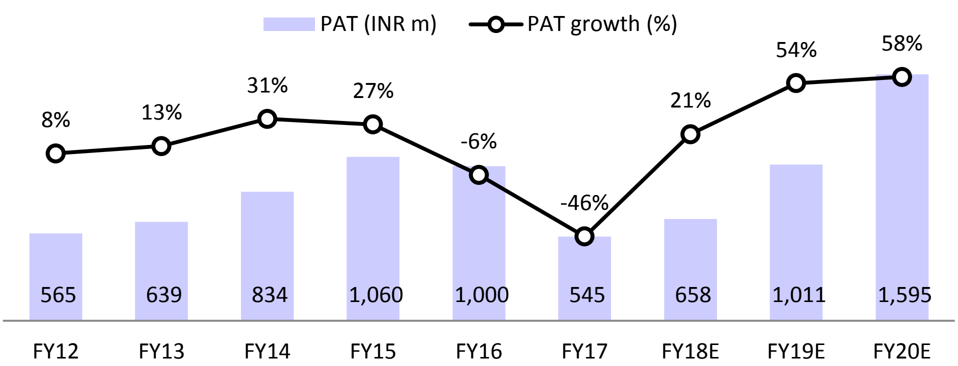
ENIL capacity addition:
Acquired 17 stations in Batch 1
Acquired 21 stations in Batch 2
Acquired 4 TV Today stations

The radio industry operating at more than 110% capacity utilization has been starving for incremental capacity to support growth over the past 2-3 years. With fresh capacity available, we expect healthy pent-up demand growth over the next few years. In addition, an increase in the number of listeners (led by multiple channels and varied content) would further boost the radio ad pool, generating steady earnings and cash flow.

Renewal of phase-II licenses – another positive

With the recent phase-II license renewals at INR3.2b for the existing 32 stations and phase-III auction of INR3.4b, ENIL has garnered two key levers of growth. Unlike telecom, the radio industry has seen a smooth renewal process of phase-II licenses, along with low renewal pricing. This has removed a major risk to the existing business. Importantly, ENIL has retained its existing leadership market share of ~30%, and it has been PAT profitable for the past 10 years with 17% IRR, which is a remarkable achievement, in our view.

Exhibit 41: ENIL to recover PAT growth through its newer FM stations



Source: Company, MOSL

Phase-III acquisitions open up growth opportunities

Phase-III has been a much-awaited growth opportunity for ENIL. Over the past five years, the company managed to accumulate cash worth INR5.8b (i.e. ~75% of FY15 balance sheet) purely for phase-III growth opportunity. ENIL acquired licenses in 17 circles in the phase-III auctions. In addition, the company acquired four Oye FM stations (additional three will be acquired after license expiry in March 2018). This would significantly boost growth over the next five years, in our view. The combined investment in phase-II and III is expected to drive revenue CAGR of 13% and EBITDA CAGR of 9% over FY16-19E. This growth would be driven by higher capacity utilization and better pricing.

Brand	Focus
Mirchi	Bollywood & Regional
Mirchi Love	Romantic songs

Flagship brand: Mirchi, Mirchi Love and Ishq operate in second frequencies

ENIL has four brands:

- Mirchi – flagship brand across the 32 existing stations.
- Mirchi Love – new brand targeting the age group of 26-30.
- Mirchi 95 – second frequency in Bangalore/Hyderabad; content is similar to the primary frequency; only language is different (caters to both regional and Hindi/English listeners).
- Ishq FM – rebranded version of TV Today channel (erstwhile name Oye FM); Mirchi's second 'Love' brand – global research indicates 'Love' is one of the most common and biggest radio market.

Radio Mirchi – diversifying into multiple brands

ENIL has moved from building on a single brand (Radio Mirchi) to a multiple brand format. The original Radio Mirchi is a CHR (Contemporary Hits Radio) station that plays Bollywood and regional music. Its new brand Mirchi Love focuses on the theme of love and plays romantic melody songs across eras. Mirchi Love targets young adults with high disposable income, while the mother brand Radio Mirchi continues to target a younger bunch of listeners. The four acquired stations from TV Today have been renamed from Oye FM to Ishq FM to create better listenership, sales and brand recall. The focus on different themes/content through multiple brands/shows will help ENIL increase its listenership base. Even advertisers can target their audience more effectively through the two brands.

Exhibit 42: Mirchi Love - Complements Mirchi (CHR) and increases listenership

City	Station
Ahmedabad	98.3 FM - Mirchi
	104 FM - Mirchi Love
Bangalore	98.3 FM – Mirchi (Kannada)
	95 FM – Mirchi 95(Hindi)
Hyderabad	98.3 FM – Mirchi (Telugu)
	95 FM – Mirchi 95 (Hindi)
	104 FM - Mirchi Love
Jaipur	98.3 FM - Mirchi
	104 FM - Mirchi Love
Kanpur	98.3 FM - Mirchi
	91.9 FM - Mirchi Love
Lucknow	98.3 FM - Mirchi
	107.2 FM - Mirchi Love
Nagpur	98.3 FM - Mirchi
	91.9 FM - Mirchi Love
Pune	98.3 FM - Mirchi
	104.2 FM - Mirchi Love
Surat	98.3 FM - Mirchi
	91.9 FM - Mirchi Love

Source: MOSL

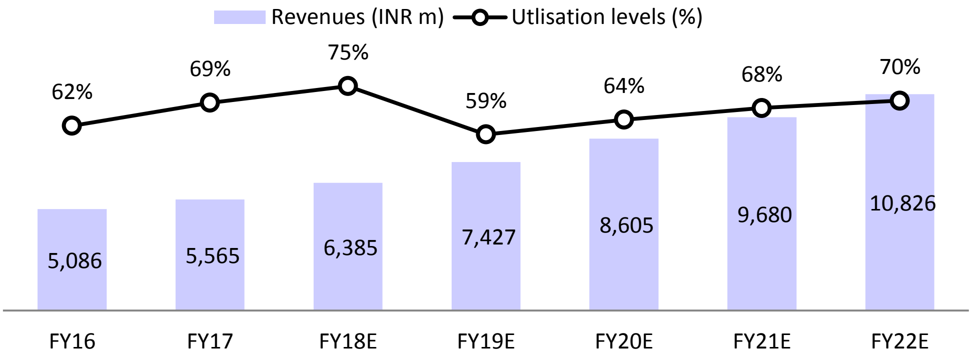
A rational auction strategy

ENIL's investment of INR3.4b was on average 2.2x of the reserve price, but lower than 3.0x average for the overall auction. This highlighted rational bidding. ENIL lost the large metro stations – Mumbai and Delhi – due to its over-valued auction price. This could impact the overall market share dynamics with HT Media (Fever FM) and Sun TV subsidiary Digital Radio Broadcasting (Red FM) now owning multiple frequencies in metro circles. However, we believe ENIL's actions are justified on two counts. First, the company has been very clear on its rational auction strategy, without which it is difficult to turn profitable. This is evident from the previous phase-II auction in 2006-07, in which ENIL has garnered 17% IRRs, while others are yet to recover accumulated losses. Second, ENIL's acquisition of three Oye stations in Mumbai, Delhi and Kolkata (should be concluded by March 2018) would allow it to significantly increase its market standing with limited capex.

New Stations: Expect ENIL to garner 25% revenue share by FY20…

The market opportunity of 17 stations is estimated at ~INR6.8-7.0b in FY17. This is ~50% of the overall private radio ad market of ~INR14-15b. ENIL should witness accelerated overall revenue growth of 16% over FY17-20E for the complete bouquet of 52 channels (after closing Goa). This is on the back of incremental volumes from the fresh inventory of 17 new stations. The new stations' launch and fresh capacity in the system should allow ENIL to cater to a wider ad market and listenership base with new markets and differentiated content.

Exhibit 43: Revenues to increase led by steady growth in utilization levels



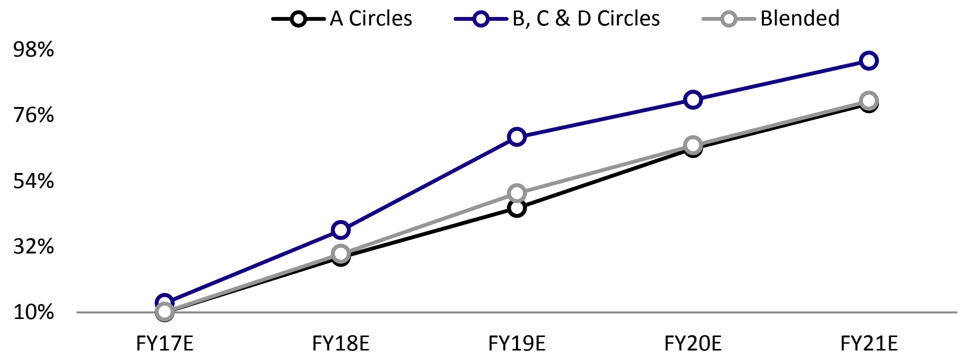
Source: Company, MOSL

…and ~20% market share over FY19-20E

Capacity utilization to grow most in B, C & D circles 17 stations of Batch 1 to breakeven in FY19 driven by only volume increase

The 17 new stations should reach a revenue base of ~INR2b in FY20E (i.e. four years post commencement of operations). This would be volume-driven, following expectations of 65% capacity utilization over the same period. On the other hand, we have not factored in any price increase in the new stations in the first five years until they reach 80% capacity utilization, as radio companies usually prioritize volume over pricing in a perishable products market until sizeable airtime ad supply is available. ENIL expects to start as a fourth- or fifth-ranked player for the new or the second frequency, and targets to move up in the next 2-3 years. Our analysis shows that the new stations could garner ~20% market share in five years, led by higher growth on account of available inventory.

