

## Ad volume recovers but pricing pain persists...

Entertainment Network India (ENIL) reported a weak set of Q3FY21 numbers. Revenues came in at ₹ 85.6 crore (down 42.3% YoY) with core radio revenue de-growth of 36% YoY in Q3FY21. The solutions business witnessed 55% decline YoY as on-ground activities are yet to pick up. EBITDA dipped 45.9% YoY to ₹ 20.9 crore. While ENIL managed cost reduction across all fronts, a sharp fall in revenues meant lower operating profit. Exceptional gain of ₹ 29.3 crore was reported owing to reassessment of royalty provisions (₹ 26.1 crore) and fee received post termination of time brokerage deal with a US broadcaster (₹ 2.6 crore). Subsequently, reported PAT was at ₹ 18.4 crore, up 85.9% YoY.

## Ad volume grows YoY; yield recovery lagging

The radio business continued to report revenue de-growth in Q3FY21 as ad pricing dropped. We note that ENIL's core radio revenue decline of 36% in Q3FY21 was lower than the listed competitor in the industry. Radio revenue decline was mainly owing to revenue dip of 45-50% (18% volume dip) in top eight markets. Also, ad pricing was down 28% YoY. The management said pricing recovery lags volume recovery and is expected to reach near normal by August. Accordingly, we revise our estimates and expect radio revenues CAGR of 1.5% YoY in FY2-23E to ₹ 374 crore, a decline of ~50% in FY21E followed by a sharp recovery YoY in FY22E, on a depressed base.

## Non-FCT margins growth, a positive

On-ground activities did not see traction owing to Covid-19. As a result, solutions business de-grew 55% YoY. Solutions business margins, however, grew to 48.3% by 1300 bps YoY as sub-segments of solutions business like media, IP and digital reported margins growth in range of 400-1800 bps. Going ahead, we bake in ~6% CAGR in solution business in FY20-23E to ₹ 217 crore. ENIL managed to reduce overall operating costs by 29% during the quarter. The management guided that ₹ 40-45 crore cost savings (out of total ₹ 80 crore in FY21E) is likely to sustain.

## Valuation & Outlook

The radio sector remains the worst hit media segment due to Covid-19 led lockdown in FY21E. While seeing ad growth was encouraging, YoY ad pricing drop (improved QoQ in festive quarter) affected revenue. Ad pricing is likely to remain under pressure in the near term, Gross margin growth of solutions business is a relief for ENIL in challenging times and focus on digital going ahead will keep margins healthy. We would monitor the traction, consistency in the same before turning constructive. The company has cash & cash equivalent of ~₹ 197 crore, which assures liquidity. However, ENIL's payout to shareholders is less compared to its peer. We roll over valuations to FY23E and maintain **HOLD** rating on the stock with a revised target price of ₹ 185 (implying ~4x FY23E EV/EBITDA) vs. earlier TP of ₹ 145.



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	₹ 817.5 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Liquid Investments (FY20)	₹ 240.2 Crore
EV (₹ Crore)	₹ 658.5 Crore
52 week H/L	246/101
Equity capital	47.7
Face value	10.0

### Key Highlights

- Maintain HOLD rating with target price of ₹ 185, (implying ~4x FY23E EV/EBITDA)

### Key risks to our call

- Faster recovery in ad pricing can improve profitability
- Dip in ad volume trajectory can impact earnings

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	620.8	548.1	275.0	502.4	566.3	1.1
EBITDA (₹ crore)	139.1	125.3	17.8	140.7	164.2	9.4
Net Profit (₹ crore)	53.9	10.7	(40.8)	29.8	50.4	67.5
EPS (₹)	11.3	2.2	(8.6)	6.2	10.6	
P/E (x)	15.2	76.3	(20.0)	27.5	16.2	
Price / Book (x)	0.9	0.9	0.9	0.9	0.9	
EV/EBITDA (x)	4.7	4.6	30.7	3.6	2.5	
RoCE (%)	9.0	3.0	(5.9)	5.5	7.9	
RoE (%)	5.8	1.2	(8.0)	3.3	5.4	

