

Music Broadcast Limited

Playing the growth tune

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 Bangalore. Moreover it also has presence in the Internet Radio Space with PlanetRadioCity.com – 40 web radio stations in 8 languages.

Strong leadership position in large markets: Radio City is ranked No. 1 in terms of number of listeners, total 49.6mn listeners across top 23 cities (according to a survey conducted by AZ Research), whereas, its competitor, Entertainment Network India Ltd (ENIL) is at 2nd place with 40.5mn listeners. Even in the metro cities like Mumbai, Bangalore and Delhi, MBL enjoys a leadership position.

Ability to charge premium advertising rates: Radio City's wide listenership despite operating fewer stations has enabled the company 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 34% operating margin, much better than ENIL's ~30% margin in FY2016.

Volume growth outperforms peers as well as Industry: Radio City's advertising volumes have grown at a CAGR of ~12.5% over FY2011-16, while, ENIL reported ~9% CAGR in advertising volumes during the same period. Radio City's advertising volumes have witnessed higher growth (CAGR of 10.4% over the same period) than the industry due to its higher listenership.

Higher revenue share despite operating lesser radio markets: Radio City operates 20 markets, while ENIL operates a total of 38 markets. Despite this, Radio City has 23% revenue share compared to 24% share of ENIL. We attribute this to its dominant position in listenership and ability to charge premium advertising rates.

Track record of healthy financial performance: Radio City, with ~19% CAGR in revenue, has outperformed its closest peer ENIL, which reported ~14% CAGR in revenues over FY2013-16. In profitability too, Radio City, with ~54% CAGR in PAT over FY13-16, has performed much better than ENIL (~17% CAGR in PAT over FY2013-16).

Outlook and Valuation: In terms of valuations, the pre-issue P/E works out to 25.2x its annualised 1HFY2017 earnings (at the upper end of the issue price band), which is lower compared to its peers (ENIL is trading at 79.5x its annualised 1HFY17 earnings). Also, MBL's EV/sales multiple 6.2x, works out to be at discount to ENIL's 8.2x. On EV/EBITDA front too, Radio City's issue appears to be attractive 18.7x v/s. ENIL's 37.4x. Moreover, MBL has a better margin and ROE profile than its comparable peers. **Hence, considering the above positives coupled with attractive valuations, we recommend a SUBSCRIBE on the issue.**

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	1HFY17
Net Sales	154	201	232	137
% chg	11.7	30.3	15.7	-
Net Profit	24	47	43	30
% chg	109.4	93.5	(9.7)	-
OPM (%)	27.5	31.0	33.8	33.2
EPS (₹)	5.4	10.4	9.4	6.6
P/E (x)	61.7	31.9	35.3	-
P/BV (x)	141.2	26.0	14.0	-
RoE (%)	229.0	81.7	39.6	-
RoCE (%)	23.6	13.6	17.0	-
EV/Sales (x)	10.2	8.6	7.4	-
EV/EBITDA (x)	37.0	27.8	22.0	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: March 06, 2017
 Issue Close: March 08, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹45.0cr

Offer for Sale: **0.26cr Shares

Fresh issue: ₹400 cr

Post Eq. Paid up Capital: ₹57cr

Issue size (amount): *₹486cr - **489 cr

Price Band: ₹324-333

Lot Size: 45 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1,859cr - **₹1,900cr

Promoters holding Pre-Issue: 96%

Promoters holding Post-Issue: 71%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	71%
Others	29%

