

Weakness persists...

Entertainment Network India (ENIL) reported a weak set of Q4FY20 numbers. Revenues came in at ₹ 151.8 crore (down 13.6% YoY) with core radio revenue de-growth of ~16% YoY in Q4FY20. The solutions business witnessed 12% YoY decline in revenues. Reported EBITDA came in at ₹ 23 crore while margins came in at 15.1%. Adjusted for Ind-AS, like to like EBITDA came in at ~₹ 14 crore, drop of ~67% YoY, while adjusted margins were at ~9%. Weaker topline and high employee expenses resulted in EBITDA decline. Subsequently, the company reported a net loss of ₹ 3.2 crore against net profit of ₹ 19.4 crore in Q4FY19.

Fourth consecutive quarter of radio weakness

The radio business stayed weak throughout FY20 following macroeconomic slowdown and was further accentuated by Covid-19 outbreak in March. We note that ENIL's core radio revenue decline during Q4FY20 was lower than other players in the industry who reported over 40% decline. Radio revenue decline was mainly owing to weakness in government advertisements (~42% down YoY). M&E and auto sectors' ad spend de-grew 56% and 37%, respectively, while pharma sector ad spend was up 18% YoY. The company indicated ad volumes during lockdown were down 70-80% YoY. Revenues are expected to remain under pressure in H1FY21E with ad recovery set to be witnessed from Q3FY21E onwards due to festive season and possibility of IPL taking place in October. Accordingly, we revise our estimates and expect radio revenues to decline ~15% YoY in FY21E followed by a sharp recovery of ~29% YoY in FY22E to ₹ 395 crore, on a lower base.

Solutions business profitability on improvement trajectory...

The Solutions business continued to boost ENIL's performance in challenging times. Although solutions business de-grew 12%, it reported strong gross margins at 30.8%, up 290 bps YoY during Q4FY20. Digital solutions business was a key highlight and was up 24% YoY. Going ahead, we bake in 15% decline in solution business in FY21E as the management informed public events/gatherings will not be permitted in H1FY21E. Thereafter, we expect a sharp jump of 35% in FY22E to ₹ 207 crore.

Valuation & Outlook

The radio sector remains the worst hit media segment with dual pain of macroeconomic headwinds and sharp decline in ad spending by government and corporates. The scaling up and gross margins growth of Solutions business is a relief for ENIL in challenging times. We would monitor the traction, consistency in the same before turning constructive. The company has cash & cash equivalents of ~₹ 228 crore, which assures liquidity. Recovery in radio ad growth is key for overall rerating of the stock. We believe weakness in ad revenue will persist till H1FY21E considering the extended lockdown. Hence, we maintain our **HOLD** rating on the stock with a revised target price of ₹ 180 (implying ~4x FY22E EV/EBITDA).

Key Financial Summary

| (Year-end March) | FY18 | FY19 | FY20 | FY21E | FY22E | CAGR (FY20-22E) |
|---------------------|-------|-------|-------|-------|-------|-----------------|
| Net Sales (₹crore) | 537.1 | 620.8 | 548.1 | 468.8 | 612.5 | 5.7 |
| EBITDA (₹crore) | 116.6 | 139.1 | 125.3 | 112.0 | 178.0 | 19.2 |
| Net Profit (₹crore) | 35.6 | 53.9 | 10.7 | 1.9 | 42.9 | 100.1 |
| EPS (₹) | 7.5 | 11.3 | 2.2 | 0.4 | 9.0 | |
| P/E (x) | 22.5 | 14.8 | 74.7 | 429.2 | 18.7 | |
| Price / Book (x) | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | |
| EV/EBITDA (x) | 6.3 | 4.6 | 4.5 | 4.7 | 2.5 | |
| RoCE (%) | 6.2 | 9.0 | 3.0 | 1.9 | 7.4 | |
| RoE (%) | 3.5 | 5.8 | 1.2 | 0.2 | 4.5 | |

Source: Company, ICICI Direct Research *



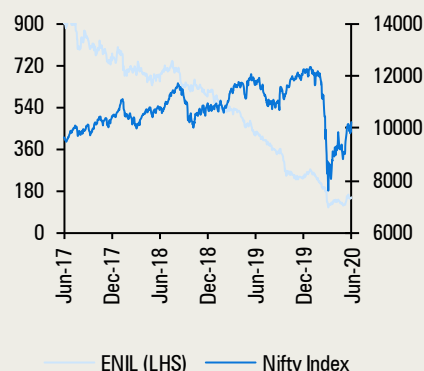
Particulars

| Particular | Amount |
|--------------------------------|--------------|
| Market Capitalization (₹Crore) | ₹800.1 Crore |
| Total Debt (FY 20) | ₹0 Crore |
| Cash & Liquid | ₹240.2 Crore |
| Investments (FY 20) | |
| EV (₹Crore) | ₹641.1 Crore |
| 52 week H/L | 450/110 |
| Equity capital | 47.7 |