**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	85.6	148.3	48.4	-42.3	77.0	Revenues fell owing to drop in ad yield. Ad volume grew 11.5% YoY
Other Income	4.1	3.0	4.5	33.9	-9.4	
Marketing Expenses	11.3	30.7	9.4	-63.3	20.4	
Administrative Expenses	18.3	25.0	14.9	-27.0	22.4	
License Fee	8.3	9.0	8.0	-7.5	4.0	
Employee Expenses	22.6	34.8	20.0	-35.1	13.2	
Other Expenses	4.3	7.4	2.4	-42.3	77.0	
EBITDA	20.9	41.3	-6.3	-49.5	-430.1	
EBITDA Margin (%)	24.4	27.8	-13.1	-347 bps	3744 bps	
Depreciation	24.9	26.4	25.6	-5.8	-2.7	
Interest	4.7	5.0	5.3	NA	-10.9	
Total Tax	6.3	3.0	-7.9	106.4	-179.9	
PAT	18.4	9.9	-24.8	85.9	-174.4	Exceptional gains of ₹ 29.3 crore uplifted profits

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	333.4	275.0	-17.5	565.0	502.4	-11.1	566.3	Realigned estimates after Q3 performance
EBITDA	24.4	17.8	-27.0	151.1	140.7	-6.9	164.2	
EBITDA Margin (%)	7.3	6.5	-85 bps	26.7	28.0	126 bps	29.0	
PAT	-56.9	-40.8	NM	34.5	29.8	-13.7	50.4	
EPS (₹)	-11.9	-8.6	NM	7.2	6.2	-13.7	10.6	

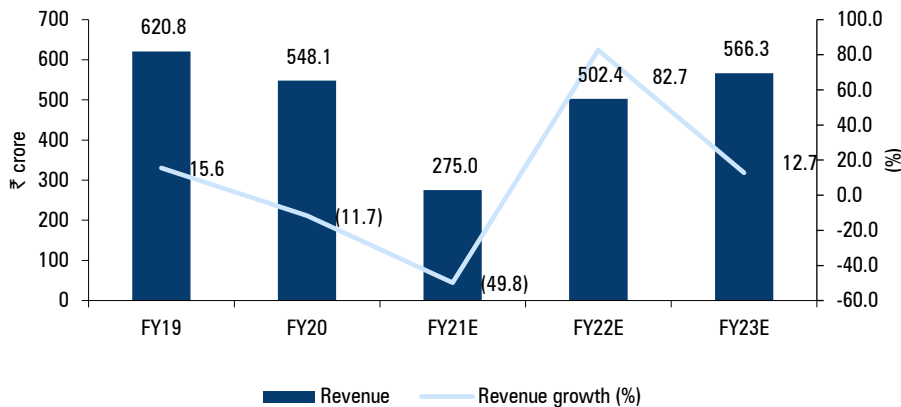
Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Ad affected across top eight markets; smaller cities better:** The management said ad revenue in top eight markets was down 45-50% YoY while other original 27 markets saw 27% de-growth. Smaller cities performed better compared to metros as per the management. On the ad pricing front, the management said that pricing was down 28% YoY. Although it saw a sequential increase of 7%, it will be unsustainable as it got a boost during the festive quarter. The management was of the view that ad pricing should recover to near normal (up to 90%) by August as yield recovery follows volume recovery with a lag.
- **Solution business margin improves; focus to be on digital:** Due to less on-ground activities, gross margins saw a rise in Q3. Gross margins of solution segments: media: 56% (vs. 38%), IP 39% (vs. 35%) and digital 31% (vs. 25%). The company will offer digital products with more focus in multimedia deal package, going ahead. Digital product revenue was 11.5% of total revenue in Q3. The company is planning to enhance it up to 20-25% in two years
- **Partial cost savings to sustain:** The management had earlier guided for ~₹ 80 crore savings in operating overheads. Total ₹40-45 crore of cost savings is likely to sustain next year. The company expects ₹ 11 crore annual saving in royalty payout. The company has undertaken initiatives like shutting stations in the night (12 midnight-6 am), reducing office space and on-ground activities, etc. ENIL has cash reserves of ₹ 197 crore
- **Exceptional gains lift earnings:** The company reassessed performance royalty provisions post new needle per hour rates and reported ₹ 26.1 crore as exceptional gains. This will have no impact on cash flow. The management added that royalty provision has not been fully written back as the matter is still being heard in court. The company still has to provide for an amount of ₹ 25 crore
- **Other highlights:** i) Revenue of 35 legacy stations de-grew 41.7% YoY to ₹ 71 crore ii) Batch 1 revenues during the quarter were at ₹ 8.9 crore, down 53.8% and EBITDA: ₹ 1.1 crore (Q3FY20: ₹ 2.2 crore). Revenues from Batch 2 stations down 1.2% YoY and were at ₹ 4.6 crore with EBITDA of ₹ 1.7 crore (Q3FY20: ₹ 42 lakh) iii) Capacity utilisation: Batch 1 stations: 43%, Batch 2 stations: 29%, overall utilisation: 55% iv) ENIL will relaunch in Dubai in two months. Qatar and Bahrain launches are also lined up