Amarjeet S Maurya

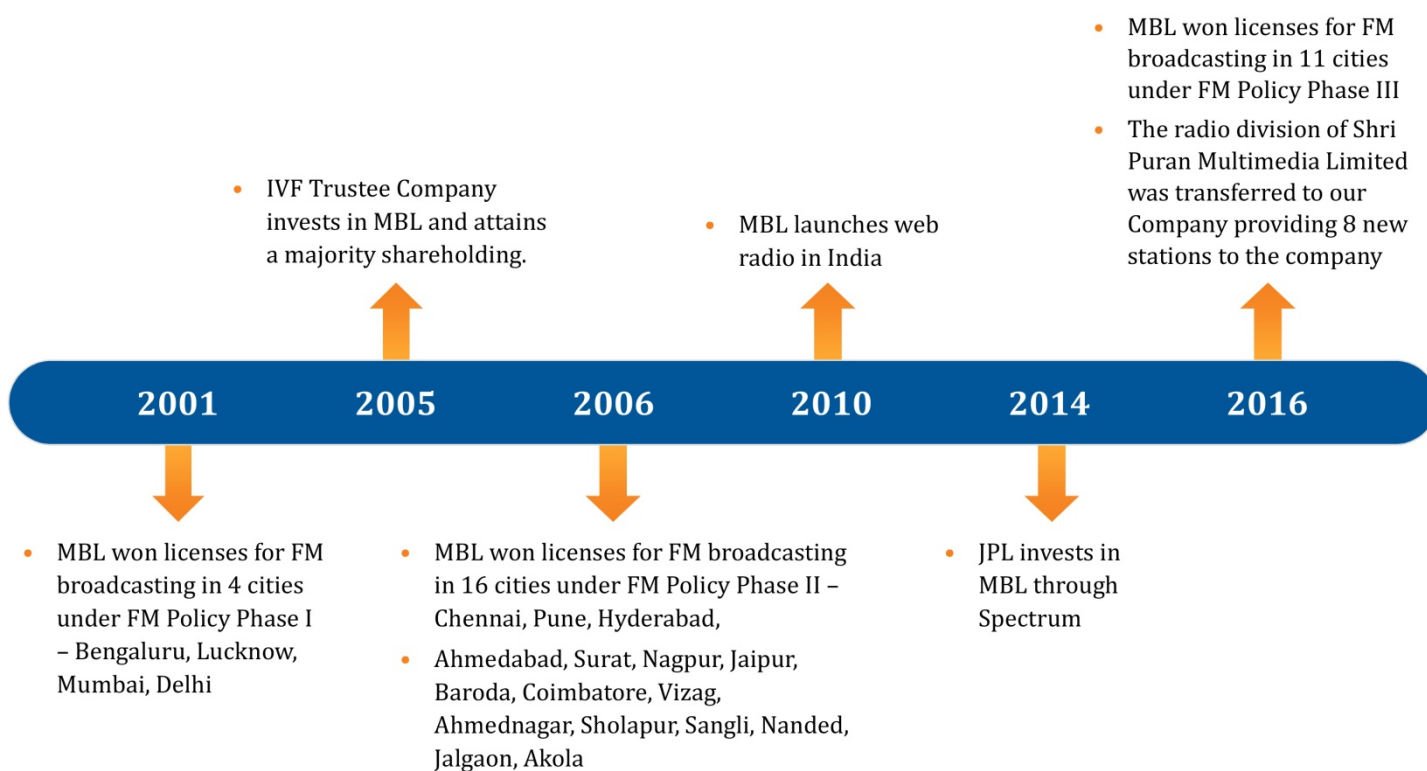
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Company background

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, Bangalore 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 1: 15 years of Radio City – growing along with the FM industry’s liberalization curve



Source: Company, Angel Research

Issue details

The company is raising ₹400cr through a fresh issue of equity shares in the price band of ₹324-333. The fresh issue will constitute 21.1% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.27cr shares that are being sold by the promoter group.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	4,33,93,517	96%	4,07,34,999	71%
Others	16,49,250	4%	1,63,19,780	29%
	4,50,42,767	100%	5,70,54,779	100%

Source: RHP, Angel Research

Note: Calculated on upper price band

Objects of the offer

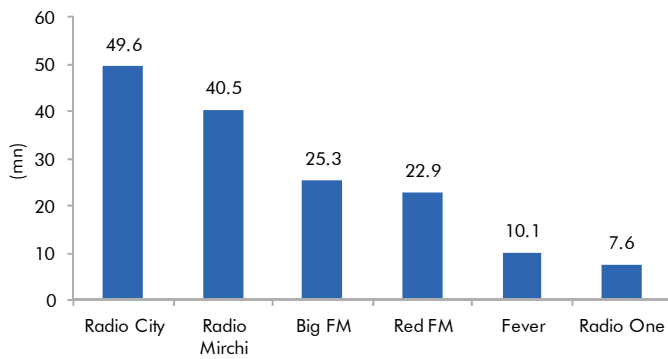
- Redemption of listed total NCDs of ₹200cr in phases. First trench of ₹50cr in FY2017, next trench of ₹100cr in FY2018 and last trench of ₹50cr in FY2020.
- Early redemption of the JPL NCDs and repayment/pre-payment of JPL ICDs of ₹98.2cr in FY2018.
- General corporate purpose.