Key Highlights

- Maintain HOLD rating with revised target price of ₹ 180, (implying ~4x FY22E EV/EBITDA)

Price Chart



Research Analyst

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Exhibit 1: Variance Analysis

| | Q4FY20 | Q4FY19 | Q3FY20 | YoY (%) | QoQ (%) | Comments |
|-------------------------|--------|--------|--------|----------|----------|----------|
| Revenue | 151.8 | 175.8 | 148.3 | -13.6 | 2.4 | |
| Other Income | 3.8 | 4.9 | 3.0 | -23.5 | 23.4 | |
| Marketing Expenses | 44.4 | 51.4 | 30.7 | -13.6 | 44.6 | |
| Administrative Expenses | 36.0 | 38.4 | 25.0 | -6.3 | 43.7 | |
| License Fee | 9.2 | 9.6 | 9.0 | -5.0 | 1.8 | |
| Employee Expenses | 31.7 | 24.5 | 34.8 | 29.6 | -9.1 | |
| Other Expenses | 7.6 | 8.8 | 7.4 | -13.6 | 2.4 | |
| EBITDA | 23.0 | 43.1 | 41.3 | -46.7 | -44.3 | |
| EBITDA Margin (%) | 15.1 | 24.5 | 27.8 | -938 bps | 1270 bps | |
| Depreciation | 26.9 | 18.0 | 26.4 | 49.3 | 1.8 | |
| Interest | 4.7 | 0.4 | 5.0 | NA | -5.8 | |
| Total Tax | -1.6 | 10.2 | 3.0 | -115.7 | -152.4 | |
| PAT | -3.2 | 19.4 | 9.9 | -116.7 | -132.6 | |
| Key Metrics | | | | | | |
| Op. Revenue growth | -14% | 11% | -27% | | | |
| Rate/Slot | 373.7 | 349.2 | 350.9 | 7.0 | 6.5 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

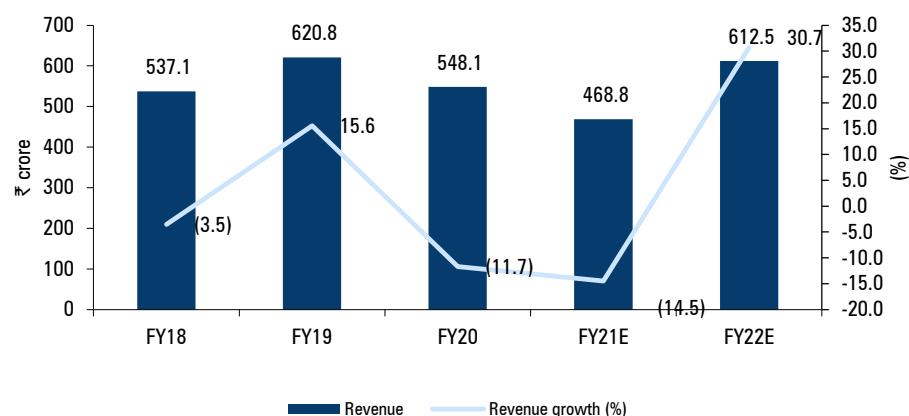
| | FY21E | | | FY22E | | | Comments |
|-------------------|-------|-------|----------|-------|-------|----------|----------|
| (₹Crore) | Old | New | % Change | Old | New | % Change | |
| Revenue | 630.0 | 468.8 | -25.6 | 705.8 | 612.5 | -13.2 | |
| EBITDA | 179.6 | 112.0 | -37.7 | 205.1 | 178.0 | -13.2 | |
| EBITDA Margin (%) | 28.5 | 23.9 | -463 bps | 29.1 | 29.1 | 0 bps | |
| PAT | 42.7 | 1.9 | -95.6 | 53.3 | 42.9 | -19.5 | |
| EPS (₹) | 8.9 | 0.4 | -95.6 | 11.2 | 9.0 | -19.5 | |

