Initiating Coverage | Media

July 20, 2017

Music Broadcast Limited

Rhythm of profitable investment

Music Broadcast Limited (MBL) owns and operates FM radio stations under the brand names Radio City and Radio Mantra. MBL has 39 radio stations and operates in 37 Indian cities. The company has a strong listenership base in cities like Mumbai, Delhi and Bengaluru.

Long term barriers a positive for Industry: Radio Industry is protected by licenses for 15 years, thereby restricting the entry of new players. This would support the existing companies to strengthen their position and maintain a healthy growth rate. The new radio stations are being added in the semi-urban areas which is positive for the industry as this will increase the listener base. As radio broadcasting enjoys pricing advantage over other ways of broadcasting such as TV, print, etc. we believe that the industry is expected to see faster revenue growth going ahead, benefitting all the players. KPMG-FICCI expects the Radio Industry to grow at a CAGR of 16.9% over FY2015-20.

Higher listenership, wider reach to fetch premium advertisement rates: As on March 31, 2017, Radio City reached out to over 52.2mn listeners in 23 cities (ENIL- 42.1mn). It grabbed the Number 1 position in Mumbai, Bengaluru and Delhi in terms of number of listeners. Leadership position in top markets, wider reach (62% of population) and better quality of content has enabled MBL to charge ~30% higher advertising rates than its peers and 12-15% higher charges than its closest peer. Owing to this, Radio City enjoys healthy 33.6% operating margin, much better than ENIL's ~22% margin in FY2017.

Leading the industry owing to better financials: MBL outperformed its closest peer with 18.4% CAGR in revenue over FY2013-17 (ENIL reported 13.2% CAGR in revenue). On the profitability front too, MBL, with 32.3% CAGR in PAT over FY2013-17, has performed much better than ENIL (-5.2% CAGR in PAT). Moreover, Radio City posted a six year CAGR of 12.1% v/s. 9.1% of industry owing to higher advertising volumes.

Capex for next 15 years done, paving the way for healthy free cash flow: Capex for 39 licenses have been done for the next 15 years, hence no heavy incremental Capex requirement would emerge. Moreover, the maintenance Capex would be as low as ₹5-10cr. This would leave sufficient cash flow to distribute as dividend.

Outlook & Valuation: We expect MBL to report Revenue/EBITDA/PAT CAGR of 17%/19.2%/47.6% respectively over FY2017-19E driven by launches of new stations, increase in advertising rates and improvement in utilization of radio stations. MBL is trading at relatively lower valuations compared to its peer ENIL on FY19E, (MBL is trading at P/E-26.3, P/B-3.1, EV/EBITDA-14.2 as compared to ENIL P/E-34.3,P/B-4.3,EV/EBITDA-18.6). Considering sustainable growth opportunities over the next 5-7 years, most of the capex already through and strong parentage, **we initiate coverage on MBL with a BUY recommendation and a Target Price of ₹434 (31x of FY19E EPS ₹14/-.)**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	**201**	**225**	**271**	**317**	**372**
% chg	*30*	*12*	*20*	*17*	*18*
Net Profit	**47**	**27**	**36**	**56**	**80**
% chg	*93*	*(42)*	*30*	*57*	*43*
EBITDA (%)	31	35	34	34	35
EPS (Rs)	**8**	**5**	**6**	**10**	**14**
P/E (x)	45	77	59	38	26
P/BV (x)	36	10	4	3	3
RoE (%)	82	13	6	9	12
RoCE (%)	14	16	10	13	14
EV/EBITDA	37	29	20	18	14

Source: Company, Angel Research, Note: CMP as of July 20, 2017

BUY

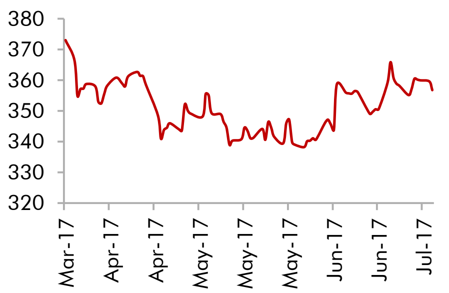
CMP	₹368
Target Price	₹434
Investment Period	12 Months

Stock Info	
Sector	Media
Market Cap (₹ cr)	2,107
Beta	0.3
52 Week High / Low	420/329
Avg. Daily Volume	71,162
Face Value (₹)	10
BSE Sensex	31,904
Nifty	9,873
Reuters Code	MUSI.NS
Bloomberg Code	RADIOCIT@IN

Shareholding Pattern (%)	
Promoters	71.4
MF / Banks / Indian FIs	7.5
FII / NRIs / OCBs	4.1
Indian Public / Others	17.0