Investment Rationale

MBL has strong leadership position in large markets: Radio City is ranked No. 1 in terms of number of listeners, total 49.6mn listeners across the 23 cities (its competitor ENIL is at 2nd place with 40.5mn listeners). Even in the metro cities like Mumbai, Bangalore and Delhi, MBL enjoys a leadership position.

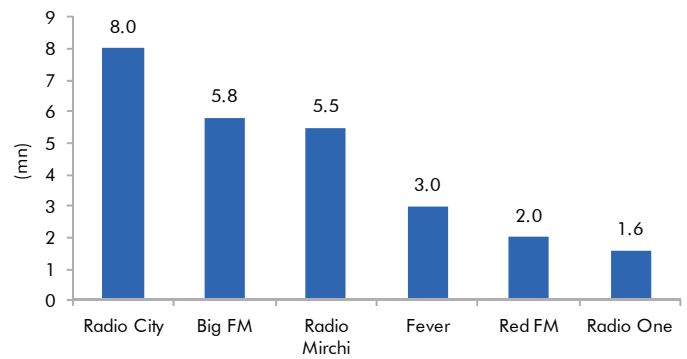
According to a survey conducted by AZ Research in certain markets in which 'Radio City' and 'Radio Mantra' operate, namely Delhi, Jaipur, Lucknow, Ahmedabad, Vadodara, Surat, Mumbai, Pune, Nagpur, Ahmed Nagar, Hyderabad, Vizag, Bengaluru, Chennai, Coimbatore, Ranchi, Varanasi, Agra, Bareilly, Gorakhpur, Hissar, Jalandhar and Karnal, concluded that MBL has a listenership base of 49.6mn.