Source: Company, ICICI Direct Research

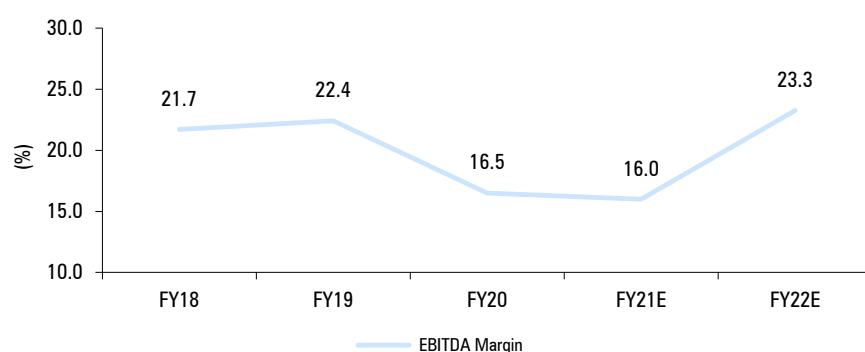
Conference Call Highlights

- **Gains in listenership and market share:** The management said radio listenership in the top cities has grown 55% while the time spent on it has grown 109% during the lockdown as people preferred radio over other media due to reliability factor. The management also added that Radio Mirchi extended its market share to 37.8% and is currently the leader in the markets where it is operational
- **Ad volume declines 70-80% in lockdown, guides for weak FY21E:** The management said government ad volume remained low as it declined 42% during the quarter. Other key sectors like M&E and auto reported de-growth of 56% and 37%, respectively, while pharma sector ad spend was up 18% YoY. In the current quarter, volumes were 70-80% down YoY during the lockdown. The management said while ad revenue will get some boost from Q3FY21E onwards due to festive season, FY21E ad revenues, as a whole will remain weak
- **Capacity utilisation remains low; expect shutdown of weaker businesses:** The management said overall volume utilisation remained at 48-49% for FY20. Legacy stations' utilisation was at 75% while Batch 1 and Batch 2 stations capacity utilisations was at 31% and 18%, respectively. They also added that small and leveraged players will probably shut down due to adverse ad scenario and expect some degree of consolidation in the industry
- **Cost rationalisation:** ENIL has undertaken cost control measures, which will benefit the company from Q2FY21E onwards. The management is planning to cut costs by ₹ 60-70 crore annually
- **Foray in Bahrain:** The company has been awarded the right to operate and manage the Radio Channel Frequency for five years in Bahrain. The investment quantum in the venture will be small. While revenues generated will not be large in proportion, the management said this gives the company the opportunity to further expand its presence in the Middle East region
- **Other highlights:** i) Revenue of 35 legacy stations de-grew 15.1% YoY ii) Batch 1 revenues during the quarter were at ₹ 15.8 crore, down 28.7% and EBITDA: ₹ 0.2 crore (Q4FY19 – ₹ 7.5 crore). Revenues from Batch 2 stations jumped 142% and were at ₹ 5.5 crore with EBITDA of ₹ 1.5 crore (Q4FY19 loss of ₹ 1.2 crore)

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) | FY19 | FY20 | FY21E | FY22E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Total operating Income | 620.8 | 548.1 | 468.8 | 612.5 |
| Growth (%) | 15.6 | -11.7 | -14.5 | 30.7 |
| Other Costs | 319.1 | 287.3 | 247.0 | 307.3 |
| License Fee | 36.4 | 35.6 | 32.8 | 35.7 |
| Employee Expenses | 126.2 | 134.8 | 114.0 | 127.1 |
| Total Operating Expenditure | 481.7 | 457.7 | 393.8 | 470.0 |
| EBITDA | 139.1 | 90.4 | 75.0 | 142.5 |
| Growth (%) | 19.3 | -35.0 | -17.1 | 90.1 |
| Margins (%) | 22.4 | 16.5 | 16.0 | 23.3 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 6: Profit and loss statement | | | | | ₹ crore | |
|--------------------------------------|--------------|--------------|--------------|--------------|---------|--|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E | | |
| Total operating Income | 620.8 | 548.1 | 468.8 | 612.5 | | |
| Growth (%) | 15.6 | -11.7 | -14.5 | 30.7 | | |
| Other Costs | 319.1 | 252.4 | 210.0 | 271.8 | | |
| License Fee | 36.4 | 35.6 | 32.8 | 35.7 | | |
| Employee Expenses | 126.2 | 134.8 | 114.0 | 127.1 | | |
| Total Operating Expenditure | 481.7 | 422.8 | 356.8 | 434.5 | | |
| EBITDA | 139.1 | 125.3 | 112.0 | 178.0 | | |
| Growth (%) | 19.3 | -9.9 | -10.7 | 59.0 | | |
| Depreciation | 67.1 | 104.2 | 103.1 | 104.1 | | |
| Interest | 4.0 | 19.5 | 18.0 | 20.0 | | |
| Other Income | 15.7 | 13.4 | 12.0 | 11.0 | | |
| Exceptional Items | - | - | - | - | | |
| PBT | 83.7 | 15.1 | 2.8 | 64.9 | | |
| M/PAT from associates | - | - | - | - | | |
| Total Tax | 29.8 | 4.4 | 1.0 | 22.0 | | |
| PAT | 53.9 | 10.7 | 1.9 | 42.9 | | |
| Growth (%) | 51.2 | -80.1 | -82.6 | 2,200.8 | | |
| EPS (₹) | 11.3 | 2.2 | 0.4 | 11.2 | | |