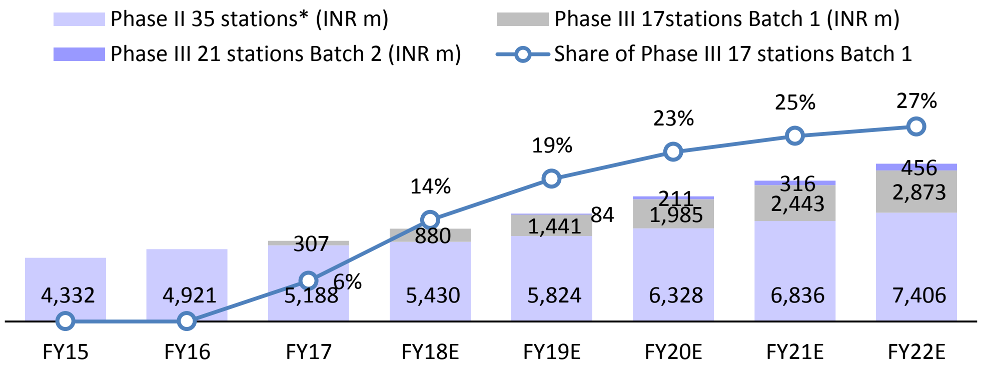
Exhibit 44: Capacity utilization ramp-up in the newer cities



Source: Company, MOSL

The new stations' bid value factors in 40% revenue base of the existing stations, i.e. third or fourth-player position with a 15% market share over 3-4 years. The existing channels are expected to clock 100% capacity utilization in FY18, which will lead to limited volume-led growth opportunity. We have assumed 6% average price-led revenue growth over FY18-20E as ENIL plans to improve pricing partly at the cost of volumes.

Exhibit 45: Revenue growth will be led by new stations



*Acquired 4 TV Today stations and sold the Goa station in 2016-17 Source: Company, MOSL

EBITDA margin to scale new highs

New stations to turn profitable

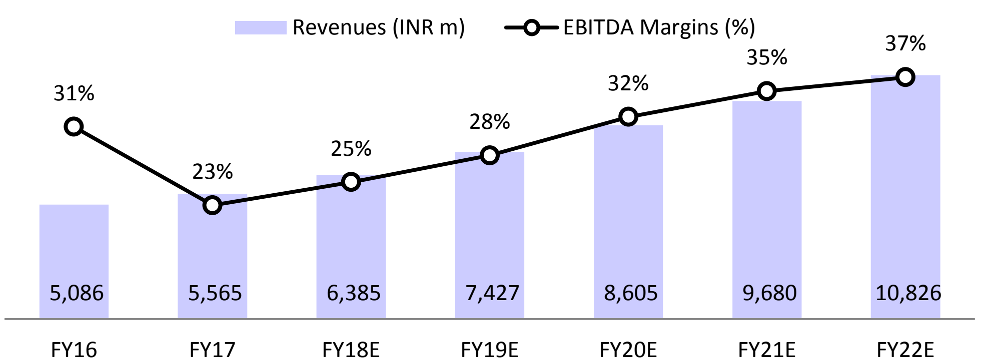
ENIL's 17 stations of Batch 1 likely to break even in FY19 and 21 stations of Batch 2 in FY22

The 17 new stations incurred loss of INR299m in FY17 due to the first year of high marketing and promotion, coupled with the impact of delayed launch and demonetization. We believe that as utilization levels improve, the inherent fixed cost model should allow strong margin improvement (reaching over 60% by FY20E). The higher margin also builds in cost synergies of operating multiple frequencies, corporate cost sharing and networking. We arrive at IRR of ~15.5% for the new stations over the 15-year license period.

Existing stations to garner better margins

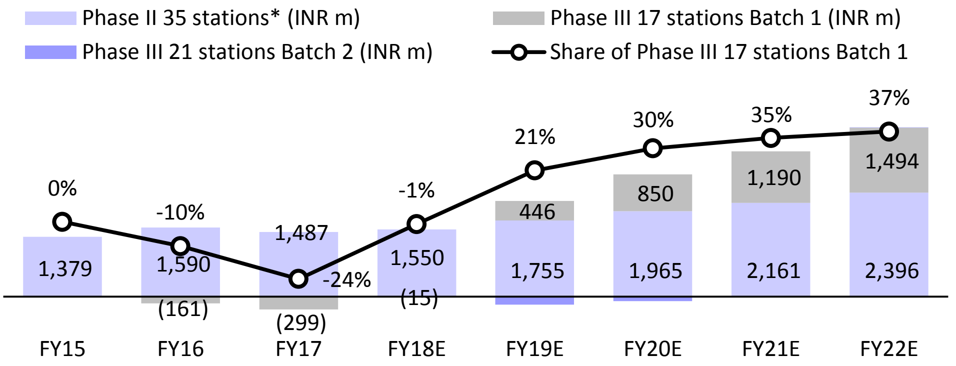
ENIL launched a major national marketing campaign to promote the new stations, which led to EBITDA margin contraction to 28.7% in FY17 from its previous sustained levels of 32-33%. With lower marketing costs going forward, coupled with annual price increase of 6-8%, EBITDA of the existing 35 stations should improve 210bp over the next three years to reach 30.9% in FY20E.

Exhibit 46: EBITDA margins dipped in FY17 owing to new station launches



Source: Company, MOSL

Exhibit 47: New stations to help expand EBITDA margin



*Acquired 4 TV Today stations and sold Goa station in 2016-17 Source: Company, MOSL

Networking, operating synergies to lower new station cost

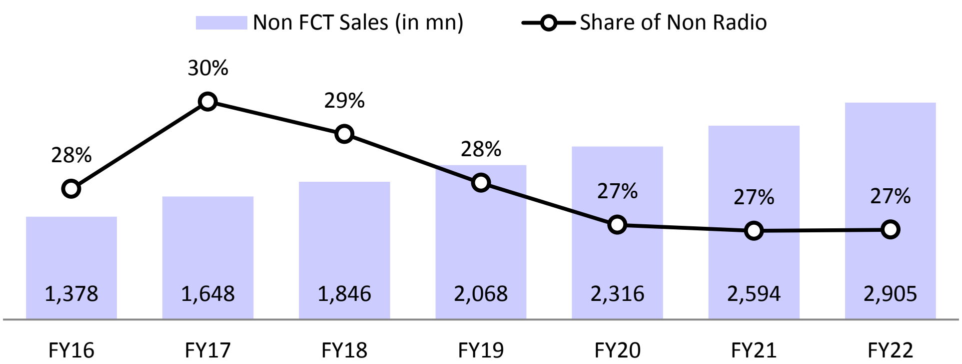
Cost savings from operating synergies and allowance of networking and multiple frequencies

ENIL's new stations should gain from networking, which allows creating a cluster of 5-8 channels in the same region. This helps save set-up costs across multiple cities/towns and lowers station running cost by 30-40%. Further, operating synergies from running multiple frequencies in the same geography and splitting of corporate expenses facilitate significant cost savings.

Non-FCT business to improve margin

The non-FCT business (contributes 30% of revenues; includes on-ground activation and concerts businesses) has single-digit margins because of the concerts business, which was only started few years ago. With a decent scale and learning curve already achieved, management plans to increase the number of annual concerts from 40-45 now to ~90-100 going forward. Improving scale in concerts and stable on-ground business should allow the non-FCT business to achieve healthy double-digit EBITDA margin over the next two years. We expect the existing stations to grow at 10% EBITDA CAGR over FY17-20E and the new stations to reach INR850m (30% of total EBITDA) from INR299m loss in FY17. Subsequently, overall EBITDA should grow at 30% CAGR over FY17-20E.

Exhibit 48: Share of non-FCT increasing



Source: Company, MOSL

Expect healthy RoCE expansion

Spent net INR 6.6b towards Phase II and III investments

Total amount spent by ENIL toward phase-II renewal and phase-III cities stands at INR6.84b. The company paid INR40m toward acquisition of four Oye FM stations to TV Today. Investment for phase-III auction-acquired licenses is INR3.4b. The phase II renewal cost, including the four Oye FM stations, is INR3.65b. However, INR248m set-off for the balance period of the previous license tenure led to actual cash outflow of INR3.4b toward phase-II.

4 active Oye FM stations under ENIL: Amritsar, Jodhpur, Patiala and Shimla

Remaining 3 Oye FM stations yet to be included: Delhi, Mumbai and Kolkata

Exhibit 49: Phase-II and phase-III license cost

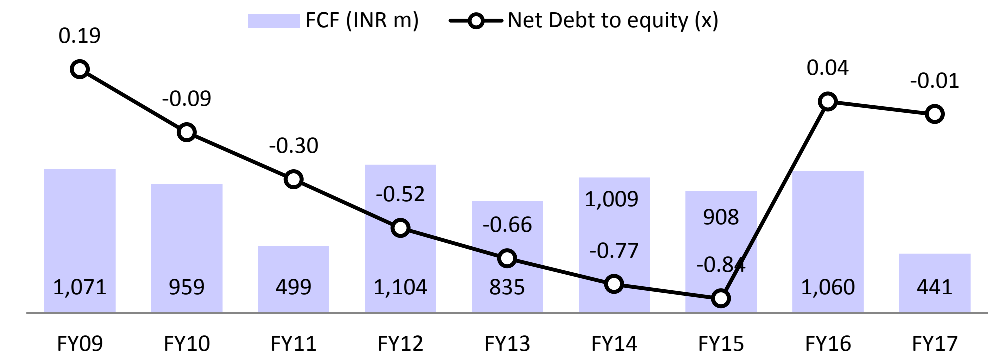
INR m	Amount
Phase II	
Gross Value for 32 stations	3,283
Gross Value for 4 Oye Stations	125
Previous Period Net Off	248
Net Cash Flow (a)	**3,161**
Phase III Cash Outflow (b)	**3,392**
Oye FM Acquisition (C)	**40**
Total Cash outflow (a+b+c)	**6,593**

Source: Company, MOSL

Strong balance sheet to support capex sans dilution

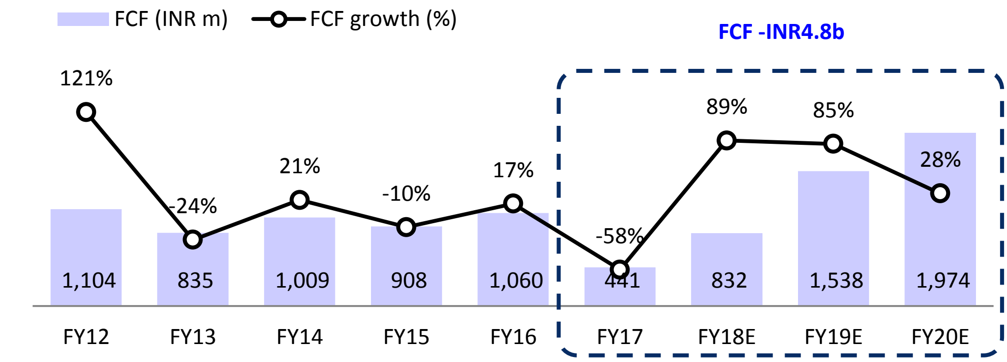
The front-ended investment in the radio industry toward one-time license and set-up cost bunches capex in one year. Due to its well-capitalized balance sheet (~INR6.0b in cash as of FY16), the short-term debt for the balance amount is not significant. As of FY17, it remains in net cash position of INR100m.

