

Entertainment Network India (ENTNET)

CMP: ₹ 183

Target: ₹ 185 (1%)

Target Period: 12 months

October 28, 2021

More clarity on digital foray needed...

About the stock: Entertainment Network India (ENIL), a subsidiary of Bennett, Coleman & Company Ltd (BCCL), operates Radio Mirchi which has 73 stations across 63 cities with more than 63 million listeners.

- Mirchi has been ranked No.1 in all Indian Readership Survey (IRS) surveys till date in terms of national reach

Q2FY22 Results: ENIL reported strong operating performance on a washout base.

- Revenues came in at ₹ 72.7 crore, up 50.4% YoY on a depressed base but still 37% below pre-pandemic level. Radio ad volumes grew ~61% YoY while yields were down 5% YoY
- EBITDA was at ₹ 9.7 crore vs. loss in the base quarter with margins at 13.4%, largely driven by the controlled costs
- The company reported a loss of ₹ 10.8 crore vs. loss of ₹ 29.4 crore in Q2FY21~₹ 4.6 crore with margins of 10.9% vs. loss in base quarter

What should investors do? ENIL's share price has declined by ~76% over the past five years owing to a weak radio ad environment.

- We maintain HOLD on the stock as we expect realisations recovery to be gradual. Also, strategy on foray into digital platform is yet to be unveiled. We would revisit our stance post the same.

Target Price and Valuation: We value ENIL at ₹ 185 i.e. 20x FY23E P/E.

Key triggers for future price performance:

- Recovery in ad realisations, which is still 37% below pre-Covid levels
- Return of government ads, which have dried up post 2019
- Foray into new digital platform business and the response of the same

Alternate Stock Idea: Besides ENIL, in our media coverage we like Inox.

- Play on multiplex earnings recovery post reopening
- BUY with a target price of ₹ 495

HOLD



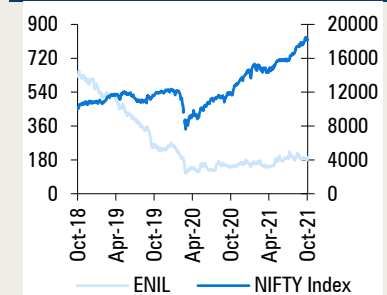
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	₹ 870 Crore
Total Debt (FY21)	₹ 0 Crore
Cash & Liquid Inv. (FY21)	₹ 233.3 Crore
EV (₹ Crore)	₹ 710.9 Crore
52 week H/L	227/138
Equity capital	47.7
Face value	10.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	71.2	71.2	71.2	71.2
DII	8.5	6.2	5.3	4.3
FII	6.8	6.8	6.2	6.3
Other	13.6	15.9	17.3	18.2

Price Chart



Recent event & key risks

- Key Risk:** (i) Slower than anticipated recovery in ad realisations; (ii) Strong traction in digital platform business

Research Analyst

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales (₹ crore)	620.8	548.1	272.1	(26.9)	346.5	505.0	36.2
EBITDA (₹ crore)	139.1	125.3	16.1	(68.2)	50.8	142.9	197.8
Net Profit (₹ crore)	53.9	10.7	(110.5)	NM	(24.5)	43.7	NM
EPS (₹)	11.3	2.2	(23.2)		(5.1)	9.2	
P/E (x)	16.1	81.2	(7.9)		(35.5)	19.9	
Price / Book (x)	0.9	0.9	1.1		1.1	1.1	
EV/EBITDA (x)	5.1	5.0	39.5		12.6	4.0	
RoCE (%)	9.0	3.0	(6.6)		(1.6)	8.1	
RoE (%)	5.8	1.2	(4.8)		(3.2)	5.4	

Source: Company, ICICI Direct Research

Key performance highlight and outlook

Realisations still way below pre-Covid levels

The second wave pushed back the realisation recovery, albeit volumes are back to pre-Covid levels. **We highlight realisations are ~37% below pre-Covid levels.** We understand that in the radio industry realisations could be gradual and concur with the management's view that it could take two to three years to recoup original realisation levels. We expect realisations to start moving from FY23 onwards driven by accelerated vaccination and recovery of ad market, albeit gradually. **We bake in 36% CAGR growth in revenues in FY21-23E at ₹ 505 crore, on a depressed base of ~50% revenue decline in FY21.**

Solutions grows on depressed base; new investments planned

Solutions business grew 51% on adjusted basis (adjusted for discontinuance of Third party radio of TV Today). Out of the same digital business at ₹ 6.2%, formed ~9% of the revenues. The company intends to take this pie to 15% by FY22 end and ~25% over the next three years. **The company is planning to invest in a digital platform (both app and web based) with content (audio/video) and transactional element, adjacent to its current business of radio and solutions by Q4FY22 with initial investment of ~ ₹ 20 crore. The clarity on the same would emerge in the subsequent quarters. We await details such as overall investment requirement, breakeven timeline and further operating detail of the venture.** On the cost front, ENIL managed to reduce overall operating costs by ₹ 90 crore for FY21 and expects to retain ~₹ 80 crore of cost savings in FY22. We expect the company margins at 28.3% in FY23E.