Source: Company, ICICI Direct Research

| Exhibit 7: Cash flow statement | | | | | ₹ crore | |
|-------------------------------------|---------------|---------------|--------------|---------------|---------|--|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E | | |
| Profit after Tax | 53.9 | 10.7 | 1.9 | 42.9 | | |
| Add: Depreciation | 67.1 | 104.2 | 103.1 | 104.1 | | |
| Add: Interest Paid | 4.0 | 19.5 | 18.0 | 20.0 | | |
| (Inc)/dec in Current Assets | -22.9 | 28.3 | 17.0 | -66.2 | | |
| Inc/(dec) in CL and Provisions | 33.4 | 3.6 | -54.3 | 38.4 | | |
| CF from operating activities | 135.5 | 166.3 | 85.7 | 139.2 | | |
| (Inc)/dec in Investments | 19.5 | -90.7 | 0.0 | -100.0 | | |
| (Inc)/dec in Fixed Assets | -45.1 | -46.7 | -15.0 | -15.0 | | |
| Others | 9.9 | -0.3 | -15.0 | -15.0 | | |
| CF from investing activities | -15.7 | -137.8 | -30.0 | -130.0 | | |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Inc/(dec) in loan funds | -104.0 | 0.0 | 0.0 | 0.0 | | |
| Interest paid | -4.0 | -19.5 | -18.0 | -20.0 | | |
| Dividend outflow | -5.7 | -4.8 | -4.8 | -4.8 | | |
| Others | -0.3 | -24.0 | 0.0 | 0.0 | | |
| CF from financing activities | -114.0 | -48.3 | -22.8 | -24.8 | | |
| Net Cash flow | 5.9 | -19.8 | 33.0 | -15.5 | | |
| Opening Cash | 18.0 | 23.9 | 4.1 | 37.1 | | |
| Closing Cash | 23.9 | 4.1 | 37.1 | 21.5 | | |

Source: Company, ICICI Direct Research

| Exhibit 8: Balance sheet | | | | | ₹ crore | |
|-----------------------------|--------------|----------------|----------------|----------------|---------|--|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E | | |
| Liabilities | | | | | | |
| Equity Capital | 47.7 | 47.7 | 47.7 | 47.7 | | |
| Reserve and Surplus | 887.6 | 869.6 | 866.7 | 904.8 | | |
| Total Shareholders funds | 935.3 | 917.3 | 914.4 | 952.5 | | |
| Total Debt | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Others | 34.0 | 223.8 | 208.8 | 193.8 | | |
| Total Liabilities | 969.3 | 1,141.1 | 1,123.2 | 1,146.3 | | |
| Assets | | | | | | |
| Gross Block | 1,225.0 | 1,292.8 | 1,307.8 | 1,322.8 | | |
| Less: Acc Depreciation | 532.5 | 636.7 | 739.8 | 844.0 | | |
| Net Block | 692.4 | 656.1 | 567.9 | 478.8 | | |
| Capital WIP | 22.0 | 0.8 | 0.8 | 0.8 | | |
| Total Fixed Assets | 714.4 | 656.9 | 568.8 | 479.7 | | |
| Goodwill | 0.5 | 0.0 | 0.0 | 0.0 | | |
| Investments | 145.3 | 236.1 | 236.1 | 336.1 | | |
| Inventory | - | - | - | - | | |
| Debtors | 200.5 | 160.7 | 154.1 | 201.4 | | |
| Loans and Advances | 23.4 | 24.1 | 20.6 | 26.9 | | |
| Other Current Assets | 37.3 | 48.1 | 41.1 | 53.7 | | |
| Cash | 23.9 | 4.1 | 37.1 | 21.5 | | |
| Total Current Assets | 285.0 | 236.9 | 252.9 | 303.6 | | |
| Creditors | 126.7 | 142.4 | 95.7 | 125.0 | | |
| Provisions | 12.0 | 11.9 | 8.0 | 10.4 | | |
| Other Current Liabilities | 37.2 | 25.1 | 21.5 | 28.1 | | |
| Total Current Liabilities | 175.9 | 179.5 | 125.2 | 163.6 | | |
| Net Current Assets | 109.1 | 57.5 | 127.7 | 140.0 | | |
| Other non Current Assets | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Application of Funds | 969.3 | 1,141.1 | 1,123.2 | 1,146.3 | | |