Exhibit 50: Low leverage despite heavy capex



Source: Company, MOSL

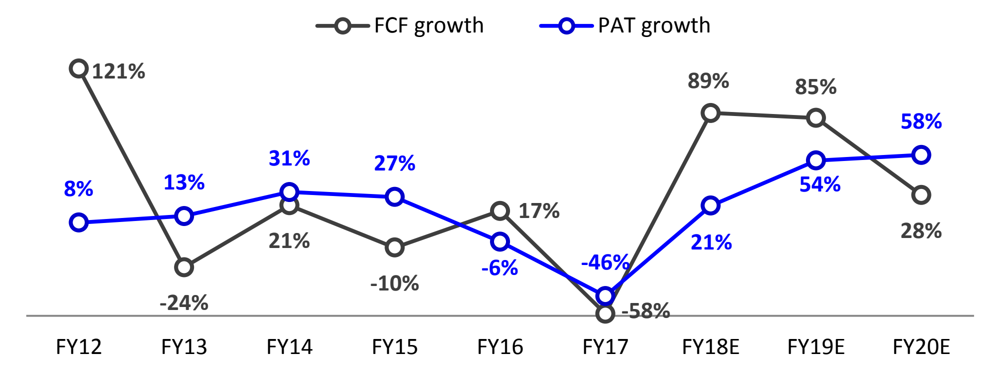
Exhibit 51: No capex driving FCF growth



Source: Company, MOSL

Total portfolio of 52 channels operating at average 63% capacity utilization as of FY17 offers strong revenue growth opportunity with no capex. Incrementally, investment in batch 2 of phase-III is also largely capitalized, with only additional INR389m in FY18E. This should allow strong volume-led asset monetization, driving EBITDA/PAT CAGR of 30%/43% over FY17-20E, with annual maintenance capex of meager ~INR50m for the 52-station portfolio. Subsequently, cumulative FCF generation over the next three years is a sizeable INR4.3b.

Exhibit 52: PAT growth will be led by new capacity

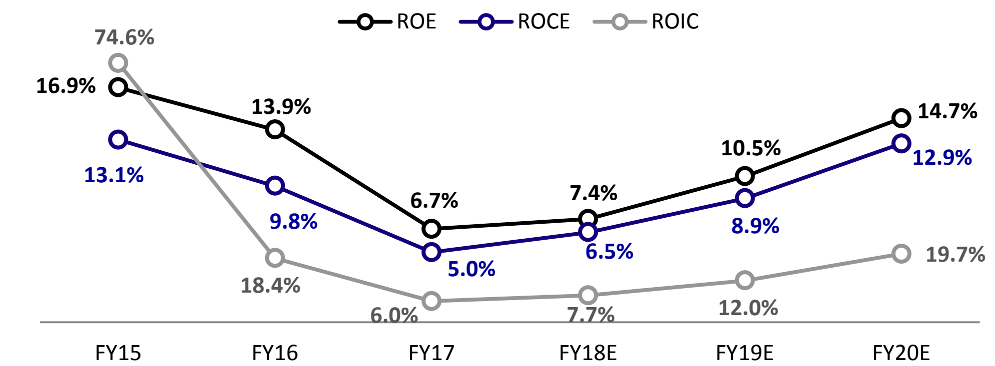


Source: Company, MOSL

Better asset turns and margin driving return ratios

With capital deployment of ~INR7.5b toward phases II/III investments, FY15 RoIC of 75% has reduced to the sub cost of capital of 6% in FY17. However, with no major incremental capex requirement over the next 3-4 years, we believe RoIC will revert to ~20% by FY20E.

Exhibit 53: Return ratios to improve after FY17

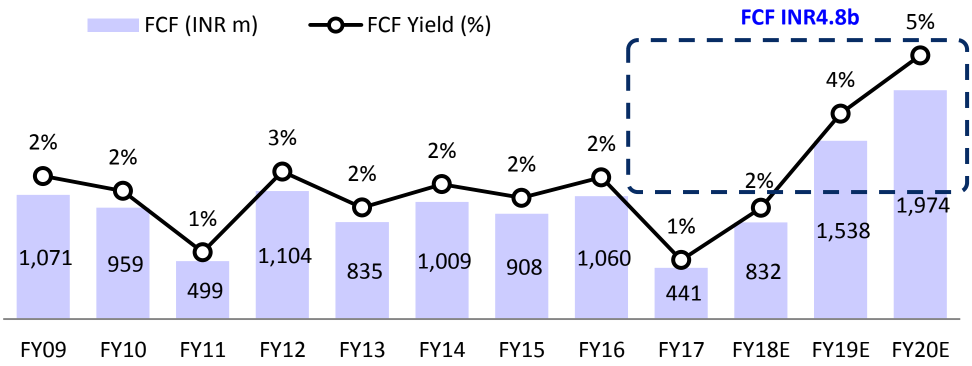


Source: Company, MOSL

FCF yield to move up

ENIL's next three years of cumulative FCF generation of INR4.3b, driven by increased free commercial airtime inventory, will lead to significant improvement in FCF yield. The stock at the current levels is likely to generate FCF yield of 4% over FY18-19E and ~5% in FY20E. With steady cash flow and no capex, FCF is likely to remain high.

Exhibit 54: FCF yields to keep growing



Source: Company, MOSL

Rich valuations

The stock is valued at 25x FY18E EV/EBITDA and 20x FY19E EV/EBITDA. On P/E, it is trading at 70x/45x on FY18/19E. We assign 20x on FY19E EBITDA of INR2.1b, arriving at a TP of 928, 2% above the CMP. We initiate coverage with a **Neutral** recommendation. The rich valuation is on the back of 30%/43% EBITDA/PAT CAGR over FY17-20E as new stations turn profitable, RoIC trajectory improves and annual FCF generation grows consistently. Subsequently, if we assign 15x EV/EBITDA on weighted average 1QFY22E EBITDA of INR3.6b, we arrive at a TP of 1,270/share. Including the three Oye FM stations valuation of INR51/share, the combined TP works out to INR1,321, implying 45% upside over three-year period (15% annually). We have excluded the three Oye stations, which are awaiting ministry approval, from our calculations. The approval of three Oye stations — Mumbai, Delhi and Kolkata — should add INR51/share to our target price. Assuming incremental capex of ~INR710m (license cost), ENIL should generate healthy IRR of 22% on the three Oye stations, led by low renewal cost compared to phase-III acquisition cost of INR2.9b for just Mumbai and Delhi stations.

We believe ENIL is well placed for the next leg of growth with a robust portfolio of 52 stations, decent volume of airtime ad inventory and strong execution capability. With EBITDA growth expectation of 30% over FY17-20E, earnings growth will remain healthy. However, at current valuation, we believe the upside is largely captured.

Exhibit 55: Valuation summary (INR m)

EV/EBITDA Valuation	FY19E	June'22
EBITDA	2,091	3,560.0
EV/EBITDA (x)	20	15
Enterprise Value	41,818	53,400
Net Debt	(2,427)	(7,138)
Market Cap	44,245	60,539
No of Shares (m)	48	48
TP (INR)	928	1,270
CMP (INR)	911	911
Upside	2%	39%
Oye FM Valuation (INR)		51
TP (INR)		1320
Upside		45%

Source: Company, MOSL

Financials and valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	**3,384**	**3,848**	**4,385**	**5,086**	**5,565**	**6,385**	**7,427**	**8,605**
Change (%)	12.3	13.7	13.9	16.0	9.4	14.7	16.3	15.9
Licence Fees & Production Exp.	335	374	371	440	588	643	691	781
Employees Cost	736	752	828	935	1,054	1,217	1,346	1,449
Marketing Expenses	664	811	976	997	1,294	1,429	1,614	1,744
Admin & Other Expenses	608	662	758	1,119	1,370	1,488	1,685	1,841
Total Expenditure	**2,342**	**2,598**	**2,931**	**3,492**	**4,306**	**4,777**	**5,336**	**5,814**
% of Sales	69.2	67.5	66.9	68.7	77.4	74.8	71.8	67.6
EBITDA	**1,042**	**1,250**	**1,453**	**1,594**	**1,259**	**1,608**	**2,091**	**2,791**
Margin (%)	30.8	32.5	33.1	31.3	22.6	25.2	28.2	32.4
Depreciation	317	318	329	363	536	670	700	667
EBIT	**725**	**932**	**1,125**	**1,231**	**723**	**938**	**1,391**	**2,123**
Int. and Finance Charges	-170	-223	-321	-251	-60	-7	-62	-170
PBT after EO Exp.	**895**	**1,155**	**1,446**	**1,482**	**783**	**945**	**1,453**	**2,293**
Total Tax	256	320	386	482	238	288	442	698
Tax Rate (%)	28.6	27.7	26.7	32.5	30.4	30.4	30.4	30.4
Reported PAT	**639**	**834**	**1,060**	**1,000**	**545**	**658**	**1,011**	**1,595**
Adjusted PAT	**639**	**834**	**1,060**	**1,000**	**545**	**658**	**1,011**	**1,595**
Change (%)	13.1	30.6	27.0	-5.6	-45.5	20.7	53.7	57.8
Margin (%)	18.9	21.7	24.2	19.7	9.8	10.3	13.6	18.5

