

Music Broadcast (MUSBRO)

CMP: ₹ 15.5

Target: ₹ 15 (-3%)

Target Period: 12 months

HOLD

July 24, 2020

Covid-19 led pain leads to losses...

Music Broadcast (MBL) reported disappointing results for Q1FY21. Revenues fell sharply by 79.4% YoY to ₹ 14.4 crore as ad spend by corporates and government dried up during the Covid-19 led lockdown. Reduction in operating cost by ₹ 17.8 crore (down 38% YoY), during the quarter, was a key positive. However, EBITDA was at -₹ 15.3 crore as it was impacted by the lower topline. Consequently, the company reported a net loss of ₹ 13.9 crore against PAT of ₹ 8.4 crore in Q4FY20.

Revenue hit hard by lockdown; cost rationalisation a breather...

MBL's revenue declined for a fifth quarter in a row, owing to Covid-19 induced lockdown. Ad volume in April during lockdown was merely ~20% of normal levels. While the situation improved in the latter part of the quarter, ad volume was still lower at ~40% in June. Ad rate de-growth of 8% further impacted revenues. While ad spend from the finance sector was up 49% YoY, other major categories like government, education, food/soft drinks and pharma saw de-growth in the range of 38-77% YoY. In the current quarter, ad volumes improved and were at 50-53% in July with resumption of economic activities. Given the spread of Covid-19 in metro cities and localised lockdowns, we believe a full recovery will take time. Accordingly, we adjust our revenue numbers and now build in muted 2.4% revenue CAGR in FY20-22E, with major growth recovery only expected from Q4FY21E onwards. Among key positives, cost rationalisation measure towards employee incentives, royalty, etc, have brought down operating costs by 38% during the quarter. The company managed cost savings on both the fixed and variable front. With lower fixed costs coupled with better margins, MBL will be better placed once the ad scenario improves.

Major revenue initiatives undertaken; liquidity position strong

MBL has undertaken revenue initiatives, which helped the company to increase its market share by 2% to 21% in terms of ad volume. The company secured long term deals aggregating 25% of total revenue of FY20. Also, some tactical deals like Corona awareness campaign were made, which contributed 30% of Q1FY21 revenue. MBL has further strengthened its liquidity with cash & cash equivalents of ₹ 239 crore, which will support opex in the near term.

Valuation & Outlook

The radio segment, already under pressure due to macroeconomic slowdown, was hit hard by the Covid-19 led lockdown. Ad spend by corporates/government has almost dried up. While MBL's liquidity position is healthy and ad volume picked up compared to April, we believe a recovery in ad revenue is still one to two quarters away. Hence, we maintain **HOLD** on the stock with a target price of ₹ 15/share (average of 3x FY22E EV/EBITDA and 11x FY22 P/E).



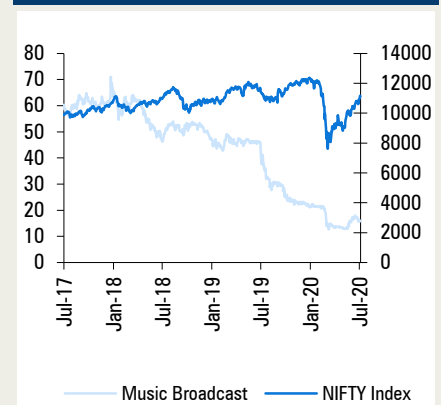
Particulars

Particular	Amount
Market Capitalization	₹ 535.8 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Liquid Inv (FY20)	₹ 220.9 Crore
EV	₹ 314.9 Crore
52 week H/L	50/ 12
Equity capital (₹ crore)	55.3
Face value	2.0

Key Highlights

- Revenues witnessed steep decline of 79.4% YoY, owing to Covid-19 led lockdown
- Maintain HOLD with target price of ₹ 15/share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹ crore)	298.3	324.7	247.8	178.8	259.6	2.4
EBITDA (₹ crore)	97.1	113.2	57.2	35.1	78.0	16.8
Net Profit (₹ crore)	51.7	61.6	28.2	14.2	45.8	27.5
EPS (₹)	1.9	2.2	0.8	0.4	1.3	
P/E (x)	8.3	7.0	19.0	37.7	11.7	
Price / Book (x)	0.7	0.7	0.8	0.8	0.8	
EV/EBITDA (x)	3.6	3.2	5.5	7.0	3.1	
RoCE (%)	14.3	15.0	6.2	3.3	10.0	
RoE (%)	8.6	10.2	4.5	2.2	7.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Comments
Revenue	14.4	69.8	45.9	-79.4	-68.7	Revenues witness steep decline due to Covid-19 led lockdown
Other Income	4.7	3.3	3.9	43.8	22.2	
License fees	4.5	5.0	4.8	-11.1	-6.1	
Employee Expenses	11.6	16.2	12.4	-28.2	-6.2	
Other expenses	13.5	26.2	34.0	-48.4	-60.3	
EBITDA	-15.3	22.4	-5.3	NA	NA	Weak topline led to EBITDA loss
EBITDA Margin (%)	-106.2	32.1	-11.6			
Depreciation	8.5	8.6	8.6	-0.9	-1.4	
Interest	0.7	2.6	2.1	-72.8	-65.9	
Total Tax	-5.8	6.1	-3.2	NA	NA	
PAT	-13.9	8.4	-8.9	NA	NA	