Exhibit 3: Listenership Across Markets



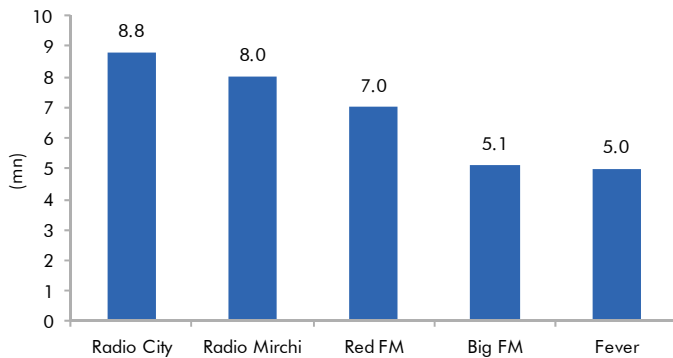
Source: Company, Angel Research

Exhibit 4: Listenership in Mumbai



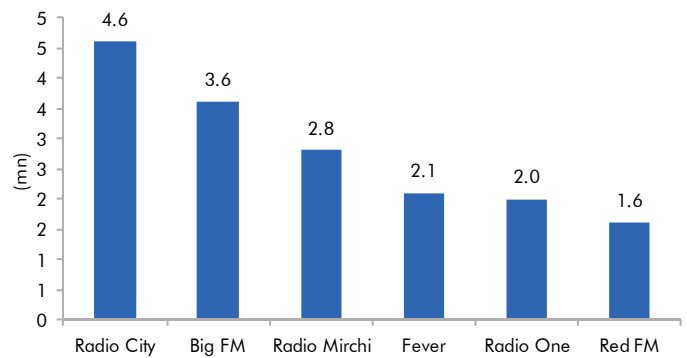
Source: Company, Angel Research

Exhibit 5: Listenership in Delhi



Source: Company, Angel Research

Exhibit 6: Listenership in Bangalore

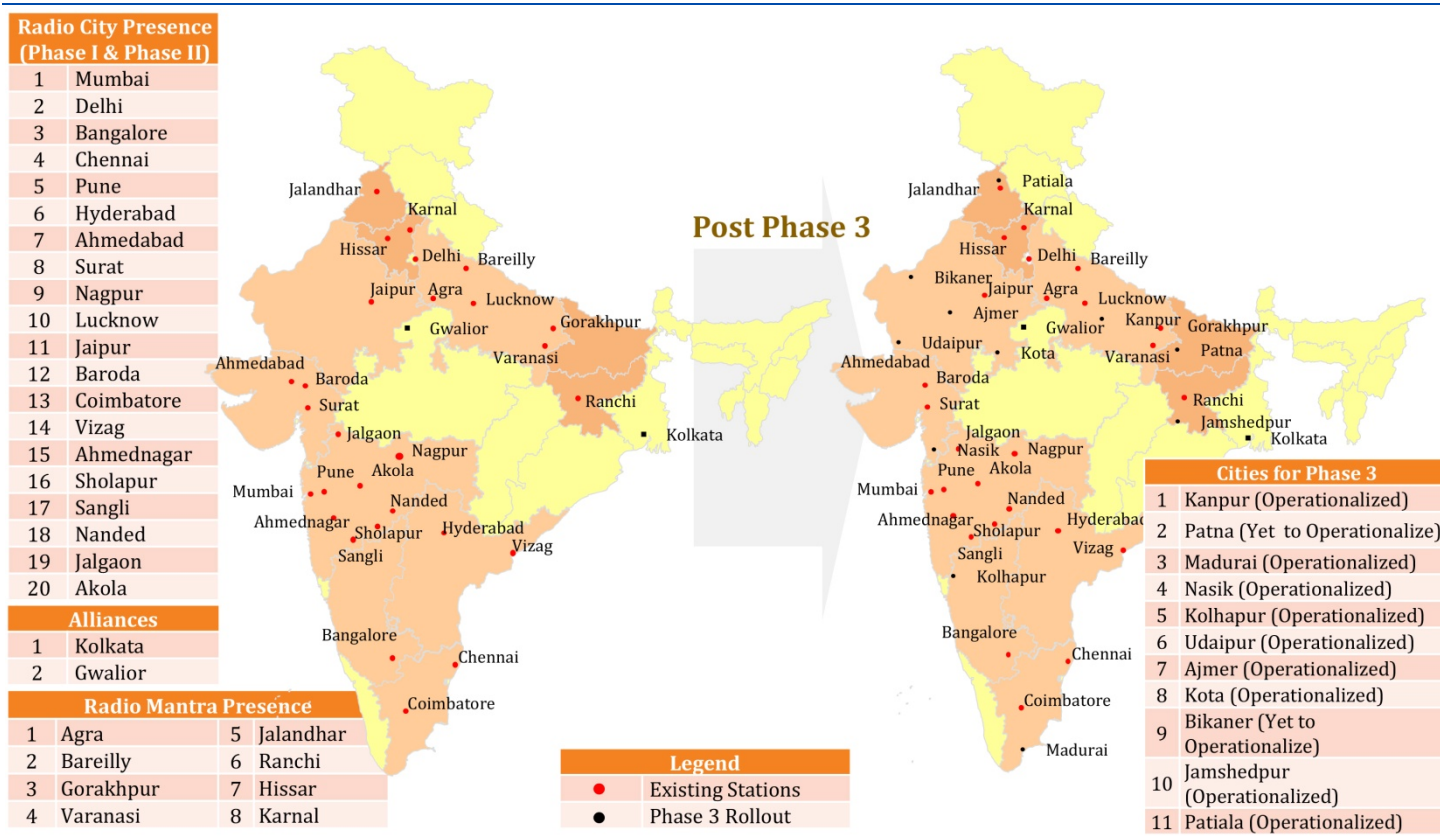


Source: Company, Angel Research

Pan-India presence to propel growth

The company operates total 39 radio stations out of which 29 are through 'Radio City' brand, 8 radio stations are through 'Radio Mantra' brand and for the remaining 2, the company has two sales alliances with ITM Software & Entertainment Private Ltd., which operates 'Suno Lemon' in Gwalior and Ananda Offset Private Ltd., which operates 'Friends FM' in Kolkata. MBL also expects to operationalize two new Radio City Stations, namely Bikaner and Patna, by March/ April 2017. Further, the company is in the process of re-branding the Radio Mantra Stations as 'Radio City' stations. In this regards, it has made an application dated January 11, 2017 to MIB for approval of rebranding the Radio Mantra Stations as 'Radio City' stations.