Standalone - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	477	477	477	477	477	477	477	477
Total Reserves	4,546	5,325	6,269	7,212	8,070	8,672	9,627	11,166
Net Worth	**5,023**	**5,802**	**6,746**	**7,688**	**8,547**	**9,148**	**10,103**	**11,643**
Total Loans	0	0	0	2,502	1,232	1,232	1,232	0
Deferred Tax Liabilities	37	-42	-169	55	99	99	99	99
Capital Employed	**5,060**	**5,759**	**6,577**	**10,246**	**9,878**	**10,479**	**11,434**	**11,742**
Gross Block	3,693	3,724	3,671	10,777	11,844	12,233	12,286	12,339
Less: Accum. Deprn.	2,490	2,808	3,137	3,499	4,035	4,705	5,404	6,072
Net Fixed Assets	**1,203**	**916**	**535**	**7,279**	**7,810**	**7,529**	**6,882**	**6,268**
Total Investments	**3,178**	**4,344**	**5,504**	**1,959**	**1,146**	**1,146**	**1,146**	**1,146**
Curr. Assets, Loans&Adv.	**1,514**	**1,445**	**1,686**	**2,241**	**2,397**	**3,224**	**5,042**	**6,208**
Account Receivables	994	1,016	1,264	1,425	1,622	1,665	1,939	2,249
Cash and Bank Balance	122	138	142	198	186	969	2,513	3,369
Loans and Advances	398	292	279	619	590	590	590	590
Curr. Liability & Prov.	**836**	**946**	**1,147**	**1,233**	**1,475**	**1,419**	**1,635**	**1,880**
Account Payables	552	659	1,017	1,090	1,371	1,315	1,531	1,776
Provisions	284	287	131	143	104	104	104	104
Net Current Assets	**678**	**499**	**538**	**1,009**	**922**	**1,805**	**3,407**	**4,328**
Appl. of Funds	**5,060**	**5,759**	**6,577**	**10,246**	**9,878**	**10,479**	**11,434**	**11,742**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	**13.4**	**17.5**	**22.2**	**21.0**	**11.4**	**13.8**	**21.2**	**33.5**
Cash EPS	20.1	24.2	29.1	28.6	22.7	27.8	35.9	47.5
BV/Share	105.4	121.7	141.5	161.3	179.3	191.9	211.9	244.2
DPS	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	8.7	6.7	5.3	5.6	10.2	8.5	5.5	3.5
Valuation (x)								
P/E			41.0	43.4	79.7	66.0	43.0	27.2
Cash P/E			31.3	31.9	40.2	32.7	25.4	19.2
P/BV			6.4	5.6	5.1	4.7	4.3	3.7
EV/Sales			9.9	9.0	8.0	6.8	5.7	4.7
EV/EBITDA			29.8	28.7	35.3	27.2	20.2	14.4
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Return Ratios (%)								
RoE	13.6	15.4	16.9	13.9	6.7	7.4	10.5	14.7
RoCE	11.0	12.4	13.1	9.8	5.0	6.5	8.9	12.9
RoIC	26.1	44.3	74.6	18.4	6.0	7.7	12.0	19.7
Working Capital Ratios								
Asset Turnover (x)	0.7	0.7	0.7	0.5	0.6	0.6	0.6	0.7
Debtor (Days)	107	96	105	102	106	95	95	95
Creditor (Days)	60	62	85	78	90	75	75	75
Leverage Ratio (x)								
Net Debt/Equity	-0.7	-0.8	-0.8	0.0	0.0	-0.1	-0.2	-0.4

Standalone - Cash Flow Statement (INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	894	1,155	1,446	1,482	783	945	1,453	2,293
Depreciation	317	318	329	363	536	670	700	667
Interest & Finance Charges	-30	-7	-11	-4	-60	-7	-62	-170
Direct Taxes Paid	-176	-401	-495	-322	-238	-288	-442	-698
(Inc)/Dec in WC	26	159	7	-89	75	-100	-58	-65
CF from Operations	**1,032**	**1,224**	**1,276**	**1,430**	**1,095**	**1,221**	**1,591**	**2,027**
Others	-170	-187	-328	-343	413	0	0	0
CF from Operating incl EO	**862**	**1,037**	**948**	**1,087**	**1,508**	**1,221**	**1,591**	**2,027**
(Inc)/Dec in FA	-27	-28	-41	-27	-1,067	-389	-53	-53
Free Cash Flow	**835**	**1,009**	**908**	**1,060**	**441**	**832**	**1,538**	**1,974**
(Pur)/Sale of Investments	-1,294	-979	-933	3,696	813	0	0	0
Others	139	41	86	-7,047	0	0	0	0
CF from Investments	**-1,182**	**-965**	**-888**	**-3,377**	**-254**	**-389**	**-53**	**-53**
Inc/(Dec) in Debt	0	0	0	0	-1,270	0	0	-1,232
Interest Paid	0	0	0	-128	60	7	62	170
Dividend Paid	0	-48	-48	-48	-56	-56	-56	-56
Others	0	-8	-8	2,485	0	0	0	0
CF from Fin. Activity	**0**	**-56**	**-56**	**2,309**	**-1,266**	**-49**	**6**	**-1,118**
Inc/Dec of Cash	**-321**	**15**	**5**	**19**	**-12**	**783**	**1,544**	**856**
Opening Balance	443	122	138	142	198	186	969	2,513
Closing Balance	**122**	**138**	**142**	**161**	**186**	**969**	**2,513**	**3,369**

Music Broadcast

BSE SENSEX	S&P CNX
32,246	9,966

CMP: INR365 TP: INR469 (+29%) Buy

Stock Info

Bloomberg	RADIOCIT IN
Equity Shares (m)	38.9
52-Week Range (INR)	420/33
1,6,12 Rel. Perf. (%)	-1/-/-
M.Cap. (INR b)	14.2
M.Cap. (USD b)	0.2
Avg Val, INRm	165.0
Free float (%)	28.6

Financials Snapshot (INR b)

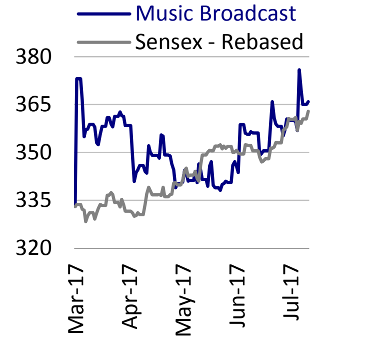
Y/E MARCH	FY17	FY18E	FY19E
Sales	2.7	3.2	3.6
EBITDA	0.9	1.0	1.3
NP	0.4	0.6	0.8
EPS (Rs)	6.4	10.0	14.3
EPS Gr. (%)	0.3	56.0	42.7
BV/Sh (INR)	96.1	106.1	120.4
P/E (x)	56.7	36.4	25.5
P/BV (x)	3.8	3.4	3.0
EV/EBITDA (x)	21.5	17.9	13.6
EV/Sales (x)	7.2	5.9	4.9
RoE (%)	11.2	9.9	12.6
RoCE (%)	8.8	9.9	12.5

Shareholding pattern (%)

As On	Jun-17	Mar-17
Promoter	71.4	71.4
DII	7.5	5.9
FII	4.1	4.0
Others	17.0	18.8

FII Includes depository receipts

Stock Performance (1-year)



Healthy growth opportunity

Asset monetization phase to drive steep RoIC recovery

Strong listenership base; presence in 60% of the market

Music Broadcast Ltd (MBL) operates 39 radio stations in India under the brand name of Radio City. It has presence across 12 of the top 15 cities, covering 60% of the population having access to FM radio. With 52.5m listeners in 23 cities, Radio City is the third largest radio channel with 14% revenue market share, but it is a leader in terms of listenership in the top cities. This allows the company to cover a wide spectrum of product campaigns and branding for large corporates via its gamut of channels (network). Additionally, MBL's deep connectivity in the northern belt allows it to leverage the strong client relations of the parent – Jagran Group.

Robust listenership base, good inventory availability

With 10-15 years of consistent delivery of strong content, Radio City has built a healthy listenership base across multiple channels. Additionally, it is sitting at 65-75% capacity utilization in the 28 legacy stations, which leaves nearly one third of available inventory. We think this is a key positive, as limited inventory availability in the top cities has been forcing the large players to opt for second frequencies. This, along with its strong listenership base, should help the company to record accelerated growth over the next 2-3 years.

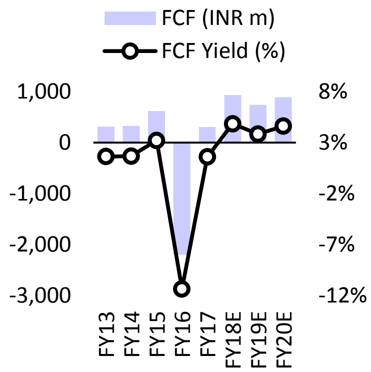
Phase-III: New engine of growth to drive 20% EBITDA CAGR over FY17-20

MBL acquired 11 new stations in Batch 1 of Phase III, of which four are in A-cities and the rest in B-cities. MBL launched all the 11 stations in FY17, extending its Radio City brand in the new cities and taking the total number of stations to 39. MBL spent INR1b, including upfront license and set-up cost. Management believes that these new stations should break even in 6-8 quarters. We expect the company to generate ~11% of revenue (at INR434m) and 7% of EBITDA (INR110m); margin of 25% from these 11 stations by FY20E. In the 28 legacy stations, it is expected to continue its steady 11% revenue growth, contributed by an increase of 6% in volumes and 5% in price. We expect the 28 legacy stations to grow at 13% EBITDA CAGR over FY17-20E. Subsequently, overall EBITDA should grow at 20% CAGR over the same period.

Possesses the war chest to drive growth opportunities

As the three-year lock-in period concludes by March 2018, many small/regional radio broadcasters are likely to be up for sale, given the likely consolidation in the sector. Currently, apart from 6-7 large metro/national players, most of the other radio broadcasters have limited and fragmented presence across the country. MBL, through its recent IPO, is sitting on net cash balance of INR1.3b and should reach ~INR2.6b by FY18E. Management has shown the willingness to explore acquisition opportunities in specific gap locations. We believe that these can include Kolkata and Gwalior, where they already have a sales alliance. We believe this could drive healthy earnings growth for the company.