Abs.(%)	3m	1yr	3yr
Sensex	8.9	15.0	24.6
Music Broadcast Ltd	9.3	-	-

Price chart



Source: Company, Angel Research

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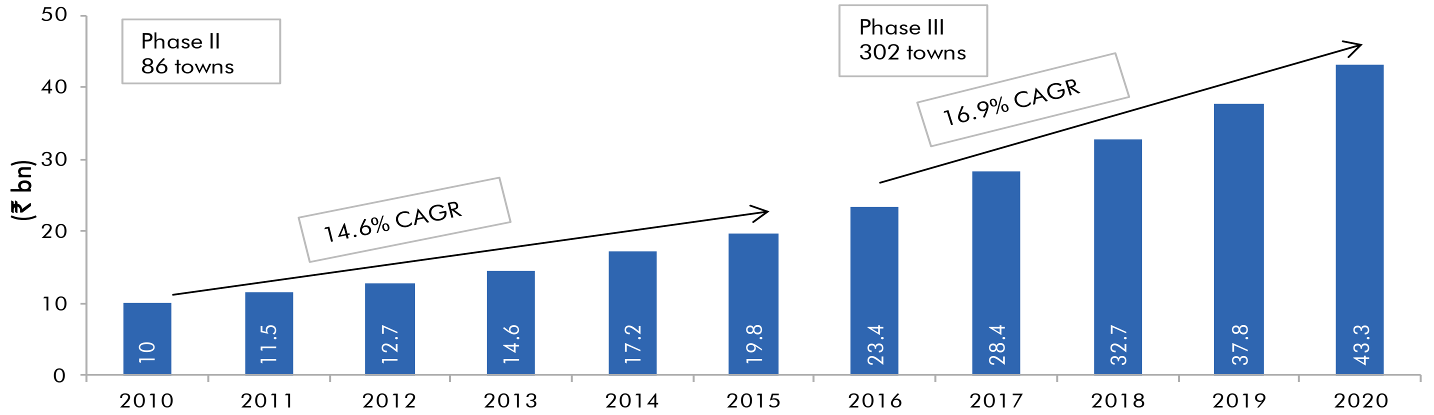
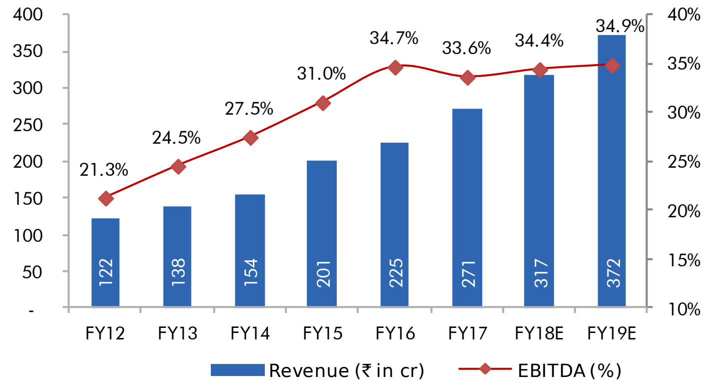
Story in Charts

Exhibit 1: Radio Industry's Historical & Projected trend



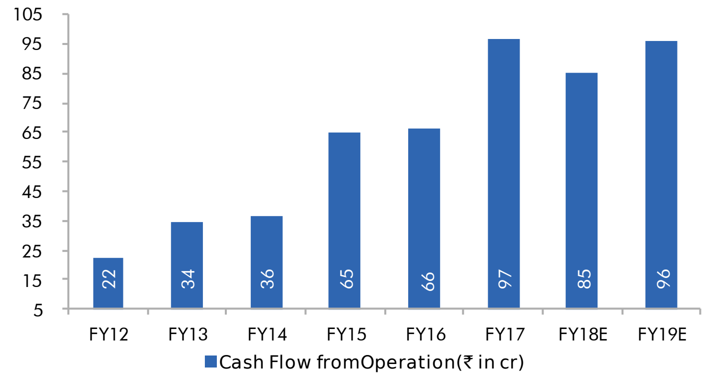
Source: Company, Angel Research, KPMG-FICCI Report