Other highlights

- Core radio revenues grew ~50% largely driven by volumes, which were up ~₹ 61% YoY. Solutions business grew 51% on adjusted basis (adjusted for discontinuance of Third party radio of TV Today)
- Revenue of 35 legacy stations grew 45.3% YoY
- Batch 1 revenues during the quarter were at ₹ 8.3 crore, up 26.9% and EBITDA: ₹ 1 crore (Q2FY21: ₹ 2.5 crore loss). Revenues from Batch 2 stations were up 118.4% YoY at ₹ 4.3 crore with EBITDA of ₹ 1.6 crore (Q2FY21: ₹ 1.1 crore loss)
- Capacity utilisation for Q2: Top 35 stations at ~79% (assuming 13 minutes/hour), with overall utilisation at 52%
- Net cash was at ₹ 205 crore as on Q2FY22

The radio industry realisation remains depressed despite volumes picking up post pandemic. The second wave has further pushed recovery. The medium has also seen the impact of onslaught of growth of digital music streaming services across the globe. Pricing recovery will be key ahead. Reduced opex remains the only solace. Most importantly, further information on new digital platform foray will be key to gauge the path ahead. We reiterate **HOLD** rating with a target price of ₹ 185/share. We value the stock at 20x FY23E EPS.

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)	Comments
Revenue	72.7	48.4	41.6	50.4	75.1	
Other Income	4.1	4.5	5.5	-9.8	-26.8	
Marketing Expenses	5.1	9.4	9.2	-45.0	-43.8	
Administrative Expenses	17.3	14.9	15.9	16.1	9.0	
License Fee	8.4	8.0	8.0	5.2	4.9	
Employee Expenses	28.5	20.0	24.4	42.6	16.6	
Other Expenses	3.6	2.4	2.1	50.4	75.1	
EBITDA	9.7	-6.3	-18.0	-253.8	-153.9	
EBITDA Margin (%)	13.4	-13.1	-43.4	2643 bps	5679 bps	
Depreciation	23.1	25.6	21.7	-9.5	6.7	
Interest	4.7	5.3	4.4	NA	6.8	
Total Tax	-3.2	-7.9	-9.1	-59.6	-65.0	
PAT	-10.8	-24.8	-29.4	-56.3	-63.2	

Source: Company, ICICI Direct Research

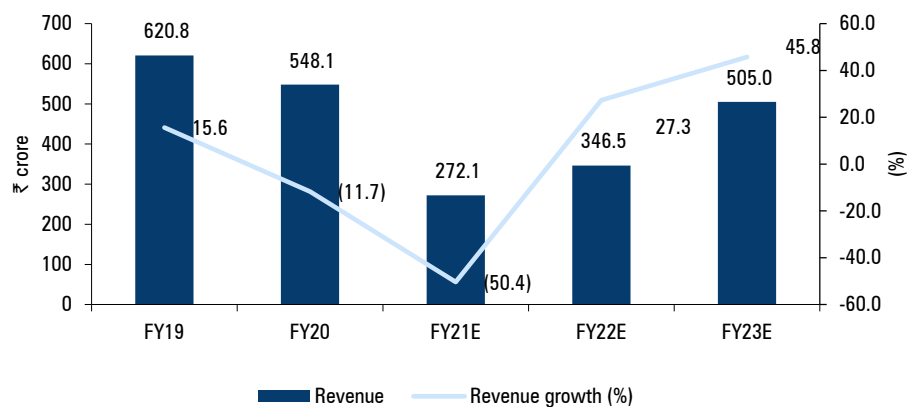
Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	380.1	346.5	-8.9	499.7	505.0	1.1	Realign estimates
EBITDA	58.0	50.8	-12.4	133.9	142.9	6.7	
EBITDA Margin (%)	15.3	14.7	-60 bps	26.8	28.3	150 bps	
PAT	-17.3	-24.5	NM	33.7	43.7	29.5	
EPS (₹)	-3.6	-5.1	NM	7.1	9.2	29.5	