FCF yield to steadily increase at ~5% as the capacity utilisation of the new 11 stations increases



Improving asset turns, margins to drive RoCE

With the conclusion of Phase-II license renewal and Phase-III fresh license acquisitions, MBL has now completed its heavy investment phase, which should drive strong asset monetization over the next three years. MBL has incurred capex of INR3.3b over the last two years. This offers MBL with 15 years of visibility for its existing 28 stations and high growth opportunity in its 11 Phase-III stations. Over the next three years, MBL should be able to grow EBITDA by 71% to INR1.6b, with net addition of ~INR650m. Against that, cumulative capex will be a meager INR180m, leaving it a healthy INR1.4b. Subsequently, we expect FCF yield of 5% over FY18-20E.

Valuation

MBL is trading at EV/EBITDA of 13x/10x on FY18E/19E. In terms of P/E, it is trading at 22x/17x on FY18/19E. Global radio peers with marginal growth opportunity are operating at ~10-12x EV/EBITDA. In comparison to its Indian listed peer ENIL, it is trading at ~30-35% discount. We value the company at 18x EV/EBITDA on FY19E EBITDA of INR1.3b, arriving at a target price of INR469/share, ~29% upside from CMP of INR365. We initiate coverage with **Buy** rating on the stock.

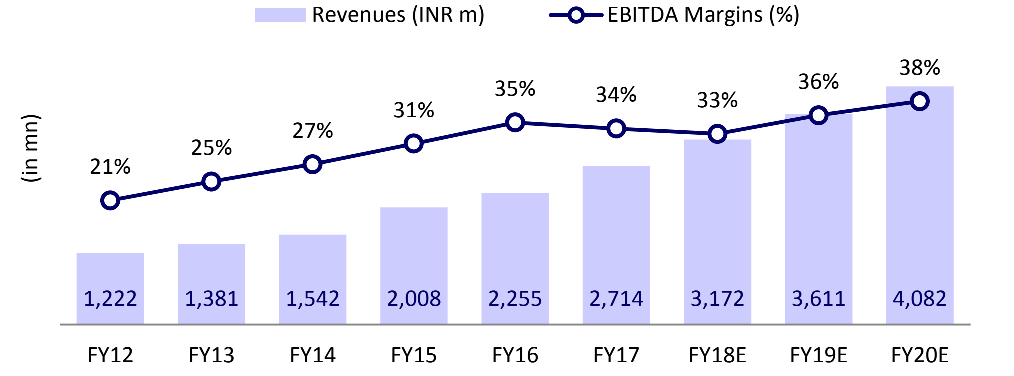
A high multiple is provided to capture the super-normal EBITDA/PAT CAGR opportunity of 20%/41% over the next three years (FY17-20E). MBL's growth is a three-year story, as RoIC is likely to recover from current 13% to 25% over the next three years. Subsequently, if we assign 15x EV/EBITDA on weighted-average 1QFY22E EBITDA of INR1.9b, we arrive at a TP of 626/share, implying 72% upside over three years. We believe that given its strong brand, healthy growth opportunity and steady FCF/RoIC recovery, MBL's current valuation discount to ENIL should reduce.

MBL
3rd largest player by revenue
4th largest Radio Footprint
All 39 channels operational

Well placed for growth

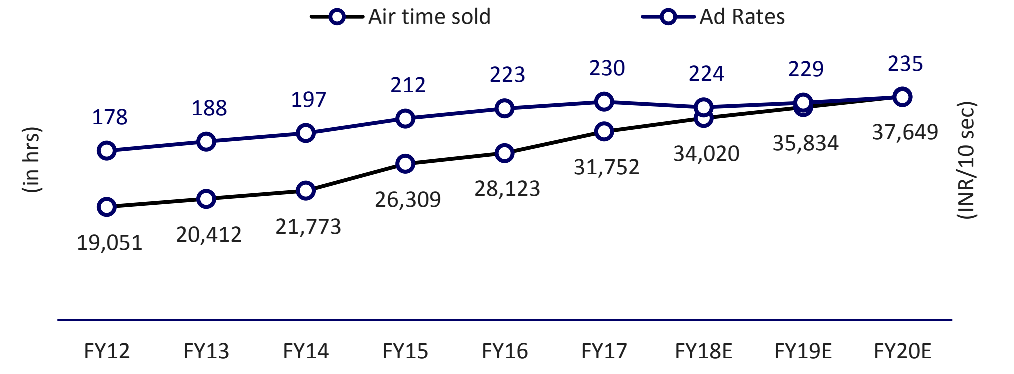
MBL operates 39 stations, which is nearly half the size of peers like ENIL (73 stations), Sun TV (68) and Reliance (59). MBL still remains the third largest player in terms of revenue market share due to its leadership position in multiple channels. With 39 channels in operation, MBL has maintained its reach to ~60% of the population covered by FM stations to restrict the a) Operating hassles and b) low profitability from wide bouquet of small regional channels. Given its capacity availability in the legacy stations, MBL has not acquired multiple frequencies like its large peers (e.g. ENIL and HT). We thus believe that MBL is best placed in the industry with its leadership position and available inventory.

Exhibit 56: Revenue and EBITDA margin to increase steadily over FY17-20E



Source: Company, MOSL

Exhibit 57: Ad rates and volumes both increasing steadily

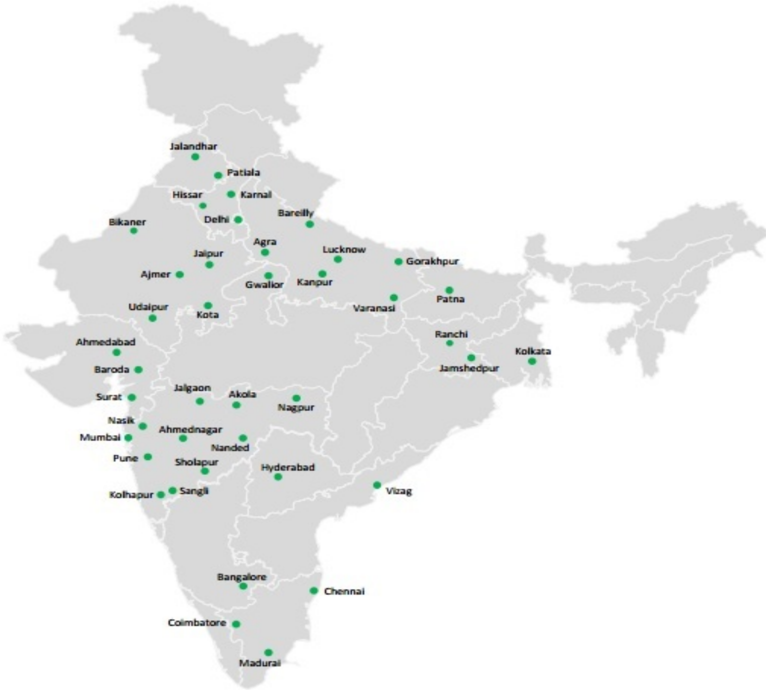


Source: Company, MOSL

Healthy growth at legacy stations

Over the last five years, MBL's revenue/EBITDA has grown at a steady 18%/29% CAGR, largely contributed by the legacy stations (two thirds driven by volume growth and one third by rate hikes). Unlike the other large radio operators, which have already exhausted capacity in the top cities, MBL's key positive is that it still has one third available capacity at its 28 legacy stations. This should drive healthy growth over the next 2-3 years; management too expects volume/price growth mix to continue. MBL commands ~10-15% premium pricing v/s peers, particularly in cities where it holds leadership position with limited pricing risk.

Exhibit 58: 39 stations PAN India – 4th largest radio footprint



Source: Company, MOSL

Good content, famous shows help boost listenership base

MBL's focus is to localize content and customize it based on the requirement of each city. This has helped it retain listenership share. Some of MBL's marquee shows have remained on air for over 10 years – e.g. Love Guru, Babber Sher, Kal bhi aaj bhi and Radio City super singer. This allows the company to command a leadership position in terms of listenership.

Exhibit 59: High popularity of Radio City is owed to its long-running shows

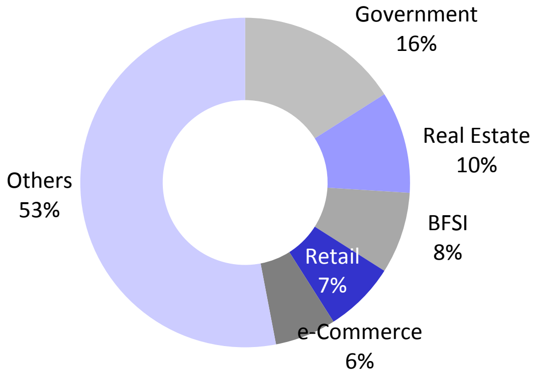
Show	Theme
Love Guru	Relationships and Romance
Babber Sher	Humor
Joke Studio	Humor
Gig City	Live Radio concert
Freedom Awards	Independent Music
Kal Bhi Aaj Bhi Classics	Yesteryears of Bollywood
Super Singer	Singing Talent

Source: Company, MOSL

Segmental contribution

As per MBL's FY17 investor presentation, major revenue contributors of the radio industry were government (16%), real estate (10%) and BFSI (8%). We believe this could change as government remains a volatile category and real estate has been under pressure post demonetization. In our view, retail, telco and auto's revenue share could accelerate (led by new product launches and aggressive marketing in these segments), offsetting pressure in other segments.

Exhibit 60: Industry's share of retail, telecom and auto might increase



Source: Company, MOSL

Phase-III

Footprint strategy – to cover 60% of the population

With the acquisition of 11 stations in Phase III, Radio City can increase its reach from the current level of ~60%

With a focus on A- and B-circles, MBL targets to reach ~60% of population under FM radio coverage. The company had a weak north footprint before Phase-III; however, it has forayed aggressively in this market leveraging its parent Jagran's strong northern presence and market standing. Notably, 8 of the 11 new channels are in cities from the northern belt.