Exhibit 2: Revenue & EBITDA Margin Trend



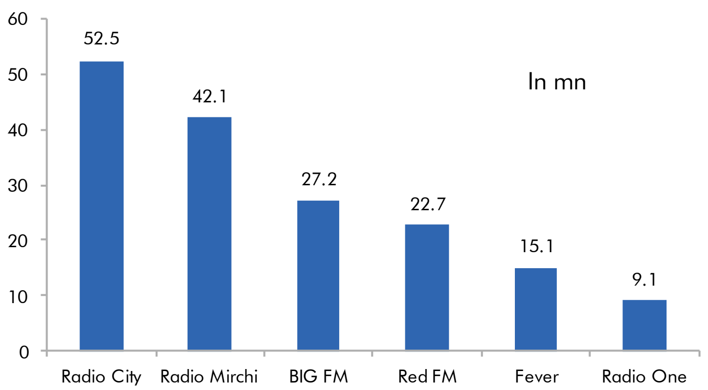
Source: Company, Angel Research

Exhibit 3: Healthy Cash Flow From Operations



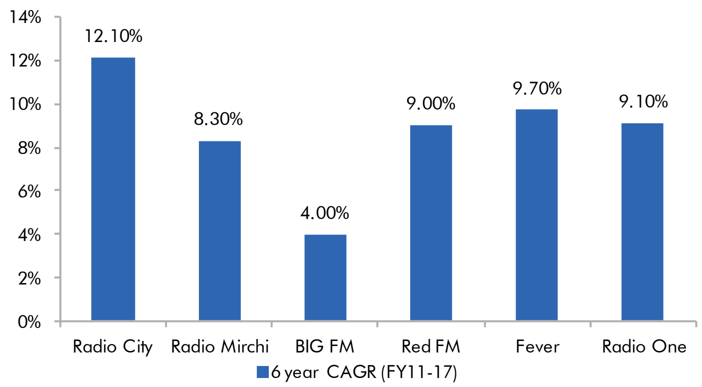
Source: Company, Angel Research

Exhibit 4: Leadership Across Market



Source: Company, Angel Research, AZ Research , March 2017 (23 Markets

Exhibit 5: Advertising Volume



Source: Company, Angel Research

Investment Argument

Long term barriers a positive for Industry

Increase in – listener base (smaller towns), inventory post Phase III auctions and wallet share to drive Radio Industry's growth

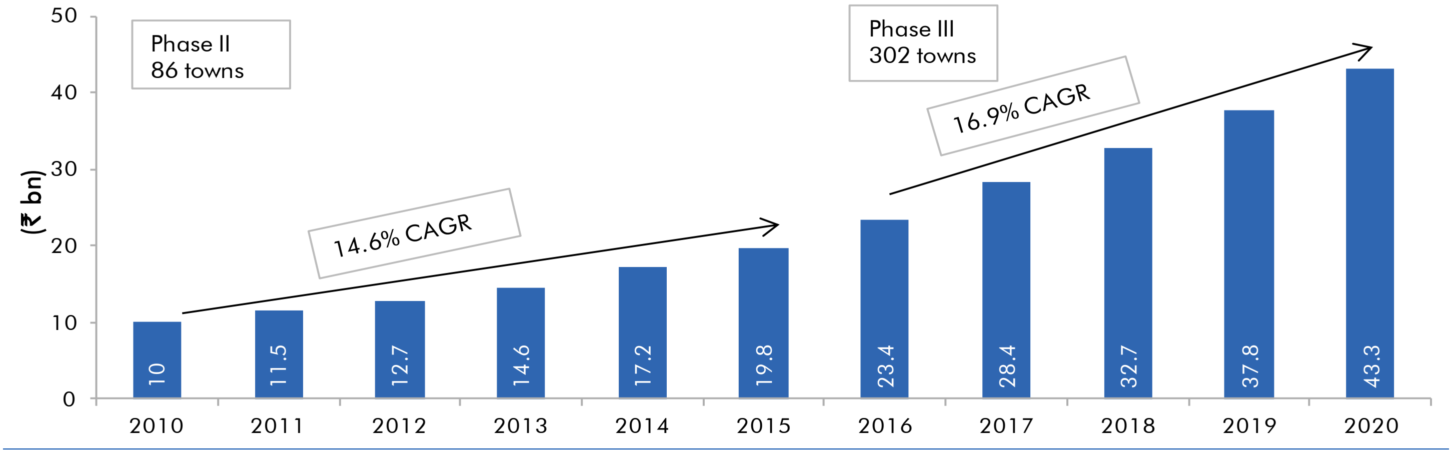
The allotment of radio stations in Phase III and migration from Phase II to Phase III has been licensed for the period of the 15 years, thereby, restricting the entry of new players over the next 15 years.

Entry barriers would support the existing radio companies to strengthen their position and help them to grow at healthy rate given – (1) new launches of radio stations, which would increase the listener base as well as the inventory; (2) Considering the new launches of radio stations (increase in listener base), especially in smaller cities, we believe that MBL's growth would be fuelled. The combination of increased local penetration and affordable pricing v/s. other sources of media & entertainment coupled with an increase in the wallet share would augur well for the industry; (3) Radio's contribution to the total advertisement industry increased to 4.2% in CY2015 from 3.5% in CY2005, which is far lesser than the developed countries (7-10%) and it is expected to increase at a faster rate.

Radio Industry is estimated to grow at a CAGR 16.9% over FY2015-20 - KPMG-FICCI Report

According to the KPMG-FICCI Report, the radio industry has grown at a steady CAGR of 14.5% between the calendar year 2011 and 2015 and recorded an estimated growth rate of 15.1% in calendar year 2015 to reach revenues of ₹19.8billion. Going forward, the Radio Industry is expected to grow at a CAGR of 16.9% between the calendar year 2015 and 2020.

