

Ad yield backed recovery awaited...

Music Broadcast (MBL) reported subdued set of numbers for Q3FY21. Revenues dipped sharply by 41.6% YoY to ₹ 40.7 crore on the back of lower ad yield. Reduction in operating costs during the quarter was again a positive. EBITDA was at ₹ 4.2 crore, down 80.7% YoY as operating performance was impacted by lower topline. Consequently, the company reported PAT of ₹ 7.3 lakh, down ~99% YoY.

Ad volume grows YoY; realisation to improve gradually...

MBL's revenue decline trend continued for a straight seventh quarter owing to reduced ad yield. While surge of 9% YoY in ad volume is encouraging, lower ad yield led to YoY drop in ad revenue. On QoQ basis, ad volume grew 60%. During the quarter, ad inventory utilisation was 60%. At industry level, food & soft drinks (63%), real estate (28%), auto (18%), finance (18%) sectors registered ad growth while ad spend by government was down 10% YoY. The management said discount and schemes were offered to clients during the festive quarter that impacted ad realisations. As the company has started withdrawing discounts, realisations will improve gradually. The management expects ad realisation to normalise from H2FY22 onwards. The management guided that MBL will clock pre-Covid revenues in FY23E in a realistic scenario. We revise our estimates and now build in ~49% revenue decline in FY21 followed by sharp recovery on a lower base. We build in revenue of ₹ 273 crore at CAGR of 3.3% in FY20-23E.

Cost reduction to lift margins

The management said that annual cost saving is likely to be ₹ 50-55 crore. The management expects half of cost saving to be permanent in nature, which will lead to 300 bps gains in margins (FY20 being the base year). License fee, as per latest IPAB order, will increase marginally to 2.4% compared to 2.3% earlier. Impact of royalty cost will be more with smaller stations given the lower topline. MBL has a strong liquidity position with cash and cash equivalents of ₹ 235 crore, which is a positive.

Valuation & Outlook

Radio remains the worst hit media segments during Covid-19 induced lockdown. While ad volumes are back (and above) pre-Covid levels and ad volume growth of 9% YoY is a positive sign, ad realisation is still lower sharply. We believe ad yield backed full revenue recovery is still few quarters away. Strong liquidity position and reduced opex will offer comfort to MBL in near term. Issue of NCRPS is still attractive to shareholders at the CMP (~42% pre-tax yield). We roll over our valuations to FY23E and maintain **BUY** rating on the stock with a target price of ₹ 27/share (vs. earlier TP of ₹ 25/share). We value the stock at an average of 7x FY23E EV/EBITDA and 17x FY23E EPS.



Particulars

Particular	Amount
Market Capitalization	₹ 798.5 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Liquid Inv (FY20)	₹ 220.9 Crore
EV	₹ 577.6 Crore
52 week H/L	27/ 12
Equity capital (₹ crore)	55.3
Face value	2.0

Key Highlights

- Revenues saw sharp fall of 41.6% YoY, owing to drop in ad yields
- Maintain BUY with revised target price of ₹ 27/share

Key risk to our call

- Slower than anticipated recovery in ad realisations affecting operating performance
- Ad spend from government, a key sector has declined further and sustainable delay in recovery leading to lower revenues

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	324.7	247.8	127.4	255.8	273.1	3.3
EBITDA (₹ crore)	113.2	57.2	(1.8)	69.1	87.4	15.2
Net Profit (₹ crore)	61.6	28.2	(13.8)	42.3	58.7	27.7
EPS (₹)	2.2	0.8	(0.4)	1.2	1.7	
P/E (x)	10.5	28.7	NM	19.2	13.8	
Price / Book (x)	1.1	1.3	1.3	1.3	1.3	
EV/EBITDA (x)	5.6	10.3	(294.4)	8.0	5.9	
RoCE (%)	15.0	6.2	(2.8)	9.8	13.0	
RoE (%)	10.2	4.5	(2.2)	6.8	9.2	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	40.7	69.6	30.1	-41.6	35.2	Revenues saw sharp fall due to drop in ad yield
Other Income	5.0	4.2	2.9	20.6	71.8	
License fees	4.7	5.0	4.6	-4.7	2.3	
Employee Expenses	12.2	14.8	11.4	-18.0	6.5	
Other expenses	19.6	28.3	17.1	-30.6	14.9	
EBITDA	4.2	21.6	-3.0	-80.7	NA	EBITDA remains weak due to to lower topline
EBITDA Margin (%)	10.2	31.0	-10.1			
Depreciation	8.2	8.9	8.3	-7.4	-0.5	
Interest	0.8	2.5	1.0	-66.7	-13.9	
Total Tax	0.0	4.2	-2.9	-99.2	NA	
PAT	0.1	10.2	-6.5	-99.3	NA	