Source: ICICI Direct Research

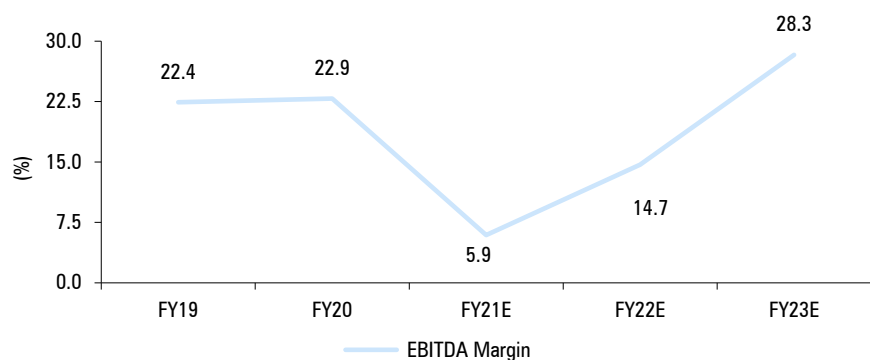
Story in Charts

Exhibit 1: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 2: EBITDA margin trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	548.1	272.1	346.5	505.0
Growth (%)	-11.7	-50.4	27.3	45.8
Other Costs	252.4	130.6	147.4	209.6
License Fee	35.6	32.7	35.0	36.4
Employee Expenses	134.8	92.5	113.3	116.1
Total Operating Expenditure	422.8	255.9	295.7	362.1
EBITDA	125.3	16.2	50.8	142.9
Growth (%)	-9.9	-87.1	213.3	181.3
Depreciation	104.2	99.2	90.8	92.4
Interest	19.5	18.9	17.5	17.0
Other Income	13.4	19.1	25.0	25.0
Exceptional Items	-	71.7	-	-
PBT	15.1	-154.5	-32.5	58.5
MI/PAT from associates	-	-	-	-
Total Tax	4.4	-44.1	-8.0	14.8
PAT	10.7	-110.4	-24.5	43.7
Growth (%)	-80.1	NM	NM	NM
EPS (₹)	2.2	-23.2	-5.1	9.2

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	10.7	-110.5	-24.5	43.7
Add: Depreciation	104.2	99.2	90.8	92.4
Add: Interest Paid	19.5	18.9	17.5	17.0
(Inc)/dec in Current Assets	28.3	44.0	-10.1	-73.8
Inc/(dec) in CL and Provisions	3.6	-57.5	-10.4	51.0
CF from operating activities	166.3	-5.8	63.3	130.3
(Inc)/dec in Investments	-90.7	13.2	0.0	-50.0
(Inc)/dec in Fixed Assets	-46.7	45.3	-25.0	-25.0
Others	-0.3	-22.7	-15.0	-15.0
CF from investing activities	-137.8	35.8	-40.0	-90.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Interest paid	-19.5	-18.9	-17.5	-17.0
Dividend outflow	-4.8	-4.8	-9.5	-9.5
Others	-24.0	0.1	0.0	0.0
CF from financing activities	-48.3	-23.6	-27.1	-26.5
Net Cash flow	-19.8	6.4	-3.8	13.8
Opening Cash	23.9	4.1	10.5	6.7
Closing Cash	4.1	10.5	6.7	20.5

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	47.7	47.7	47.7	47.7
Reserve and Surplus	869.6	754.4	720.3	754.5
Total Shareholders funds	917.3	802.1	768.0	802.1
Total Debt	0.0	0.0	0.0	0.0
Others	223.8	165.5	150.5	135.5
Total Liabilities	1,141.1	967.6	918.5	937.6
Assets				
Gross Block	1,292.8	1,246.6	1,271.6	1,296.6
Less: Acc Depreciation	636.7	735.9	826.7	919.1
Net Block	656.1	510.7	444.9	377.5
Capital WIP	0.8	1.7	1.7	1.7
Total Fixed Assets	656.9	512.4	446.6	379.2
Goodwill	0.0	0.0	0.0	0.0
Investments	236.1	222.8	222.8	272.8
Inventory	-	-	-	-
Debtors	160.7	114.4	118.6	172.9
Loans and Advances	24.1	23.4	28.3	39.1
Other Current Assets	48.1	51.0	52.0	60.6
Cash	4.1	10.5	6.7	20.5
Total Current Assets	236.9	199.3	205.6	293.2
Creditors	142.4	97.8	85.4	124.5
Provisions	11.9	11.7	10.3	14.9
Other Current Liabilities	25.1	12.5	15.9	23.1
Total Current Liabilities	179.5	122.0	111.6	162.6
Net Current Assets	57.5	77.3	94.1	130.6
Other non Current Assets	0.0	0.0	0.0	0.0
Application of Funds	1,141.1	967.6	918.5	937.6

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	2.2	-23.2	-5.1	9.2
Cash EPS	24.1	-2.4	13.9	28.5
BV	192.4	168.3	161.1	168.3
DPS	1.0	1.0	2.0	2.0
Cash Per Share	0.9	2.2	1.4	4.3
Operating Ratios (%)				
EBITDA Margin	22.9	5.9	14.7	28.3
PBT / Total Operating income	3.9	-30.5	-11.5	10.0
PAT Margin	2.0	-14.3	-7.1	8.6
Inventory days	0.0	0.0	0.0	0.0
Debtor days	107.0	153.5	125.0	125.0
Creditor days	94.8	131.1	90.0	90.0
Return Ratios (%)				
RoE	1.2	-4.8	-3.2	5.4
RoCE	3.0	-6.6	-1.6	8.1
RoIC	3.0	-14.4	-7.5	10.4
Valuation Ratios (x)				
P/E	81.2	-7.9	-35.5	19.9
EV / EBITDA	5.0	39.5	12.6	4.0
EV / Net Sales	1.1	2.3	1.8	1.1
Market Cap / Sales	1.6	3.2	2.5	1.7
Price to Book Value	0.0	0.0	0.0	1.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.5	1.8	1.7
Quick Ratio	1.3	1.5	1.8	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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