Exhibit 6: Radio Industry's Historical & Projected Trend



Source: Company, Angel Research, KPMG-FICCI Report

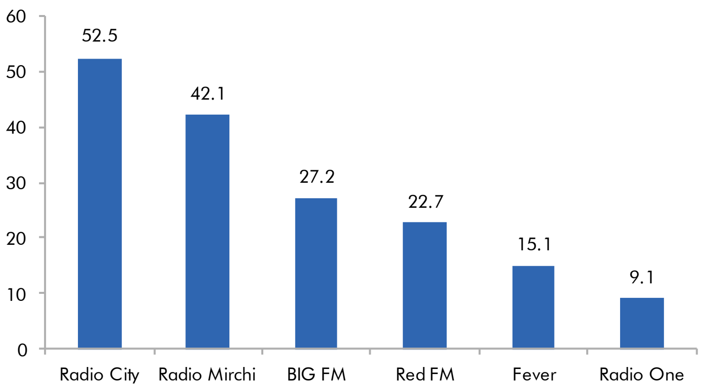
Higher listenerships, wider reach to fetch premium advertisement rates

Leadership position in large markets

As on March 31, 2017, Radio City reached out to over 52.2mn listeners in 23 cities (ENIL- 42.1mn). It grabbed the Number 1 position in Mumbai, Bengaluru and Delhi in terms of number of listeners. Leadership position in top markets, wider reach (62% of population) and better quality of content has enabled MBL to charge ~30% higher advertising rates than its peers and 12-15% higher charges than its closest peer. Owing to this, Radio City enjoys healthy 33.6% operating margin, much better than ENIL's ~22% margin in FY2017.

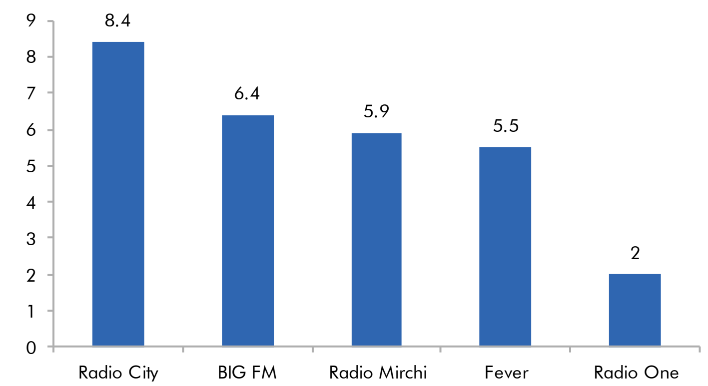
MBL is the first and the oldest private FM radio player in India with over 15 years of expertise in the Radio Industry. It has pan India presence spanning across Southern, Northern, Western and Eastern geographies of India. The company is also present in 12 of the 15 most populated cities in India and has been able to reach out to over 42.5 million listeners and covers 62% of India's population with access to FM radio in 302 towns (post Phase III). Additionally, it also benefits from the group (JAGARAN), as MBL can bring incremental advertisers on board quickly.

Exhibit 7: Listenership Across Market (In Mn)



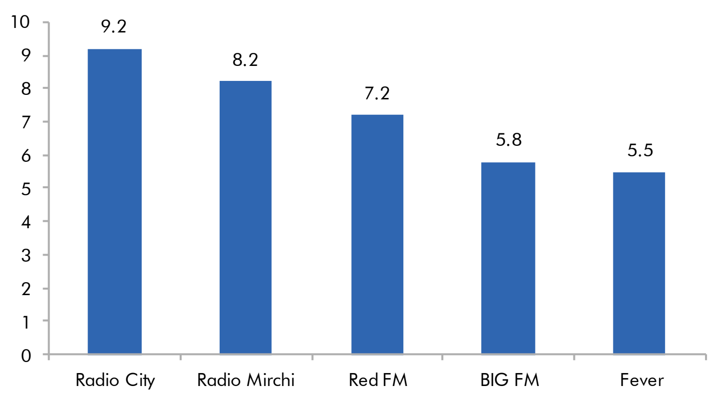
Source: Company, Angel Research, AZ Research, March 2017 (23 Markets)

Exhibit 8: Listenership in Mumbai (In Mn)



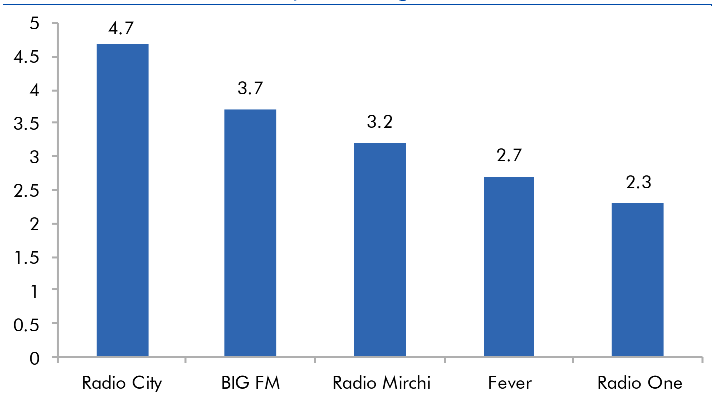
Source: Company, Angel Research, AZ Research,March 2017 (23 Markets)

Exhibit 9: Listenership in Delhi (In Mn)



Source: Company,Angel Research, AZ Research, March 2017(23 Markets)

Exhibit 10: Listenership in Bengaluru (In Mn)



Source: Company, Angel Research,AZ Research, March 2017 (23 Markets)

Capex for next 15 years done, paving the way for healthy free cash flow

Net cash position & miniscule capex requirement would lead to higher dividend distribution to equity holders

Radio business requires minuscule maintenance CAPEX once the stations are operational. MBL has done CAPEX of ~₹340cr for buying 11 new stations and for migrating from Phase II to Phase III. This CAPEX has been done for the next 15 years to run the radio business of 39 stations. We believe that here on the maintenance capital requirement would be around ₹5-10cr. This would leave sufficient cash flow with the company for distribution to equity share holders.