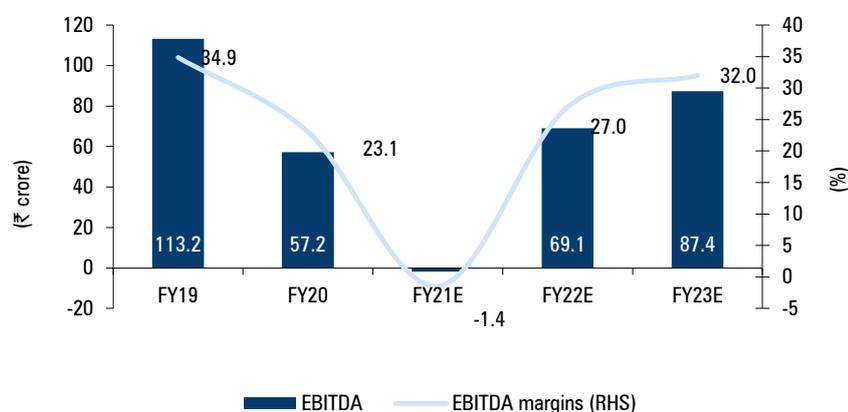
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	140.9	127.4	-9.6	247.4	255.8	3.4	273.1	Align our estimates post Q3 performance
EBITDA	6.5	-1.8	-128.4	85.4	69.1	-19.1	87.4	
EBITDA Margin (%)	4.6	-1.4	-606 bps	34.5	27.0	-750 bps	32.0	
PAT	-1.6	-13.8	NM	53.4	42.3	-20.9	58.7	
EPS (₹)	0.0	-0.4	NM	1.5	1.2	-20.9	1.7	

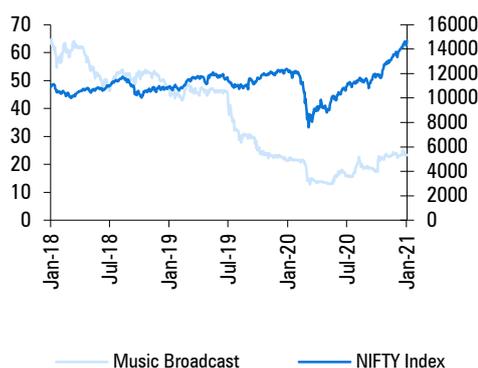
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 4: Price Performance



Source: Company, ICICI Direct Research

Conference Call Highlights

- Ad volume surges; realisation to improve gradually:** The management said ad volume surged 9% YoY while it increased 60% on a QoQ basis. However, ad yield was down due to promotions and schemes offered to clients. Ad minutes per hour in Q3 was at eight to nine minutes. MBL started reducing scheme and discounts from festivities onwards but there will be some overflow in Q4. Ad yield is expected to normalise from Q1FY22 onwards. The management expects ad revenue for Q4FY21 to be flattish YoY. Currently, ad share of national and local advertisers is in ratio of 35:65 compared to 45: 55 earlier. During the quarter, ad growth categories for radio industry were food & soft drinks (63%), real estate (28%), auto (18%), finance (18%), etc, while government ad spend dipped 10% YoY. The management guided that ad revenue of FY20 level is likely to be achieved in FY23E in a realistic scenario
- Cost rationalisation provides relief; liquidity position:** MBL reduced its operating cost by ₹ 40 crore in 9MFY21 and total of ₹ 50-55 crore cost saving was guided during FY21. The management said ~50% of cost saving will be sustainable. Hence, the company expects 300 bps gains in margin (FY20 being the base year) once revenues are normalised. The company has ₹ 235 crore of cash, cash equivalents & investments
- No major impact of latest IPAB order:** The management said MBL's royalty cost will be at 2.4% compared to 2.3% earlier. Small stations will be impacted more due to IPAB order as fixed costs will rise. MBL will challenge the order related to underlying works in court
- Other Highlights:** i) Revenue from legacy stations was 87% while revenue from new stations was 13%. The overall inventory utilisation was 60% ii) The monthly break up for Q3 revenue: October - ₹ 14 crore, November - ₹ 14.5 crore, December - ₹ 12.5 crore, iii) The management indicated that there is status quo on BIG FM deal, iv) Sebi is currently reviewing the proposed NCRPS issue and a decision is expected in April-May