Exhibit 61: Reach of Radio City to keep increasing as newer stations become operational

Reach	Phase II	Phase III
Industry Reach	86 towns	302 towns
Radio City Reach	60% of total FM audience	62% of total FM audience

Source: Company, MOSL

Breakeven in Phase-III to be much faster

The company took five years to break even in Phase-II licenses. However, it is expected to do much better in Phase-III (break even likely in 6-8 quarters), as:

- Experience of Phase II and a healthy portfolio size of 39 stations should help MBL to sell 'network' instead of just specific channels.
- New stations are launched where its parent Jagran already has presence. Thus, it can leverage the parent's market understanding and client relationships to sell network to corporate clients.
- Operating cost has come under control – (1) Royalty has reduced to ~3-4% of revenue, (2) networking has allowed operating cost/station to come down by 30-40% for respective stations and (3) other corporate fixed cost can be leveraged with a wider portfolio of stations.
- Initially, MBL targets 70% revenue from corporate relationships and 30% from retailers. With Jagran's 25,000 retailer relationships in UP, MBL should be able to establish its new channels much faster in that state.

Exhibit 62: Future growth focused around utilization levels of Phase III stations

	Legacy Stations			Phase III stations	Total Stations		
Number of stations	28			11	39		
Average Utilization	65-75%			6%	50-60%		
Annualized Average Utilization	65-75%			20-30%	60-70%		
	Top 4	Next 6	Rest		Top 4	Next 6	Rest
Average Realization Levels (INR/10 sec)	500-1200	150-300	75-100	75-85	500-1,200	150-300	75-100
Growth Strategy	Improving ER* and Utilization levels			Improving utilization levels	Improving ER* and Utilization levels		

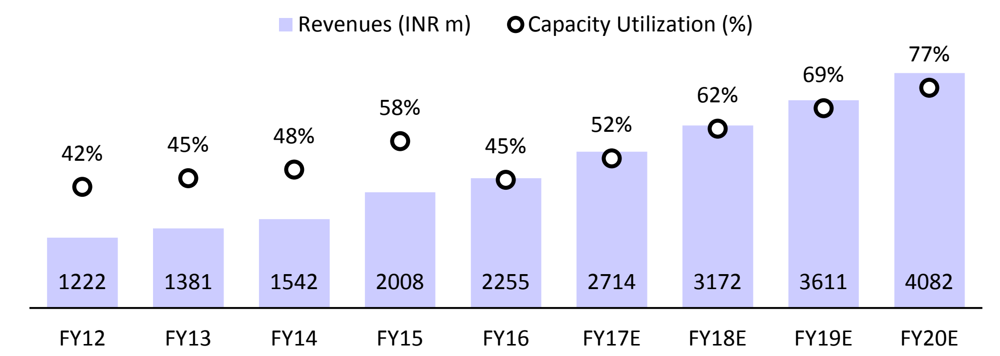
*ER = Effective Rate; Source: Company, MOSL

MBL's CAGR	FY17-20E (%)
Revenue	15
EBITDA	20
PAT	41

Expect breakeven in FY19

With an operating cost structure of INR250m for the 11 new stations, MBL expects to break even in 6-8 quarters. MBL targets IRR of 15-16% for the new stations, which are likely to breakeven at 45-50% capacity utilization with revenue base of INR200-250m (INR250-350m). We expect the 11 new stations to record EBITDA loss of ~INR100m in FY18E and then turn breakeven in FY19E. Subsequently, the new stations are likely to reach EBITDA of INR110m in FY20, contributing 7% of overall EBITDA.

Exhibit 63: Overall capacity utilization levels to increase and drive revenues



Source: Company, MOSL

Networking, cost synergies, Phase III channels to drive profitability

With the allowance of networking, the cluster-based strategy will aid in reducing operating cost, supporting faster breakeven of the new channels. In Maharashtra, MBL broadcasts in five cities (Sangli, Nanded, Jalgaon, Sholapur and Akola) from a single hub in Ahmednagar. This saves production cost for ~20% of the portfolio channels. Similarly, it may adopt networking in UP and Rajasthan to reduce costs.

Given the inherent fixed cost nature of the business (employee and SG&A together contributing to nearly two thirds of costs), the addition of new stations should allow the company to leverage its corporate costs and other national advertiser channel costs. MBL has healthy ad inventory available, which should allow it to grow revenue by nearly one third with a large fixed cost structure. Thus, network cost in addition to fixed cost leverage should help improve EBITDA margin by ~500bp over the next three years – FY20E

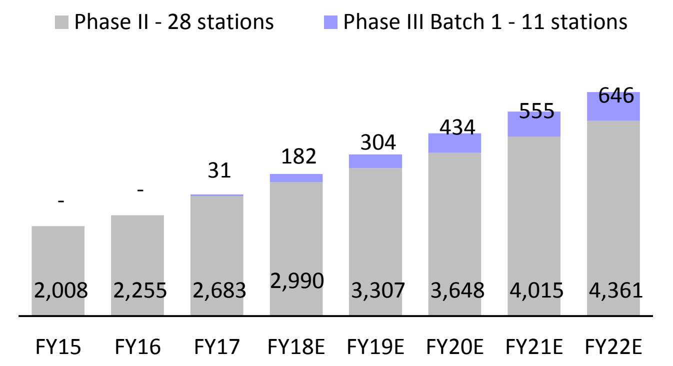
Radio City to grow at 15% CAGR over FY17-19E driving EBITDA breakeven in FY19E

Free capacity at legacy stations, launch of Phase-III stations to drive growth

The legacy 28 stations from Phase II are expected to grow at 11% CAGR over FY17-20, led by 5% price increase and 6-7% volume growth. The new Phase III stations, which were launched in FY17, should reach revenue of INR434m by FY20E, contributing 11% of overall revenue and driving incremental growth. Thus, overall revenues should grow at 15% CAGR over FY17-20E, fueled by fresh inventory from the Phase-III stations.

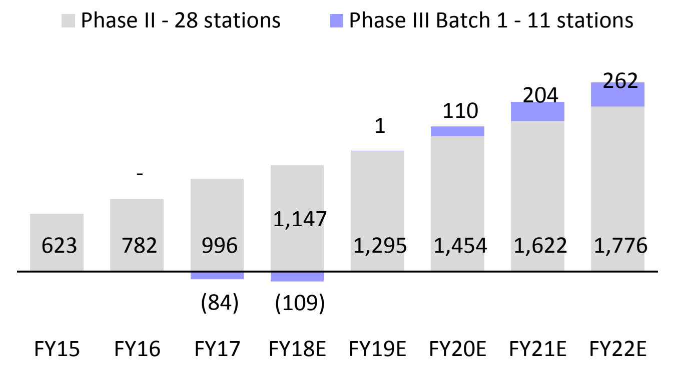
EBITDA margin for the old stations should improve as the inherent fixed cost model should see meager 7-8% inflationary increase. Thus, the legacy 28 stations should see 13% EBITDA CAGR, improving margin by 270bp over FY17-20E. The new 11 stations should record EBITDA loss of INR109m in FY18E, leading to slower EBITDA growth of 14% v/s legacy stations' +15%. However, the new stations should breakeven in FY19E, and subsequently record EBITDA of INR110m and margin of 25% in FY20E. Overall EBITDA should grow at 20% CAGR over FY17-20E. The front-loading investment cost, high fixed amortization and finance cost will lead to 41% PAT CAGR over FY17-20E to reach INR1.1b.

Exhibit 64: Revenue growth accelerated by new stations



Source: Company, MOSL

Exhibit 65: EBITDA mix from new stations to improve



Source: Company, MOSL

	FY17	FY20E
FCF	310m	895m
RoIC	13%	25%

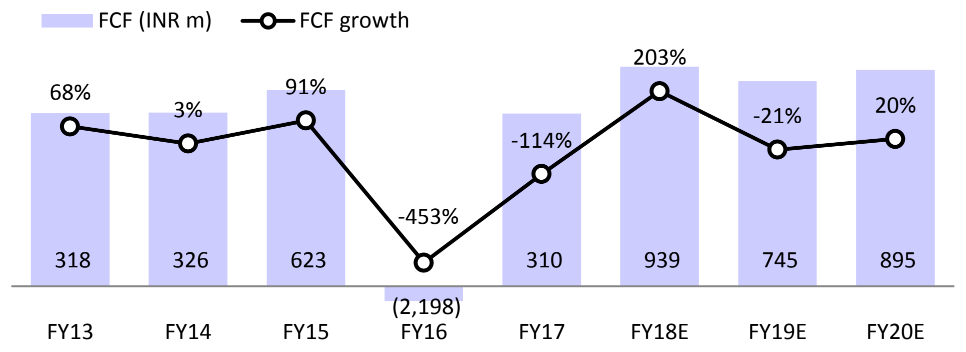
Heavy lifting completed; time for asset monetization

MBL incurred INR630m toward the acquisition of 11 new stations. About INR330m capex is incurred toward set-up, i.e. INR30m/station. Additionally, migration cost for 28 legacy stations was INR2.37b, of which INR2.22b was toward 20 own stations and the remaining for 8 stations acquired from Mantra.

Net of cash, MBL's FY17 balance sheet size was ~INR5b. Thus, overall, it has spent ~INR3.3b over the last two years, i.e. nearly 60% of the invested capital (net of cash). We believe MBL is in a strong financial position given that majority of heavy lifting is completed, which should now allow it to sweat the assets and improve profitability. The company will only need to spend maintenance capex of INR60m annually, leading to cumulative FY17-20E capex of INR180m. Against this, EBITDA will grow by 71% over the next three years to INR1.6b. This should allow MBL to generate healthy 5% FCF yield over FY18-20E and recoup RoIC to ~25% by FY20E.