Since 2012, MBL has been consistently reporting increased positive cash flow from operations. CFO/EBITDA ratio has always remained higher than 75%, which displays the company's ability of generating consistent cash flow. As major capex is through, we believe that MBL would generate ₹90cr of free cash flow in FY19, which is 4.4% of current market cap. We estimate FCF generation of ₹152cr over the next 2 years (FY2018E & FY2019E)

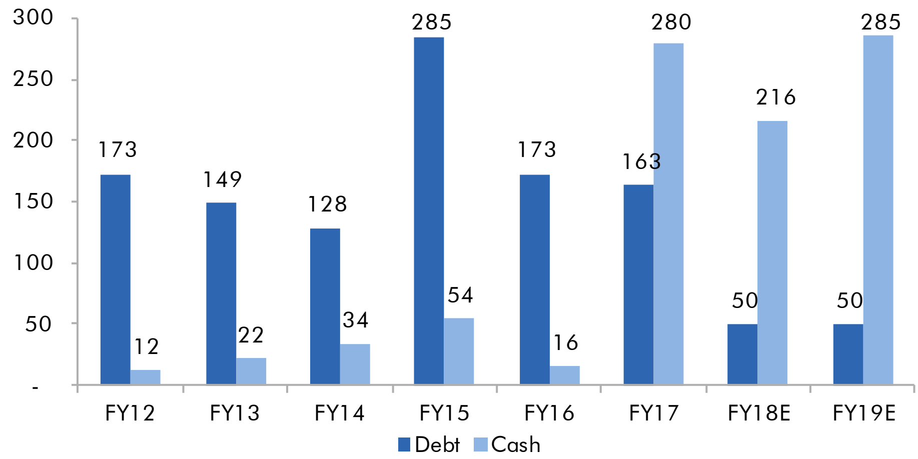
Exhibit 11: Healthy Cash Flow trend

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
CFO	22.4	34.3	36.4	65.0	66.3	96.8	82.1	95.7
Capex	-14.6	-2.5	-3.8	-2.7	-339.8	-35.2	-20.0	-5.0
FCF	7.8	31.8	32.6	62.3	-273.5	61.5	62.1	90.7
EBITDA	26.0	33.9	42.4	62.3	78.1	91.3	109.0	129.7
PAT	-2.2	11.6	24.3	47.1	27.3	35.6	56.0	79.8
CFO/EBITDA	81%	101%	86%	104%	85%	106%	75%	74%
FCF/EBITDA	137%	109%	95%	109%	-520%	145%	94%	78%

Source: Company, Angel Research

MBL recently concluded IPO of ₹400cr, primarily to pay debt, leaving a net cash position of ₹120cr by the end of FY2017. Considering healthy cash position and stable free cash flow, MBL might scout for local/smaller radio firms in places like Kolkata, Madhya Pradesh and Chhattisgarh after the three-year lock-in period under Phase III of radio privatization expires on March 31, 2018.

