

Q2FY13 Result Update

10 Nov 2012

## Gearing up for Phase-III

**ENIL posted Q2FY13 results marginally below expectations on the back of 10% YoY growth on ad revenues with 2% YoY decline in pricing while volume rose by 17.5%. Operating profit grew by mere 3.1% on the back of margins declining by 199bps YoY due to higher marketing cost while PAT was up by 14% due to high other income as the company has Rs2.6bn of cash. We maintain our BUY rating on the stock.**

- **Q2FY13 marginally below expectations:** The company posted 11.5% YoY growth in topline to Rs771mn (4.2% above our expectations) on the back of 10% YoY ad revenue growth. Operating profit was at Rs189mn (up mere 3.1% YoY) on the back of 199bps drop in margins while PAT was up by 14%YoY to Rs103mn due to higher other income.
- **Strong ad growth in challenging environment:** ENIL posted 10% YoY growth in advertising revenue on the back of 17.5% volumes growth while pricing was down by 2%YoY. Utilisation for legacy 10 stations was at 90% while for the remaining stations it was best ever 76%. Blended rate was also best ever at 72%. Sectors such as durables, real estate and auto have bounced back adding to volume growth. The share of radio advertising in the revenue was at 73% while the remaining was on the back of 360 degree approach which the company took up to garner higher revenue from clients in the form of activation & BTL activities. The management believes that the advertisement environment has seen an up-tick in the current festive season and the growth rates could be better going forward.

Y/E Mar (Rsmn)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	Q2FY13E	Var (%)
<b>Net Sales</b>	<b>771</b>	<b>692</b>	<b>11.5</b>	<b>689</b>	<b>11.9</b>	<b>740</b>	<b>4.2</b>
Employee cost	178	161	10.5	175	1.7	170	4.9
Production Expenses	84	72	16.5	73	15.2	74	13.3
Admin & Other Exp	319	275	16.3	239	33.6	298	7.2
<b>EBITDA</b>	<b>189</b>	<b>184</b>	<b>3.1</b>	<b>201</b>	<b>(6.0)</b>	<b>198</b>	<b>(4.4)</b>
EBITDA margin (%)	24.5	26.5	(199)bps	29.2	(469) bps	26.8	(221)bps
Depreciation	79	81		79		79	
Other Income	34	20		61		30	
<b>PBT</b>	<b>145</b>	<b>127</b>	<b>13.5</b>	<b>183</b>	<b>(21.1)</b>	<b>149</b>	<b>(3.0)</b>
<b>Adjusted PAT</b>	<b>103</b>	<b>90</b>	<b>14.0</b>	<b>130</b>	<b>(20.6)</b>	<b>104</b>	<b>(1.2)</b>

Source: Company, Centrum Research Estimates

- **Margins under pressure:** Operating margins were under pressure during the quarter and was down 199bps YoY at 24.5% on the back of higher marketing cost due to the activation business while employee cost rose by mere 10.5% YoY. We believe the company is focused on pricing and has compromised on margins which impacted operating profit. However, we believe going forward the margins would expand.
- **Other highlights:** The management believes that Phase-III auction could happen in January 2013 with only a couple of issues to be sorted out such as auction bidding methodology and channel separation between frequencies. The company is also launching 4 internet radio stations which may be monetized at a later stage.
- **Maintain BUY:** The stock is currently trading at 19.6x and 16.4x FY13E and FY14E respectively. We continue to believe that ENIL is best placed to capture the upside from the radio industry and phase-III given its dominance and strong balance sheet. We maintain our estimates and reiterate BUY on the stock with the target price of Rs258 (18x FY14E).

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY11	2,756	19.8	866	31.4	395	121.2	8.3	11.1	9.2	28.3	12.9
FY12	3,005	9.0	998	33.2	565	43.0	11.9	13.7	11.3	19.8	11.2
FY13E	3,223	7.2	1,024	31.8	572	1.2	12.0	12.2	9.7	19.6	10.9
FY14E	3,580	11.1	1,180	33.0	684	19.6	14.3	12.9	10.5	16.4	9.5
FY15E	3972	11.0	1,351	34.0	802	17.3	16.8	13.2	11.0	14.0	8.3