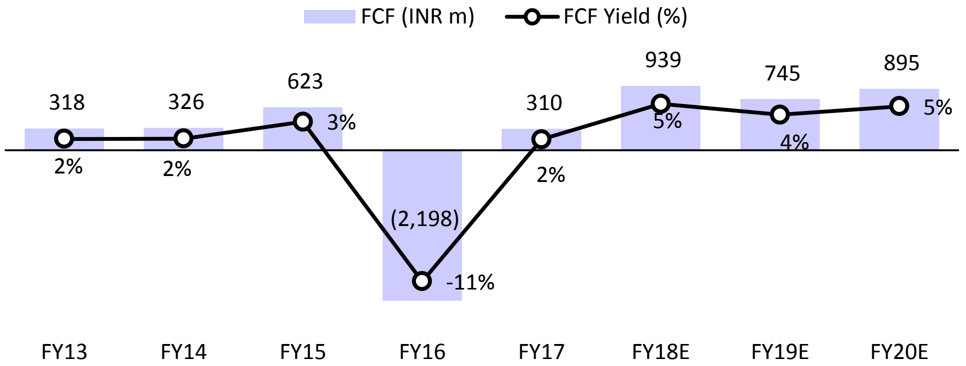
FCF yield and return ratios will improve as the new stations will breakeven in FY19

Exhibit 66: FCF growing as new stations have become operational



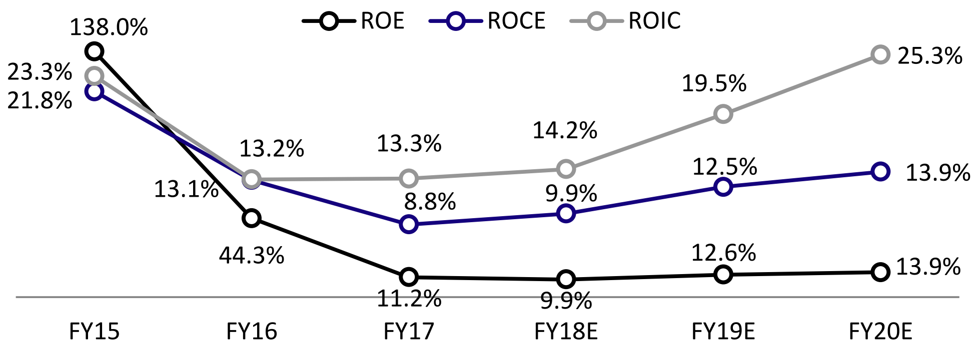
Source: Company, MOSL

Exhibit 67: FCF yield to grow steadily over next few years



Source: Company, MOSL

Exhibit 68: Return ratios to improve from FY18



Source: Company, MOSL

Acquisition strategy

Management has indicated that it is open for mergers and will look to acquire regional players in the pockets where it does not have any presence. We believe that these pockets could be MP & Chhattisgarh in central India; and Kerala in south India.

Multiple M&A opportunities with huge cash available

The company recently raised INR4b equity and should have net cash of INR2.6b as of March 2018. As the lock-in period completes in March 2018, many small regional players which remain under stress should consolidate. With a war chest ready, it should offer good growth opportunity for MBL.

Valuation attractive

MBL is trading at EV/EBITDA of 13x/10x on FY18E/19E. In terms of P/E, it is trading at 22x/17x on FY18/19E. Global radio peers with marginal growth opportunity are operating at ~10-12x EV/EBITDA. In comparison to its Indian listed peer ENIL, it is trading at ~30-35% discount. We value the company at 18x EV/EBITDA on FY19E EBITDA of INR1.3b, arriving at a TP of INR469/share, which is ~29% upside from CMP of INR365. We initiate coverage with **Buy** rating on the stock.

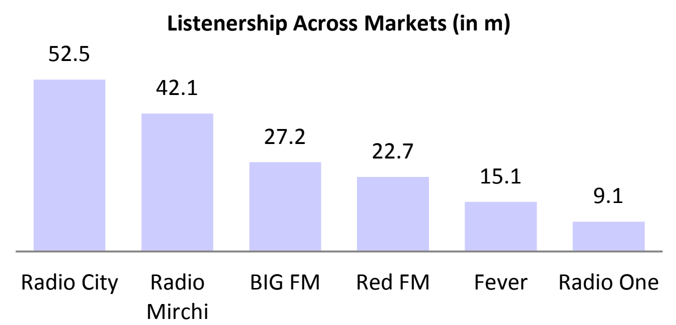
A high multiple is provided to capture the super-normal EBITDA/PAT CAGR opportunity of 20%/41% over the next three years (FY17-20E). MBL's growth is a three-year story, as RoIC is likely to recover from current 13% to 25% over the next three years. Subsequently, if we assign 15x EV/EBITDA on weighted-average 1QFY22E EBITDA of INR1.9b, we arrive at a TP of 626/share, implying 72% upside over three years. We believe given its strong brand, healthy growth opportunity and steady FCF/RoIC recovery, MBL's current valuation discount vs ENIL should reduce.

Exhibit 69: EV/EBITDA valuation

EV/EBITDA Valuation	FY19E	June'22
EBITDA	1,296	1,879.40
EV/EBITDA	18	15
Enterprise Value	23,330	28,191
Net Debt	(3,403)	-7507.996
Market Cap	26,733	35,699
No of Shares	57	57
TP	469	626
CMP	365	365
Upside	29%	72%

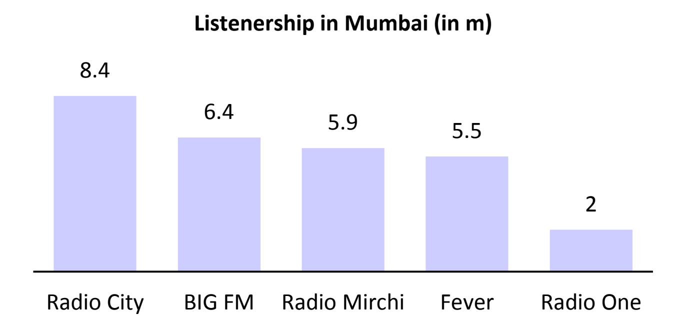
Source: Company, MOSL

Exhibit 70: Radio City with largest listenership base



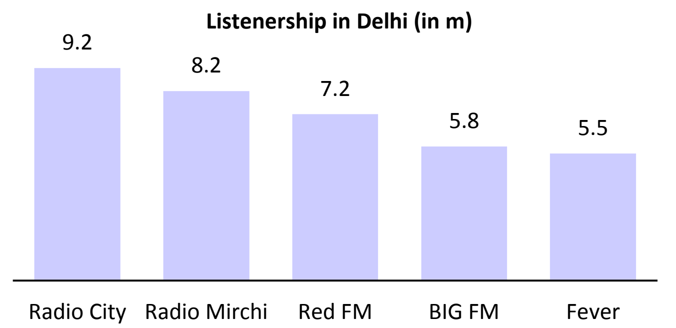
Source: Company, MOSL

Exhibit 71: Radio City – No. 1 FM station in Mumbai



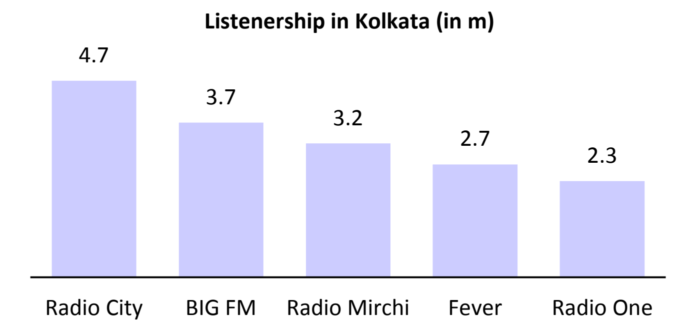
Source: Company, MOSL

Exhibit 72: Top FM station in the competitive Delhi market



Source: Company, MOSL

Exhibit 73: Radio City – most popular in Kolkata



Source: Company, MOSL

Financials and valuations

Standalone - Income Statement (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	**1,222**	**1,381**	**1,542**	**2,008**	**2,255**	**2,714**	**3,172**	**3,611**	**4,082**
Change (%)	NA	13.0	11.7	30.3	12.3	20.4	16.9	13.9	13.0
Licence Fees & Programming Costs	103	129	128	145	230	300	313	335	360
Employees Cost	298	346	363	430	511	651	786	865	952
Mrktg & Advert. Expenses	250	245	246	301	206	240	308	328	355
Admin & Other Expenses	311	322	381	509	526	611	728	787	852
Total Expenditure	**962**	**1,042**	**1,118**	**1,385**	**1,473**	**1,802**	**2,135**	**2,315**	**2,519**
% of Sales	78.7	75.5	72.5	69.0	65.3	66.4	67.3	64.1	61.7
EBITDA	**260**	**339**	**424**	**623**	**782**	**913**	**1,037**	**1,296**	**1,564**
Margin (%)	21.3	24.5	27.5	31.0	34.7	33.6	32.7	35.9	38.3
Depreciation	235	199	155	157	167	197	240	242	244
EBIT	**25**	**140**	**269**	**466**	**614**	**716**	**797**	**1,054**	**1,319**
Int. and Finance Charges	68	48	57	62	207	190	145	30	0
Other Income	26	24	31	67	148	44	223	224	254
PBT bef. EO Exp.	**-17**	**116**	**243**	**471**	**555**	**570**	**874**	**1,248**	**1,574**
EO Items	-5	0	0	0	-136	0	0	0	0
PBT after EO Exp.	**-22**	**116**	**243**	**471**	**420**	**570**	**874**	**1,248**	**1,574**
Total Tax	0	0	0	0	143	203	303	432	545
Tax Rate (%)	0.0	0.0	0.0	0.0	34.2	35.7	34.6	34.6	34.6
Reported PAT	**-22**	**116**	**243**	**471**	**276**	**367**	**572**	**816**	**1,029**
Adjusted PAT	**-17**	**116**	**243**	**471**	**366**	**367**	**572**	**816**	**1,029**
Change (%)	NA	-795.7	109.4	93.5	-22.3	0.3	56.0	42.7	26.1
Margin (%)	-1.4	8.4	15.8	23.4	16.2	13.5	18.0	22.6	25.2