Exhibit 12: MBL To Have ~₹235cr Of Net Cash On Books By FY2019E

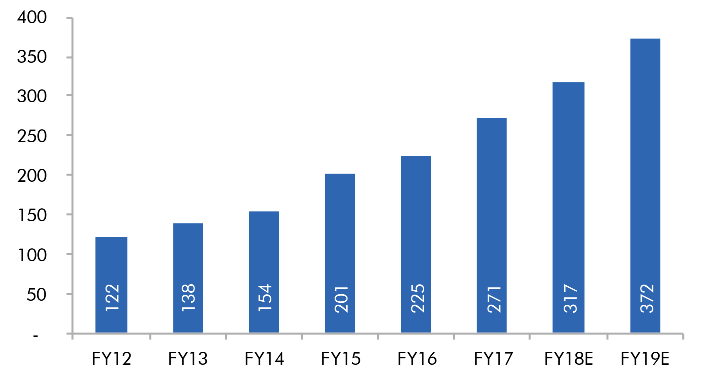


Source: Company, Angel Research

Financial Highlights

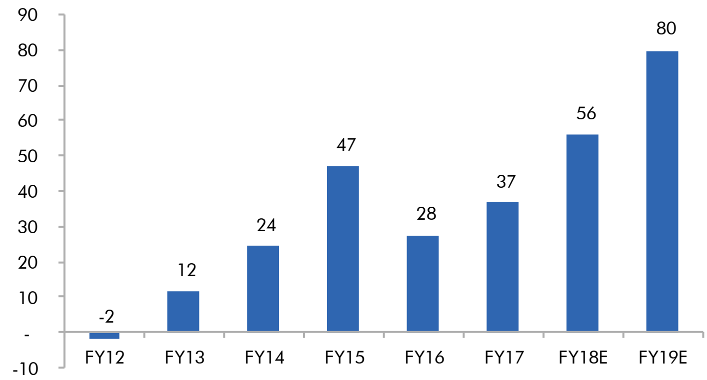
MBL has reported a healthy Revenue/EBITDA/PAT CAGR of 18.4%/28.1%/32.3% respectively over FY2013-17. Advertising volume growth of 12.5% and price growth of 5-6% has contributed to the increase in revenues. It has managed to improve its EBITDA by ~909bps from 24.5% in FY2013 to 34.7% in FY2017, led by efficiently managed stations and ability to charge premium rates compared to peers in metro cities. PAT grew at a CAGR of 32.3% over FY2013-17, however, margins declined amid rising in finance costs, as MBL had taken debt to fund news stations.

Exhibit 13: Revenue Trend (₹ in cr)



Source: Company, Angel Research

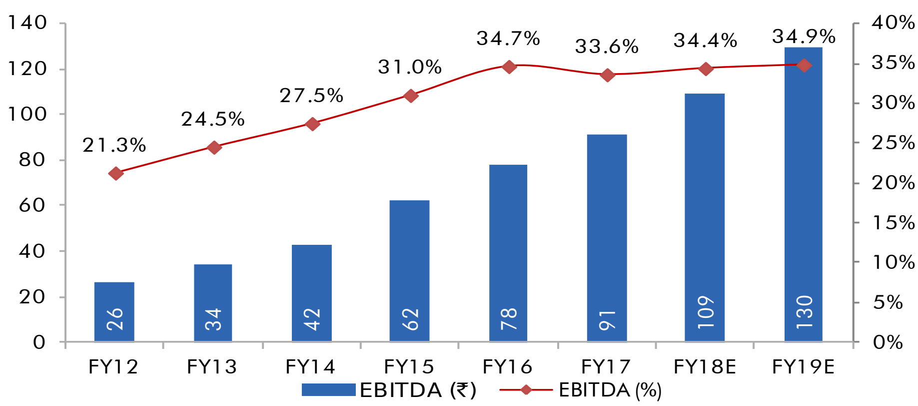
Exhibit 14: PAT Trend (₹ in cr)



Source: Company, Angel Research

Historically, major costs for running a radio station are Staff Costs, Marketing, Music Royalties, License fees, and other administration costs. These cost structures continue to remain the same. Out of the above costs discussed, 75% of the cost would not increase as a proportion to the increase in sales percentage. Hence, we have seen EBITDA margin improvement trend in MBL. Moreover, we believe that MBL would report a rise in margins over the next 3 to 4 years, as operating leverage kicks in with stable costs and new stations allotted in Phase III have gone live in 2HFY2017, which would add to the revenue, but cost for setting up a new station has, however been done.

Exhibit 15: EBITDA Trend



Source: Company, Angel Research

JPL Group Relationships, Experienced Team, Knowledge of Local Markets & Credibility with Advertisers to support growth

Outlook & Valuation: We expect MBL to report Revenue/EBITDA/PAT CAGR of 17%/19.2%/47.6% respectively over FY2017-19E driven by launches of new stations, increase in advertising rates and improvement in utilization of radio stations. MBL is trading at relatively lower valuations compared to its peer ENIL on FY19E, (MBL is trading at – P/E-26.2, P/B-3.1, EV/EBITDA-14.1 as compared to ENIL P/E-34.3, P/B-4.3, EV/EBITDA-18.6). Considering sustainable growth opportunities over the next 5-7 years, most of the capex already through and strong parentage, we initiate coverage on MBL with a BUY recommendation and a Target Price of ₹434 (31x of FY19E EPS ₹14/-.)

Exhibit 16: Comparative Valuation vis-à-vis ENIL

	P/E			P/B			EV/EBITDA			ROE (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
ENIL	80.0	52.3	34.3	5.1	4.8	4.3	34.9	24.5	18.6	6.8	9.4	13.0
MBL	58.7	37.3	26.2	3.8	3.5	3.1	20.1	17.4	14.1	6.5	9.3	12.0

Source: Company, Angel Research, Bloomberg consensus of ENIL and CMP as on July 20, 2017

Key Risk

Slowdown in Indian economy would impact overall ad spends

A slowdown in the economy could affect the spending from the clients, which in turn would affect the company's overall earnings.

Increase in content price

Inability to effectively source music content from third party music production entities/associations can increase the input costs for the company, and hence, may result in the dip in margins.