Source: Company, Centrum Research Estimates

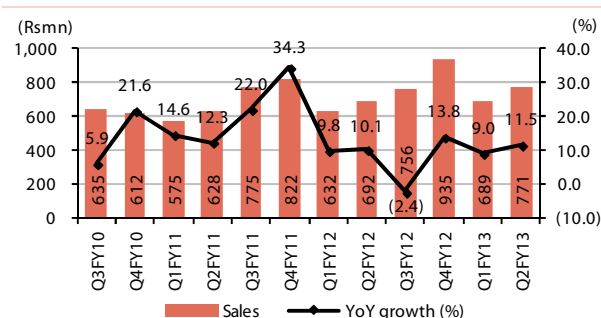
### Key Data

Target Price	Rs257	Bloomberg Code	ENIL IN
CMP	Rs235*	Reuters Code	ENIL.BO
Upside	10%	Current Shares O/S (mn)	47.7
<b>Stock to Sector</b>	Outperform	Diluted Shares O/S(mn)	47.7
<b>Sector to Market</b>	Neutral	Mkt Cap (Rsbn/USDmn)	11.2/205
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	259/193
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
ENIL	1.7	9.3	(4.8)
NIFTY	0.2	15.4	10.0
			<b>1 USD = Rs54.8</b>

Source: Bloomberg, Centrum Research

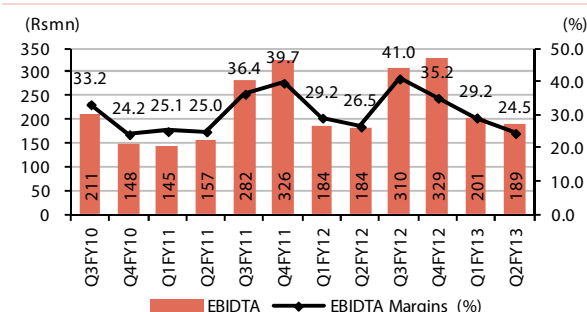
\*as on 09 November 2012

### Healthy revenue growth



Source: Company, Centrum Research

### Operating margins trend



Source: Company, Centrum Research

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**Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet**

## Financials (Standalone)

### Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
<b>Income</b>					
<b>Net Sales</b>	<b>2,756</b>	<b>3,005</b>	<b>3,223</b>	<b>3,580</b>	<b>3,972</b>
Growth (%)	19.8	9.0	7.2	11.1	11.0
Employee Cost	564	629	704	789	883
% of Sales	20.5	20.9	21.8	22.0	22.2
Admin & other expenses	1,185	1,227	1,333	1,433	1,539
% of sales	43.0	40.8	41.4	40.0	38.8
License Fees	140.2	152.0	161.1	179.0	198.6
% of sales	5.1	5.1	5.0	5.0	5.0
<b>EBIDTA</b>	<b>866</b>	<b>998</b>	<b>1,024</b>	<b>1,180</b>	<b>1,351</b>
EBIDTA Margins (%)	31.4	33.2	31.8	33.0	34.0
Depreciation	336	325	363	371	381
Interest expenses	(22)	0	-	-	-
<b>PBT for operations</b>	<b>552</b>	<b>673</b>	<b>661</b>	<b>809</b>	<b>970</b>
Other non operating income	58	124	155	168	175
Exceptional item	127	-	-	-	-
<b>PBT</b>	<b>737</b>	<b>797</b>	<b>816</b>	<b>977</b>	<b>1,145</b>
Provision for tax	214	232	245	293	344
Effective tax rate (%)	29.1	29.1	30.0	30.0	30.0
<b>Reported Net Profit</b>	<b>522</b>	<b>565</b>	<b>572</b>	<b>684</b>	<b>802</b>
<b>Adj Net Profit</b>	<b>395</b>	<b>565</b>	<b>572</b>	<b>684</b>	<b>802</b>