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Total operating Income	247.8	127.4	255.8	273.1
Growth (%)	-23.7	-48.6	100.7	6.8
Production Cost	0.0	0.0	0.0	0.0
License Fee	0.0	0.0	0.0	0.0
Administrative Expenses	135.3	83.9	127.9	124.2
Employee Expenses	55.4	45.4	58.8	61.4
Total Operating Expenditure	190.7	129.3	186.7	185.7
EBITDA	57.2	-1.8	69.1	87.4
Growth (%)	-49.5	-103.2	-3,843.7	26.5
Depreciation	34.8	33.1	32.0	32.8
Interest	9.8	3.2	3.0	3.0
Other Income	16.3	17.9	22.4	26.9
Exceptional Items	-	-	-	-
PBT	28.9	-20.3	56.5	78.5
MI/PAT from associates	-	-	-	-
Total Tax	0.7	-6.5	14.2	19.8
PAT	28.2	-13.8	42.3	58.7
Growth (%)	-54.2	-148.9	LP	39.0
EPS (₹)	0.8	-0.4	1.2	1.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	28.2	-13.8	42.3	58.7
Add: Depreciation	34.8	33.1	32.0	32.8
Add: Interest Paid	9.8	3.2	3.0	3.0
(Inc)/dec in Current Assets	17.7	53.1	-51.2	-7.9
Inc/(dec) in CL and Provisions	-15.4	-18.3	19.5	2.6
CF from operating activities	75.1	57.3	45.5	89.2
(Inc)/dec in Investments	-36.7	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-15.7	-7.5	-7.5	-7.5
Others	-5.4	0.0	0.0	0.0
CF from investing activities	-57.7	-7.5	-7.5	-7.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-74.1	0.0	0.0	0.0
Interest paid	-9.8	-3.2	-3.0	-3.0
Dividend outflow	0.0	0.0	-41.5	-41.5
Others	0.3	0.0	0.0	0.0
CF from financing activities	-83.6	-3.2	-44.5	-44.5
Net Cash flow	-66.2	46.6	-6.4	37.2
Opening Cash	78.8	12.6	59.2	52.7
Closing Cash	12.6	59.2	52.7	90.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	69.1	69.1	69.1	69.1
Reserve and Surplus	562.7	548.8	549.6	566.9
Total Shareholders funds	631.8	618.0	618.8	636.0
Total Debt	0.0	0.0	0.0	0.0
Lease Liabilities	18.3	18.3	18.3	18.3
Total Liabilities	650.1	636.3	637.1	654.3
Assets				
Gross Block	433.7	441.2	448.7	456.2
Less: Acc Depreciation	124.6	157.7	189.7	222.4
Net Block	309.1	283.5	259.0	233.7
Capital WIP	-	-	-	-
Total Fixed Assets	309.1	283.5	259.0	233.7
Investments	208.4	208.4	208.4	208.4
Deferred tax assets	10.0	10.0	10.0	10.0
Debtors	106.3	73.3	105.1	112.2
Loans and Advances	21.7	11.2	22.4	23.9
Other Current Assets	19.8	10.2	18.3	17.6
Cash	12.6	59.2	52.7	90.0
Total Current Assets	160.3	153.8	198.6	243.8
Creditors	24.6	12.7	25.4	27.1
Provisions	4.2	2.2	4.3	4.6
Other Current Liabilities	8.9	4.6	9.1	9.8
Total Current Liabilities	37.7	19.4	38.9	41.5
Net Current Assets	122.6	134.4	159.7	202.2
Application of Funds	650.1	636.3	637.1	654.3

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	0.8	-0.4	1.2	1.7
Cash EPS	1.8	0.6	2.1	2.6
BV	18.3	17.9	17.9	18.4
DPS	0.0	0.0	1.0	1.0
Cash Per Share	0.4	1.7	1.5	2.6
Operating Ratios (%)				
EBITDA Margin	23.1	-1.4	27.0	32.0
PBT / Total Operating income	9.0	-27.4	14.5	20.0
PAT Margin	11.4	-10.8	16.5	21.5
Inventory days	0.0	0.0	0.0	0.0
Debtor days	156.5	210.0	150.0	150.0
Creditor days	36.3	36.3	36.3	36.3
Return Ratios (%)				
RoE	4.5	-2.2	6.8	9.2
RoCE	6.2	-2.8	9.8	13.0
RoIC	5.3	-9.8	10.1	15.8
Valuation Ratios (x)				
P/E	28.7	-58.7	19.2	13.8
EV / EBITDA	10.3	-294.4	8.0	5.9
EV / Net Sales	2.4	4.3	2.1	1.9
Market Cap / Sales	3.3	6.4	3.2	3.0
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	3.9	4.9	3.8	3.7
Quick Ratio	3.9	4.9	3.8	3.7

Source: Company, ICICI Direct Research

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