Source: Company, ICICI Direct Research

| Exhibit 9: Key ratios | | | | | ₹ crore | |
|------------------------------|-------|-------|-------|-------|---------|--|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E | | |
| Per share data (₹) | | | | | | |
| EPS | 11.3 | 2.2 | 0.4 | 9.0 | | |
| Cash EPS | 25.4 | 24.1 | 22.0 | 30.8 | | |
| BV | 196.2 | 192.4 | 191.8 | 199.8 | | |
| DPS | 1.2 | 1.0 | 1.0 | 1.0 | | |
| Cash Per Share | 5.0 | 0.9 | 7.8 | 4.5 | | |
| Operating Ratios (%) | | | | | | |
| EBITDA Margin | 22.4 | 22.9 | 23.9 | 29.1 | | |
| PBT / Total Operating income | 11.6 | 3.9 | 1.9 | 12.1 | | |
| PAT Margin | 8.7 | 2.0 | 0.4 | 7.0 | | |
| Inventory days | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debtor days | 117.9 | 107.0 | 120.0 | 120.0 | | |
| Creditor days | 74.5 | 94.8 | 74.5 | 74.5 | | |
| Return Ratios (%) | | | | | | |
| RoE | 5.8 | 1.2 | 0.2 | 4.5 | | |
| RoCE | 9.0 | 3.0 | 1.9 | 7.4 | | |
| RoIC | 9.1 | 3.0 | 1.3 | 12.4 | | |
| Valuation Ratios (x) | | | | | | |
| P/E | 14.8 | 74.7 | 429.2 | 18.7 | | |
| EV / EBITDA | 4.6 | 4.5 | 4.7 | 2.5 | | |
| EV / Net Sales | 1.0 | 1.0 | 1.1 | 0.7 | | |
| Market Cap / Sales | 1.3 | 1.5 | 1.7 | 1.3 | | |
| Price to Book Value | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Solvency Ratios | | | | | | |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Current Ratio | 1.5 | 1.3 | 1.7 | 1.7 | | |
| Quick Ratio | 1.5 | 1.3 | 1.7 | 1.7 | | |

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct Coverage Universe (Media)

| Sector / Company | CMP (₹) | TP (₹) | Rating | M Cap (₹cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|---------------------|------------|--------|--------|----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
| | | | | | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E |
| ENIL | 168 | 180 | Hold | 800 | 11.3 | 2.2 | 0.4 | 15 | 75 | 429 | 4.3 | 4.1 | 4.3 | 9.0 | 3.0 | 1.9 | 5.8 | 1.2 | 0.2 |
| Inox Leisure | 247 | 255 | Hold | 2,531 | 13.0 | 1.5 | -17.8 | 19.0 | 169.0 | NM | 8.5 | 4.4 | 12.7 | 13.2 | 19.6 | 10.0 | 10.6 | 14.2 | 2.4 |
| Music Broadcast | 17 | 15 | Hold | 593 | 2.2 | 0.8 | 0.7 | 7.7 | 21.0 | 23.3 | 3.7 | 6.5 | 5.6 | 15.0 | 6.2 | 6.8 | 10.2 | 4.5 | 4.0 |
| PVR | 1,045 | 1,085 | Hold | 4,882 | 39.2 | 5.3 | -61.9 | 26.6 | 196.6 | NM | 10.5 | 5.4 | 11.1 | 14.7 | 13.8 | 8.5 | 11.5 | 14.8 | 1.8 |
| Sun TV | 404 | 410 | Buy | 15,909 | 36.4 | 36.3 | 34.7 | 11.1 | 11.1 | 11.6 | 5.1 | 5.6 | 5.4 | 35.5 | 38.5 | 30.0 | 24.2 | 25.9 | 22.9 |
| TV Today | 192 | 240 | Buy | 1,148 | 22.0 | 23.4 | 22.6 | 8.8 | 8.2 | 8.5 | 4.3 | 4.7 | 4.6 | 30.4 | 22.7 | 24.7 | 19.3 | 14.6 | 16.0 |
| ZEE Ent. | 177 | 150 | Hold | 17,004 | 16.1 | 15.9 | 15.1 | 11.0 | 11.2 | 11.8 | 5.8 | 6.5 | 6.1 | 25.6 | 25.7 | 21.4 | 15.3 | 15.7 | 14.7 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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