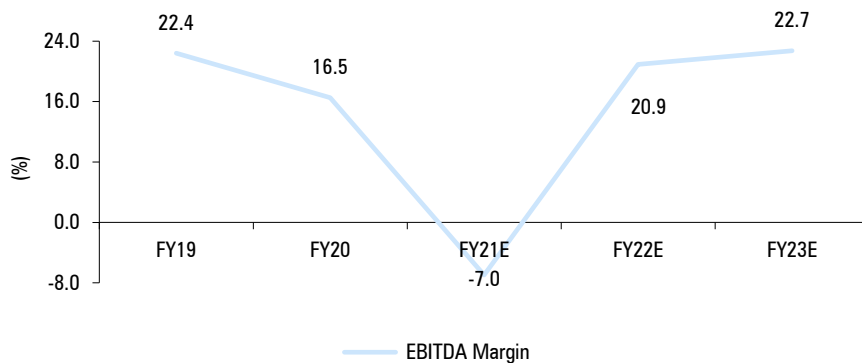
## Story in Charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend (ex- Ind-AS trend)



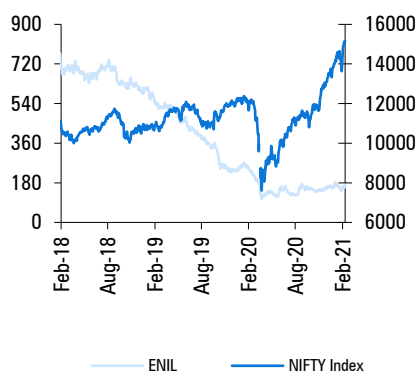
Source: Company, ICICI Direct Research

Exhibit 5: Excerpt of P&L (excluding Ind-AS 116)

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>548.1</b>	<b>275.0</b>	<b>502.4</b>	<b>566.3</b>
Growth (%)	-11.7	-49.8	82.7	12.7
Other Costs	287.3	171.4	256.5	279.0
License Fee	35.6	30.8	30.1	34.0
Employee Expenses	134.8	91.9	110.5	124.6
Total Operating Expenditure	457.7	294.2	397.2	437.6
<b>EBITDA</b>	<b>90.4</b>	<b>(19.2)</b>	<b>105.2</b>	<b>128.7</b>
Growth (%)	-35.0	-121.2	-648.7	22.4
<b>Margins (%)</b>	<b>16.5</b>	<b>(7.0)</b>	<b>20.9</b>	<b>22.7</b>