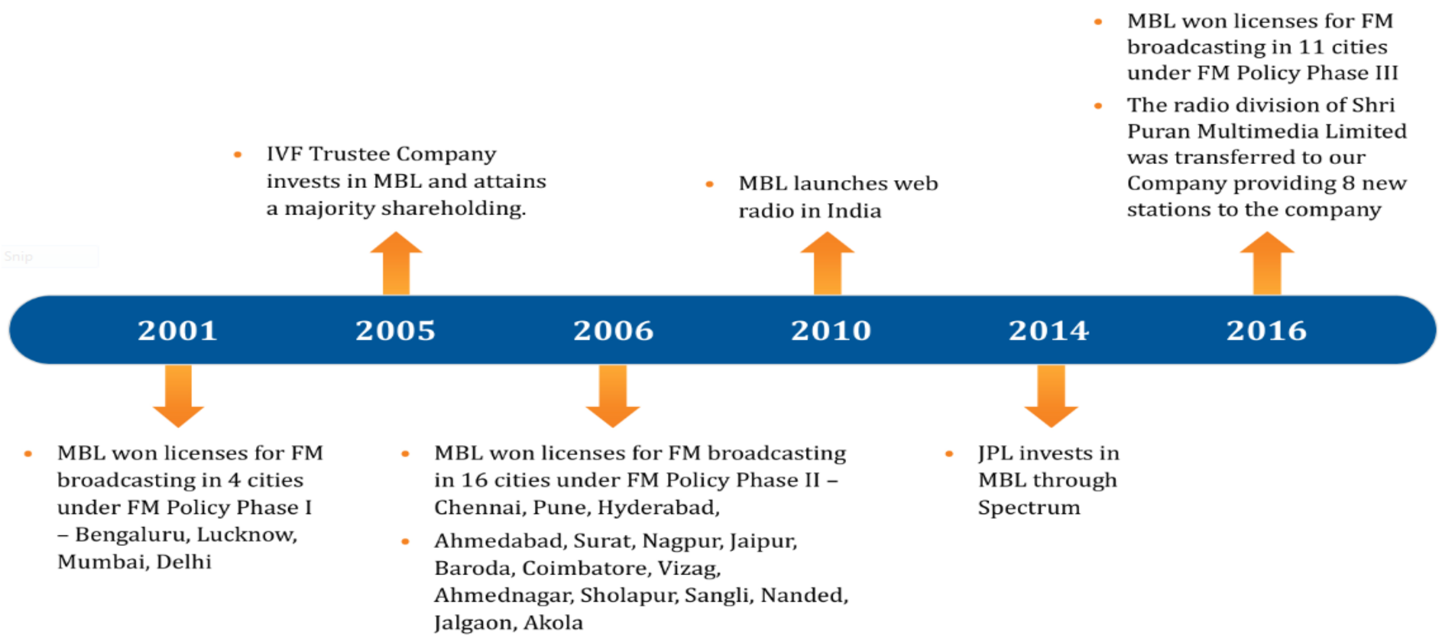
Reduction in listenership numbers

Rising acceptance of data and continuous reduction in the cost of data could lead to shift of listenership to digital platform/mobile applications (Hungama, Saavn, Gaana) and options to download could risk the listenership in Metros and key towns initially.

Company Background

Music Broadcast Limited (MBL) owns and operates FM radio stations under the brand names Radio City and Radio Mantra. The company has 39 radio stations and operates its radio stations in 37 Indian cities. Radio City is present in 12 out of the top 15 cities in India by population. Radio City has been ranked Number One in Mumbai, Bengaluru and Delhi in terms of number of listeners and has a total number of 49.60mn listeners across all 23 cities (according to AZ Research). Music Broadcast Limited operates as a subsidiary of Jagran Prakashan Limited. It also operates 40 Web radio stations that offer Internet radio with live RJ hosted shows through Planet Radio City in 8 languages. In addition, Music Broadcast Limited operates 'Planet Radio City' mobile app that plays various stations such as 'Radio City Freedom', 'Radio City Electronica', 'Radio City Metal', and 'Radio City Smaran' in various languages on mobile and other smart devices.

Exhibit 17: 15 years of Radio City – Growing along with the FM industry's liberalization curve



Source: Company, Angel Research

Key management Personnel

APURVA PUROHIT, Director – BSc from Madras University and PGDMA from IIM Bengaluru, she is the president of the Jagran group and handles the group's portfolio across several verticals including print, radio, digital and outdoor and also accountable for any new businesses, in which the group may venture into in the media space.

ABRAHAM THOMAS, CEO – Holds Bachelor's degree in Pharmacy from the University of Bombay and a Master's diploma in Business Administration from the Institute of Management, Development and Research, Pune. He is also on the board of directors of One Network and Media Agnos. He has prior experience of working at Garware Paints, Astro Broadcasting Corporation (BVI), Digital Radio (Delhi) Broadcasting, MTV Networks India, SET India and Indian Express Newspapers Bombay. He joined MBL on November 23, 2015.

PRASHANT DOMADIA, CFO – Holds Bachelor's degree in Commerce from University of Mumbai and is an associate member of Institute of Chartered Accountants of India. He has prior experience of working with Viacom 18 Media, Ratan S Mama & Co, Indian Hotel Company Limited and A. F. Ferguson & Co. He joined MBL on March 13, 2008 and was appointed as CFO on November 23, 2015.