Standalone - Balance Sheet (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	389	389	389	389	389	571	571	571	571
Total Reserves	-526	-656	-283	187	685	4,911	5,483	6,299	7,328
Net Worth	**-137**	**-267**	**106**	**576**	**1,074**	**5,481**	**6,053**	**6,869**	**7,898**
Total Loans	1,486	1,728	1,282	2,932	3,057	1,499	499	-1	-1
Deferred Tax Liabilities	0	0	0	0	0	-270	0	0	0
Capital Employed	**1,349**	**1,461**	**1,388**	**3,507**	**4,131**	**6,710**	**6,552**	**6,868**	**7,897**
Gross Block	2,130	2,105	2,166	2,189	3,527	4,536	4,594	4,653	4,711
Less: Accum. Deprn.	1,708	1,514	1,850	2,002	1,223	1,420	1,659	1,902	2,146
Net Fixed Assets	**422**	**590**	**317**	**187**	**2,304**	**3,116**	**2,935**	**2,751**	**2,565**
Capital WIP	13	19	3	3	657	0	0	0	0
Total Investments	**0**	**0**	**0**	**0**	**142**	**268**	**268**	**268**	**268**
Curr. Assets, Loans&Adv.	**1,273**	**1,199**	**1,380**	**3,787**	**1,751**	**3,958**	**4,096**	**4,691**	**6,009**
Account Receivables	645	624	628	772	950	817	1,018	1,159	1,310
Cash and Bank Balance	220	123	339	543	158	2,679	2,695	3,134	4,284
Loans and Advances	407	452	413	2,472	643	462	383	398	415
Curr. Liability & Prov.	**359**	**347**	**311**	**470**	**722**	**631**	**746**	**842**	**945**
Account Payables	292	286	231	339	393	329	521	594	671
Other Current Liabilities	44	43	55	94	276	234	179	198	219
Provisions	23	19	26	36	53	69	45	50	55
Net Current Assets	**913**	**852**	**1,069**	**3,317**	**1,029**	**3,327**	**3,350**	**3,850**	**5,065**
Appl. of Funds	**1,349**	**1,461**	**1,388**	**3,507**	**4,131**	**6,710**	**6,552**	**6,868**	**7,897**

E: MOSL Estimates

Financials and valuations

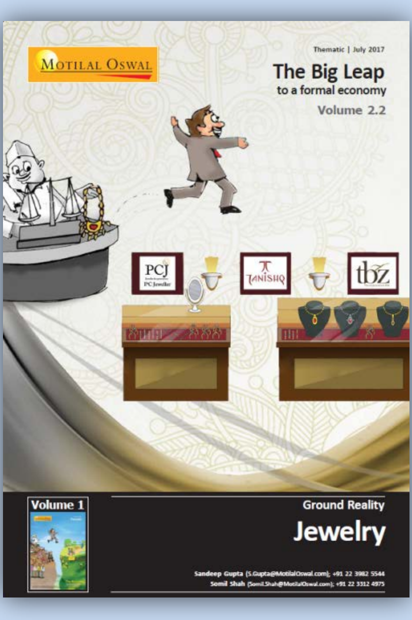
Ratios

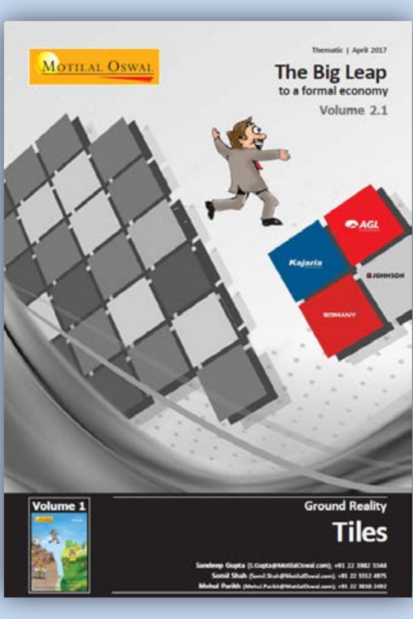
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)									
EPS	**-0.3**	**2.0**	**4.3**	**8.2**	**6.4**	**6.4**	**10.0**	**14.3**	**18.0**
Cash EPS	3.8	5.5	7.0	11.0	9.3	9.9	14.2	18.5	22.3
BV/Share	-2.4	-4.7	1.9	10.1	18.8	96.1	106.1	120.4	138.4
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E				44.2	56.9	56.7	36.4	25.5	20.2
Cash P/E				33.1	39.0	36.9	25.6	19.7	16.3
P/BV				36.1	19.4	3.8	3.4	3.0	2.6
EV/Sales				11.5	10.5	7.2	5.9	4.9	4.0
EV/EBITDA				37.2	30.3	21.5	17.9	13.6	10.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.3	5.5	5.5	10.0	-39.3	5.4	16.5	13.1	15.7
Return Ratios (%)									
RoE	24.4	-57.5	-302.2	138.0	44.3	11.2	9.9	12.6	13.9
RoCE	7.6	11.7	21.0	21.8	13.1	8.8	9.9	12.5	13.9
RoIC	4.5	11.5	22.7	23.3	13.2	13.3	14.2	19.5	25.3
Working Capital Ratios									
Asset Turnover (x)	0.9	0.9	1.1	0.6	0.5	0.4	0.5	0.5	0.5
Debtor (Days)	193	165	149	140	154	110	117	117	117
Creditor (Days)	87	76	55	62	64	44	60	60	60
Leverage Ratio (x)									
Net Debt/Equity	-9.2	-6.0	8.9	4.1	2.6	-0.3	-0.4	-0.5	-0.6

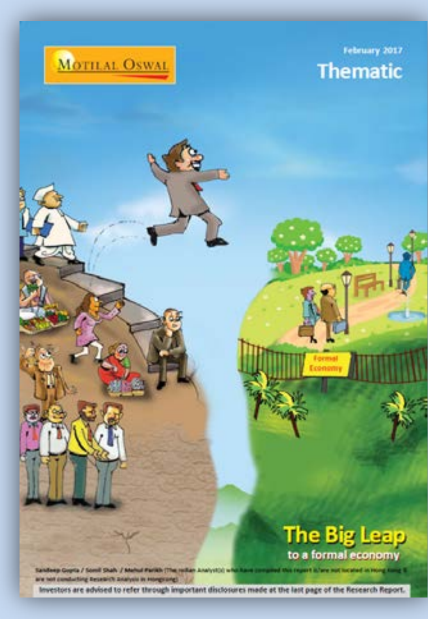
Standalone - Cash Flow Statement (INR Million)

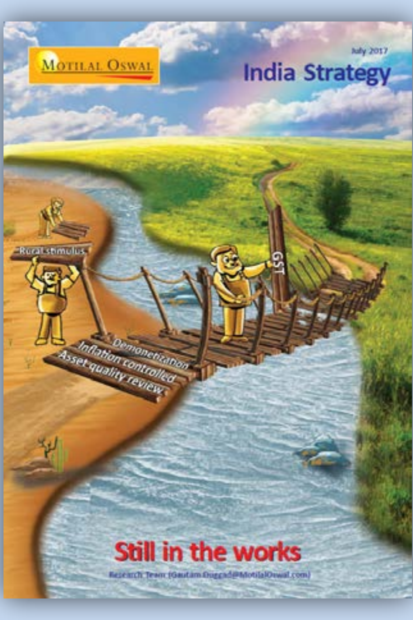
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	-17	116	243	471	561	570	874	1,248	1,574
Depreciation	235	199	155	157	167	197	240	242	244
Interest & Finance Charges	68	48	57	62	190	190	145	30	0
Direct Taxes Paid	-15	-17	-4	7	-106	-203	-303	-432	-545
(Inc)/Dec in WC	-60	0	-77	-54	113	223	-7	-61	-65
CF from Operations	**212**	**346**	**373**	**643**	**925**	**977**	**951**	**1,027**	**1,208**
Others	-3	-6	-20	-46	-303	-314	47	-224	-254
CF from Operating incl EO	**209**	**340**	**353**	**597**	**622**	**662**	**998**	**804**	**954**
(Inc)/Dec in FA	-21	-25	-37	-27	-2,861	-352	-59	-59	-59
Free Cash Flow	**188**	**315**	**316**	**570**	**-2,240**	**310**	**939**	**745**	**895**
(Pur)/Sale of Investments	27	0	0	0	-134	-126	0	0	0
Others	49	9	-8	-1,983	2,305	44	223	224	254
CF from Investments	**55**	**-16**	**-46**	**-2,010**	**-689**	**-433**	**164**	**165**	**196**
Issue of Shares	0	24	0	0	0	4,041	0	0	0
Inc/(Dec) in Debt	-175	-243	-203	1,649	-88	-1,558	-1,000	-500	0
Interest Paid	-70	-52	-56	-51	-192	-190	-145	-30	0
CF from Fin. Activity	**-245**	**-271**	**-259**	**1,599**	**-281**	**2,292**	**-1,145**	**-530**	**0**
Inc/Dec of Cash	**19**	**53**	**48**	**186**	**-349**	**2,521**	**16**	**439**	**1,150**
Opening Balance	58	78	133	192	432	158	2,679	2,695	3,134
Closing Balance	**77**	**131**	**181**	**378**	**84**	**2,679**	**2,695**	**3,134**	**4,284**

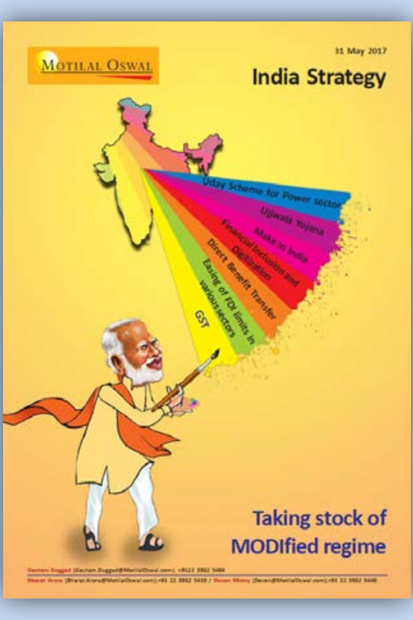
THEMATIC/STRATEGY RESEARCH GALLERY

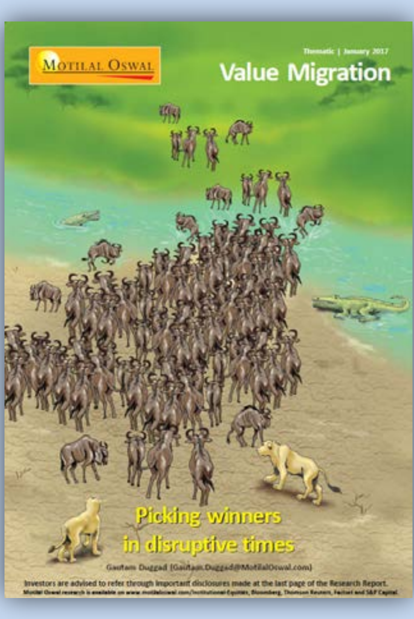












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