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Total operating income</b>	<b>548.1</b>	<b>275.0</b>	<b>502.4</b>	<b>566.3</b>	
Growth (%)	-11.7	-49.8	82.7	12.7	
Other Costs	252.4	134.4	221.0	243.5	
License Fee	35.6	30.8	30.1	34.0	
Employee Expenses	134.8	91.9	110.5	124.6	
Total Operating Expenditure	422.8	257.2	361.7	402.1	
<b>EBITDA</b>	<b>125.3</b>	<b>17.8</b>	<b>140.7</b>	<b>164.2</b>	
Growth (%)	-9.9	-85.8	688.8	16.8	
Depreciation	104.2	100.4	100.5	96.3	
Interest	19.5	19.2	20.0	20.0	
Other Income	13.4	18.9	20.0	20.0	
Exceptional Items	-	(29.3)	-	-	
PBT	15.1	-53.5	40.2	68.0	
M/WPAT from associates	-	-	-	-	
Total Tax	4.4	-12.7	10.4	17.6	
<b>PAT</b>	<b>10.7</b>	<b>-40.8</b>	<b>29.8</b>	<b>50.4</b>	
Growth (%)	-80.1	-481.1	-173.0	69.1	
<b>EPS (₹)</b>	<b>2.2</b>	<b>-8.6</b>	<b>6.2</b>	<b>10.6</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	10.7	-40.8	29.8	50.4	
Add: Depreciation	104.2	100.4	100.5	96.3	
Add: Interest Paid	19.5	19.2	20.0	20.0	
(Inc)/dec in Current Assets	28.3	81.5	-97.6	-24.7	
Inc/(dec) in CL and Provisions	3.6	-77.1	54.8	20.0	
<b>CF from operating activities</b>	<b>166.3</b>	<b>83.2</b>	<b>107.5</b>	<b>162.0</b>	
(Inc)/dec in Investments	-90.7	0.0	-50.0	-50.0	
(Inc)/dec in Fixed Assets	-46.7	-15.0	-25.0	-25.0	
Others	-0.3	-15.0	-15.0	-15.0	
<b>CF from investing activities</b>	<b>-137.8</b>	<b>-30.0</b>	<b>-90.0</b>	<b>-90.0</b>	
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	-19.2	-20.0	-20.0	
Dividend outflow	-4.8	-4.8	-9.5	-9.5	
Others	-24.0	0.0	0.0	0.0	
<b>CF from financing activities</b>	<b>-48.3</b>	<b>-23.9</b>	<b>-29.5</b>	<b>-29.5</b>	
Net Cash flow	-19.8	29.2	-12.1	42.4	
Opening Cash	23.9	4.1	33.4	21.3	
<b>Closing Cash</b>	<b>4.1</b>	<b>33.4</b>	<b>21.3</b>	<b>63.7</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	47.7	47.7	47.7	47.7	
Reserve and Surplus	869.6	824.0	844.2	885.1	
Total Shareholders funds	917.3	871.7	891.9	932.7	
Total Debt	0.0	0.0	0.0	0.0	
Others	223.8	208.8	193.8	178.8	
<b>Total Liabilities</b>	<b>1,141.1</b>	<b>1,080.5</b>	<b>1,085.7</b>	<b>1,111.5</b>	
<b>Assets</b>					
Gross Block	1,292.8	1,307.8	1,332.8	1,357.8	
Less: Acc Depreciation	636.7	737.1	837.5	933.8	
Net Block	656.1	570.7	495.2	424.0	
Capital WIP	0.8	0.8	0.8	0.8	
Total Fixed Assets	656.9	571.6	496.1	424.8	
Goodwill	0.0	0.0	0.0	0.0	
Investments	236.1	236.1	286.1	336.1	
Inventory	-	-	-	-	
Debtors	160.7	105.5	172.0	193.9	
Loans and Advances	24.1	16.9	29.3	31.4	
Other Current Assets	48.1	29.0	47.6	48.3	
Cash	4.1	33.4	21.3	63.7	
Total Current Assets	236.9	184.7	270.3	337.4	
Creditors	142.4	82.9	123.9	139.6	
Provisions	11.9	6.9	10.3	11.6	
Other Current Liabilities	25.1	12.6	23.0	26.0	
Total Current Liabilities	179.5	102.4	157.3	177.3	
Net Current Assets	57.5	82.3	113.0	160.1	
Other non Current Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>1,141.1</b>	<b>1,080.5</b>	<b>1,085.7</b>	<b>1,111.5</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	2.2	-8.6	6.2	10.6	
Cash EPS	24.1	12.5	27.3	30.8	
BV	192.4	182.9	187.1	195.7	
DPS	1.0	1.0	2.0	2.0	
Cash Per Share	0.9	7.0	4.5	13.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	22.9	6.5	28.0	29.0	
PBT / Total Operating income	3.9	-30.0	8.0	12.0	
PAT Margin	2.0	-25.5	5.9	8.9	
Inventory days	0.0	0.0	0.0	0.0	
Debtor days	107.0	140.0	125.0	125.0	
Creditor days	94.8	110.0	90.0	90.0	
<b>Return Ratios (%)</b>					
RoE	1.2	-8.0	3.3	5.4	
RoCE	3.0	-5.9	5.5	7.9	
RoIC	3.0	-13.3	6.8	13.1	
<b>Valuation Ratios (x)</b>					
P/E	76.3	-20.0	27.5	16.2	
EV / EBITDA	4.6	30.7	3.6	2.5	
EV / Net Sales	1.1	2.0	1.0	0.7	
Market Cap / Sales	1.5	3.0	1.6	1.4	
Price to Book Value	0.0	0.0	0.0	0.9	
<b>Solvency Ratios</b>					
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	1.6	1.5	
Quick Ratio	1.3	1.5	1.6	1.5	

Source: Company, ICICI Direct Research

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