Exhibit 7: Pan-India Presence in the Right Markets



Source: Company, Angel Research

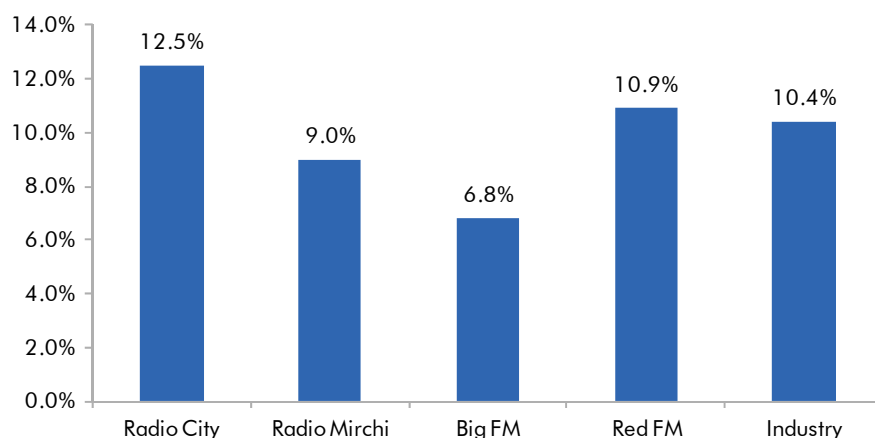
Ability to charge premium advertising rates

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Exhibit 8: Strong leadership in listener base over FY2011-16 aided higher growth in advertisements



Source: Company, Angel Research

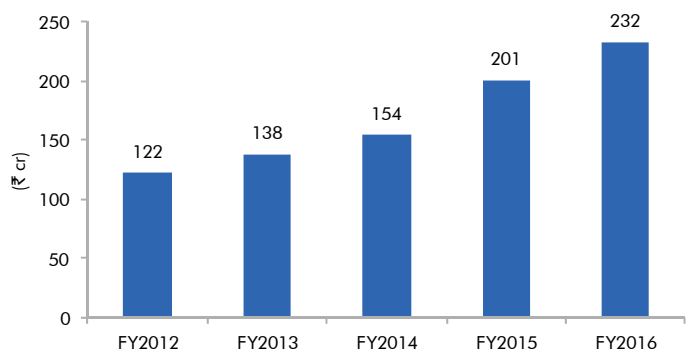
Higher revenue share despite operating lesser radio markets

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Track record of healthy financial performance

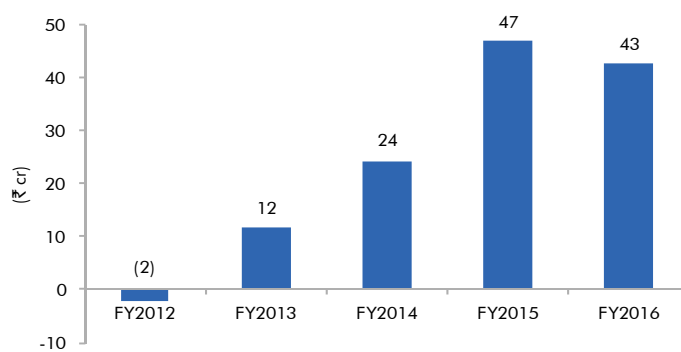
Radio City, with 19% CAGR in revenue, has outperformed its closest peer ENIL, which reported 14% CAGR in revenues over FY2013-16. In profitability too, Radio City, with 54% CAGR in PAT over FY2013-16, has performed much better than ENIL (17% CAGR in PAT over FY2013-16).

Exhibit 9: Historical revenue trend



Source: Company, Angel Research

Exhibit 10: Historical PAT trend



Source: Company, Angel Research

Outlook and Valuation

In terms of valuations, the pre-issue P/E works out to 25.2x its annualised 1HFY2017 earnings (at the upper end of the issue price band), which is lower compared to its peers (ENIL is trading at 79.5x its annualised 1HFY17 earnings). Also, MBL's EV/sales multiple 6.2x, works out to be at discount to ENIL's 8.2x. On EV/EBITDA front too, Radio City's issue appears to be attractive 18.7x v/s. ENIL's 37.4x. Moreover, MBL has a better margin and ROE profile than its comparable peers. **Hence, considering the above positives coupled with attractive valuations, we recommend a SUBSCRIBE on the issue**

Key risks

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 cost for the company, and hence, may result in the dip in margins.