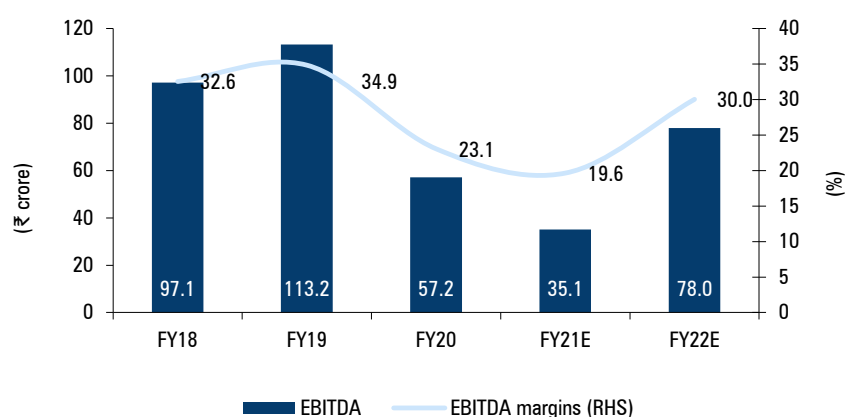
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	207.7	178.8	-13.9	270.2	259.6	-3.9	Lower our estimates to bake in Covid-19 extended impact
EBITDA	59.1	35.1	-40.6	84.2	78.0	-7.4	
EBITDA Margin (%)	28.5	19.6	-886 bps	31.2	30.0	-116 bps	
PAT	25.4	14.2	-44.0	44.8	45.8	2.3	
EPS (₹)	0.7	0.4	-44.0	1.3	1.3	2.3	

Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin trend



Source: Company, ICICI Direct Research

Conference Call Highlights

- **Ad volume hit during lockdown; finance sector spend up:** The management said ad volumes were down 80% during the lockdown in April. However, a recovery was witnessed in the later part of the quarter while de-growth was at 60% in June. In the current quarter, ad volume further improved and was at 50-53% of normal levels in July. The majority of ad spend is by local advertisers from smaller markets. Ad volume by the finance sector was up 49% mainly due to higher spend by insurance category. Ad spend by government, education and pharma sector was down during the quarter. In July, finance sector spend remains high while spend from auto, education, government and FMCG sector was up marginally
- **Ad rates to remain weaker:** The management said that ad rate de-grew 8% during the quarter. Ad rates are likely to remain weaker for the rest of FY21. However, a marginal recovery could be seen and ad rate for whole FY21 will be down 5-6%
- **Long term & tactical deals:** The management said several initiatives undertaken have helped the company increase its volume market share by 2% to 21% in terms of ad volume. The company has secured long term deals aggregating 25% of total revenue of FY20. Also, some tactical deals like Corona awareness campaign were made, which contributed 30% of Q1FY21 revenue. MBL also gained 366 new clients (~1000 for industry) who will be spending on radio for the first time
- **Cost rationalisation provides relief; liquidity position:** MBL reduced its operating cost by 38% YoY in Q1FY21 through cost control measures like lower incentives. Cost saving of ₹ 17.8 crore achieved was on both fixed and variable front. The management said lower fixed costs along with better margins will lead to faster recovery once normalcy is restored. They also added that average monthly ad volumes at 55-60% lead to breakeven at operating front. Also, the company has ₹ 239 crore of cash, cash equivalents & investments i.e. ₹ 19 crore increase QoQ
- **Revenue cycle to vary:** The management said while some green shoots are visible in smaller markets, localised lockdowns are hurting the recovery pace. Also, traditional revenue cycle may not be witnessed this year. If situation improves, whole H2FY21 will grow due to pent up demand. Also, IPL occurring in H2 will boost ad revenues
- **Other Highlights:** i) Revenue from legacy stations was ₹ 12.5 crore while revenue from new stations was ₹ 1.9 crore, ii) radio consumption which increased during lockdown is still at higher levels and will benefit the company once ad scenario improves, iii) collection efficiency improved by nine days, iv) the government has provided six months moratorium for license fees payment. The industry body has urged a full waiver for FY21