Income Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017P	FY2018E	FY2019E
Total operating income	**201**	**225**	**271**	**317**	**372**
% chg	*30*	*12*	*20*	*17*	*18*
Total Expenditure	**139**	**147**	**180**	**208**	**242**
License fees	9	17	19	22	26
Personnel	43	51	65	74	87
Others Expenses	86	79	96	111	129
EBITDA	**62**	**78**	**91**	**109**	**130**
% chg	*47*	*25*	*17*	*19*	*19*
(% of Net Sales)	*31*	*35*	*34*	*34*	*35*
Depreciation& Amortization	16	17	20	25	26
EBIT	**47**	**61**	**72**	**84**	**104**
% chg	*73*	*32*	*17*	*17*	*24*
(% of Net Sales)	*23*	*27*	*26*	*26*	*28*
Interest & other Charges	6	21	19	13	5
Other Income	7	15	4	13	20
(% of PBT)	*14*	*27*	*8*	*16*	*17*
Extraordinary Items	14	0	1	-	-
Share in profit of Associates					
Recurring PBT	**47**	**56**	**57**	**84**	**119**
% chg	93	*18*	*3*	*47*	*43*
Tax	0	14	20	28	39
PAT (reported)	**47**	**27**	**36**	**56**	**80**
% chg	93	(42)	30	57	43
(% of Net Sales)	*23*	*12*	*13*	*18*	*21*
Basic & Fully Diluted EPS (Rs)	**8**	**5**	**6**	**10**	**14**
% chg	93	*(42)*	*30*	*57*	*43*

Balance Sheet Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017P	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity Share Capital	39	42	57	57	57
Reserves& Surplus	19	168	491	547	611
Shareholders' Funds	**58**	**210**	**548**	**604**	**668**
Total Loans	288	236	168	55	55
Total Liabilities	**345**	**446**	**717**	**659**	**723**
APPLICATION OF FUNDS					
Net Block	**19**	**230**	**312**	**307**	**286**
Capital Work-in-Progress	0	66	0	0	0
Investments	0	15	27	27	27
Current Assets	347	113	385	338	429
Inventories	0	0	0	0	0
Sundry Debtors	34	22	33	38	45
Cash	54	16	280	216	285
Loans & Advances	215	0	0	0	0
Other Assets	0	21	23	27	31
Current liabilities	52	44	45	50	57
Net Current Assets	**294**	**69**	**340**	**288**	**373**
Other Non Current Asset	32	66	38	38	38
Total Assets	**345**	**446**	**717**	**659**	**723**

Cash Flow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017P	FY2018E	FY2019E
Profit before tax	47	56	57	84	119
Depreciation	16	17	20	25	26
Change in Working Capital	(5)	11	21	(12)	(15)
Interest / Dividend (Net)	6	19	19	13	5
Direct taxes paid	1	(11)	(20)	(28)	(39)
Others	1	(26)	-	-	-
Cash Flow from Operations	**65**	**66**	**97**	**82**	**96**
(Inc.)/ Dec. in Fixed Assets	(3)	(286)	(35)	(20)	(5)
(Inc.)/ Dec. in Investments	(198)	217	(12)	-	-
Cash Flow from Investing	**(201)**	**(69)**	**(47)**	**(20)**	**(5)**
Issue of Equity	-	-	303	-	-
Inc./(Dec.) in loans	200	83	(123)	-	-
Others	(40)	(111)	38	(127)	(21)
Cash Flow from Financing	**160**	**(28)**	**218**	**(127)**	**(21)**
Inc./(Dec.) in Cash	24	(31)	268	(64)	70
Opening Cash balances	**19**	**43**	**13**	**280**	**216**
Closing Cash balances	**43**	**13**	**280**	**216**	**285**

Key ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	44.6	77.0	59.1	37.5	26.3
P/CEPS	33.5	47.7	38.0	25.9	19.9
P/BV	36.5	10.0	3.8	3.5	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.8
EV/Sales	11.6	9.9	6.8	6.0	4.9
EV/EBITDA	37.4	28.7	20.2	17.5	14.2
EV / Total Assets	6.7	5.0	2.6	2.9	2.5
Per Share Data (₹)					
EPS (Basic)	8.2	4.8	6.2	9.8	14.0
EPS (fully diluted)	8.2	4.8	6.2	9.8	14.0
Cash EPS	11.0	7.7	9.7	14.2	18.5
DPS	0.0	0.0	0.0	0.0	2.8
Book Value	10.1	36.8	96.1	105.9	117.1
Returns (%)					
ROCE	13.6	16.0	10.0	12.8	14.5
Angel ROIC (Pre-tax)	16.0	17.5	17.5	20.1	25.3
ROE	81.7	13.0	6.5	9.3	12.0
Turnover ratios (x)					
Inventory / Sales (days)	-	-	-	-	-
Receivables (days)	140	123	110	110	110
Payables (days)	62	36	44	44	44
Working capital cycle (ex-cash) (days)	79	87	66	66	66

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Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*