Income Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
Total operating income	138	154	201	232	137
% chg	13.0	11.7	30.3	15.7	-
Total Expenditure	104	112	139	154	91
License fees	8	8	9	17	9
Personnel	35	36	43	52	32
Others Expenses	62	67	86	85	50
EBITDA	34	42	62	79	46
% chg	30.3	25.1	47.1	26.1	
(% of Net Sales)	24.5	27.5	31.0	33.8	33.2
Depreciation & Amortisation	20	15	16	17	9
EBIT	14	27	47	61.9	37
% chg	450.9	92.5	73.4	32.8	
(% of Net Sales)	10.1	17.4	23.2	26.6	26.7
Interest & other Charges	5	6	6	19	8
Other Income	2	3	7	13	1
(% of PBT)	21.1	12.8	14.2	31.0	4.4
Extraordinary Items	-	-	-	14	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	12	24	47	43	30
% chg		109.4	93.5	(9.7)	
Tax	-	-	-	-	-
PAT (reported)	12	24	47	43	30
% chg		109.4	93.5	(9.7)	
(% of Net Sales)	8.4	15.8	23.4	18.3	21.7
Basic & Fully Diluted EPS (₹)	2.6	5.4	10.4	9.4	6.6
% chg		109.4	93.5	(9.7)	

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
SOURCES OF FUNDS					
Equity Share Capital	39	39	39	39	42
Reserves & Surplus	(53)	(28)	19	68	98
Shareholders Funds	(14)	11	58	107	140
Total Loans	118	103	285	256	250
Total Liabilities	104	114	342	363	390
APPLICATION OF FUNDS					
Net Block	42	32	19	230	222
Capital Work-in-Progress	1	0	0	66	69
Investments	0	0	0	14	16
Current Assets	127	138	379	175	221
Inventories	-	-	-	-	-
Sundry Debtors	65	63	77	95	114
Cash	22	34	54	16	30
Loans & Advances	32	36	234	60	73
Other Assets	9	6	13	4	4
Current liabilities	66	56	55	122	137
Net Current Assets	61	82	323	53	83
Mis. Exp. not written off	-	-	-	-	-
Total Assets	104	114	342	363	390

Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
Profit before tax	12	24	47	56	30
Depreciation	20	15	16	17	9
Change in Working Capital	0	(8)	(5)	11	1
Interest / Dividend (Net)	5	6	6	19	8
Direct taxes paid	(2)	(0)	1	(11)	(3)
Others	(0)	(1)	1	(26)	(2)
Cash Flow from Operations	34	36	65	66	42
(Inc.)/ Dec. in Fixed Assets	(3)	(4)	(3)	(286)	(16)
(Inc.)/ Dec. in Investments	1	(1)	(198)	217	(6)
Cash Flow from Investing	(2)	(5)	(201)	(69)	(23)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	2	0	200	83	0
Others	(29)	(26)	(40)	(111)	(14)
Cash Flow from Financing	(27)	(26)	160	(28)	(14)
Inc./(Dec.) in Cash	6	6	24	(31)	5
Opening Cash balances	8	13	19	43	13
Closing Cash balances	13	19	43	13	18

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
Valuation Ratio (x)				
P/E (on FDEPS)	129.1	61.7	31.9	35.3
P/CEPS	47.6	37.7	23.9	25.3
P/BV	-	141.2	26.0	14.0
EV/Sales	11.6	10.2	8.6	7.4
EV/EBITDA	47.1	37.0	27.8	22.0
EV / Total Assets	15.3	13.8	5.1	4.8
Per Share Data (₹)				
EPS (Basic)	2.6	5.4	10.4	9.4
EPS (fully diluted)	2.6	5.4	10.4	9.4
Cash EPS	7.0	8.8	13.9	13.1
Book Value	-	2.4	12.8	23.8
Returns (%)				
ROCE	13.4	23.6	13.6	17.0
Angel ROIC (Pre-tax)	17.0	33.7	16.2	18.6
ROE	-	229.0	81.7	39.6
Turnover ratios (x)				
Inventory / Sales (days)	-	-	-	-
Receivables (days)	171	149	140	149
Payables (days)	77	55	62	62
WC cycle (ex-cash) (days)	93	94	79	87

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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