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Total operating income	324.7	247.8	178.8	259.6
Growth (%)	20.4	-23.7	-27.8	45.2
Production Cost	0.0	0.0	0.0	0.0
License Fee	0.0	0.0	0.0	0.0
Administrative Expenses	142.6	135.3	94.6	123.9
Employee Expenses	69.0	55.4	49.1	57.7
Total Operating Expenditure	211.5	190.7	143.7	181.6
EBITDA	113.2	57.2	35.1	78.0
Growth (%)	16.8	-49.5	-38.5	122.0
Depreciation	27.1	34.8	33.1	32.5
Interest	5.6	9.8	3.0	3.0
Other Income	15.1	16.3	18.8	18.8
Exceptional Items	-	-	-	-
PBT	95.5	28.9	17.8	61.3
MI/PAT from associates	-	-	-	-
Total Tax	33.9	0.7	3.6	15.4
PAT	61.6	28.2	14.2	45.8
Growth (%)	32.7	-54.2	-49.6	222.5
EPS (₹)	2.2	0.8	0.4	1.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	61.6	28.2	14.2	45.8
Add: Depreciation	27.1	34.8	33.1	32.5
Add: Interest Paid	5.6	9.8	3.0	3.0
(Inc)/dec in Current Assets	-14.0	17.7	41.1	-41.5
Inc/(dec) in CL and Provisions	4.3	-15.4	-10.5	12.3
CF from operating activities	84.6	75.1	80.9	52.1
(Inc)/dec in Investments	-15.8	-36.7	0.0	0.0
(Inc)/dec in Fixed Assets	-40.1	-15.7	-7.5	-7.5
Others	13.6	-5.4	0.0	0.0
CF from investing activities	-42.4	-57.7	-7.5	-7.5
Issue/(Buy back) of Equity	-56.4	0.0	0.0	0.0
Inc/(dec) in loan funds	24.2	-74.1	0.0	0.0
Interest paid	-5.6	-9.8	-3.0	-3.0
Dividend outflow	0.0	0.0	0.0	-41.5
Others	-1.7	0.3	0.0	0.0
CF from financing activities	-39.6	-83.6	-2.9	-44.5
Net Cash flow	2.6	-66.2	70.4	0.1
Opening Cash	76.2	78.8	12.6	83.0
Closing Cash	78.8	12.6	83.0	83.1

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	55.3	69.1	69.1	69.1
Reserve and Surplus	548.0	562.7	576.9	581.2
Total Shareholders funds	603.3	631.8	646.0	650.4
Total Debt	74.1	0.0	0.0	0.0
Lease Liabilities	0.0	18.3	18.3	18.3
Total Liabilities	677.4	650.1	664.3	668.7
Assets				
Gross Block	399.7	433.7	441.2	448.7
Less: Acc Depreciation	89.8	124.6	157.7	190.1
Net Block	310.0	309.1	283.5	258.6
Capital WIP	-	-	-	-
Total Fixed Assets	310.0	309.1	283.5	258.6
Investments	171.7	208.4	208.4	208.4
Deferred tax assets	4.6	10.0	10.0	10.0
Debtors	125.4	106.3	76.7	106.7
Loans and Advances	22.2	21.7	15.7	22.8
Other Current Assets	17.8	19.8	14.3	18.6
Cash	78.8	12.6	83.0	83.1
Total Current Assets	244.2	160.3	189.6	231.2
Creditors	24.7	24.6	17.8	25.8
Provisions	4.9	4.2	3.0	4.4
Other Current Liabilities	23.5	8.9	6.4	9.3
Total Current Liabilities	53.1	37.7	27.2	39.5
Net Current Assets	191.1	122.6	162.4	191.7
Application of Funds	677.4	650.1	664.3	668.7

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	1.8	0.8	0.4	1.3
Cash EPS	3.2	1.8	1.4	2.3
BV	21.8	18.3	18.7	18.8
DPS	0.0	0.0	0.0	1.0
Cash Per Share	2.8	0.4	2.4	2.4
Operating Ratios (%)				
EBITDA Margin	34.9	23.1	19.6	30.0
PBT / Total Operating income	26.5	9.0	1.1	17.5
PAT Margin	19.0	11.4	7.9	17.7
Inventory days	0.0	0.0	0.0	0.0
Debtor days	141.0	156.5	156.5	150.0
Creditor days	27.7	36.3	36.3	36.3
Return Ratios (%)				
RoE	10.2	4.5	2.2	7.0
RoCE	15.0	6.2	3.3	10.0
RoIC	20.4	5.3	0.6	12.4
Valuation Ratios (x)				
P/E	7.0	19.0	37.7	11.7
EV / EBITDA	3.2	5.5	7.0	3.1
EV / Net Sales	1.1	1.3	1.4	0.9
Market Cap / Sales	1.7	2.2	3.0	2.1
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.7	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	3.1	3.9	3.9	3.8
Quick Ratio	3.1	3.9	3.9	3.8

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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