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Share Capital	477	477	477	477	477
Reserves & Surplus	3,360	3,925	4,497	5,181	5,982
<b>Total Shareholders Funds</b>	<b>3,837</b>	<b>4,402</b>	<b>4,974</b>	<b>5,657</b>	<b>6,459</b>
Secured Loans	-	-	-	-	-
Unsecured Loans	-	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Tax Net	89	98	98	98	98
<b>Total Capital Employed</b>	<b>3,926</b>	<b>4,500</b>	<b>5,071</b>	<b>5,755</b>	<b>6,557</b>
Fixed Asset					
Gross Block	3,675	3,670	3,834	3,901	4,063
Less:- Accumulated Dep.	1,875	2,173	2,535	2,907	3,288
Net Block	1,800	1,497	1,299	994	775
Capital WIP	11	1	15	15	15
<b>Total fixed assets</b>	<b>1,812</b>	<b>1,498</b>	<b>1,314</b>	<b>1,009</b>	<b>790</b>
Investments	931	1,770	1,770	1,770	1,770
Debtors	1,038	922	1,060	1,177	1,306
Loans & advances	561	516	800	840	840
Cash & bank balances	232	443	652	1,533	2,474
<b>Total current assets</b>	<b>1,831</b>	<b>1,882</b>	<b>2,511</b>	<b>3,550</b>	<b>4,620</b>
Current liabilities and provisions	648	650	524	573	622
Net current assets	1,183	1,232	1,988	2,976	3,997
Profit & Loss (Account)	-	-	-	-	-
<b>Total</b>	<b>3,926</b>	<b>4,500</b>	<b>5,072</b>	<b>5,755</b>	<b>6,557</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
<b>CF from operations</b>					
Profit before tax	737	797	816	977	1,145
Depreciation & amortisation	336	298	363	371	381
Others	(21)	(124)	(155)	(168)	(175)
<b>CF before WC changes</b>	<b>1,052</b>	<b>971</b>	<b>1,024</b>	<b>1,180</b>	<b>1,351</b>
Working capital changes	(385)	162	(548)	(108)	(80)
Cash inflow from operations	666	1,133	477	1,072	1,271
Income tax paid	(161)	(223)	(245)	(293)	(344)
<b>Cash from Operations</b>	<b>505</b>	<b>910</b>	<b>232</b>	<b>779</b>	<b>928</b>
<b>Cash from investing</b>					
Capex	(19)	16	(178)	(66)	(162)
Investments	(390)	(839)	-	-	-
Other Income	228	124	155	168	175
<b>Cash from investing</b>	<b>(181)</b>	<b>(699)</b>	<b>(23)</b>	<b>102</b>	<b>13</b>
<b>Cash from financing</b>					
Proceeds from Issues	-	-	-	-	-
Borrowings/ repayments	(334)	-	-	-	-
Interest paid	(11)	(0)	-	-	-
<b>Cash from financing</b>	<b>(345)</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>(21)</b>	<b>211</b>	<b>208</b>	<b>881</b>	<b>941</b>

Source: Company, Centrum Research Estimates

### Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
<b>Margin ratios (%)</b>					
EBIDTA Margins	31.4	33.2	31.8	33.0	34.0
PBIT Margins	19.2	22.4	20.5	22.6	24.4
PBT Margins	26.7	26.5	25.3	27.3	28.8
PAT Margins	14.3	18.8	17.7	19.1	20.2
<b>Growth ratios (%)</b>					
Revenues	19.8	9.0	7.2	11.1	11.0
EBIDTA	47.3	15.2	2.6	15.2	14.5
Adj Net Profit	121.2	43.0	1.2	19.6	17.3
<b>Return Ratios (%)</b>					
ROCE	9.2	11.3	9.7	10.5	11.0
RoIC	18.9	24.7	21.6	27.9	34.7
RoNW	11.1	13.7	12.2	12.9	13.2
<b>Turnover Ratios</b>					
Avg. collection period(days)	113.9	119.0	112.2	114.0	114.1
Avg. payment period (days)	113.8	118.0	97.4	83.4	83.3
Working Capital Cycle (days)	0.1	1.0	14.8	30.6	30.8
<b>Per Share (Rs)</b>					
EPS	8.3	11.9	12.0	14.3	16.8
CEPS	18.0	18.7	19.6	22.1	24.8
Book Value	80.5	92.3	104.3	118.7	135.5
Dividend	0.0	0.0	0.0	0.0	0.0
<b>Valuations (x)</b>					
PER	28.3	19.8	19.6	16.4	14.0
P/BV	2.9	2.5	2.3	2.0	1.7
EV/EBIDTA	12.9	11.2	10.9	9.5	8.3
EV/Sales	4.1	3.7	3.5	3.1	2.8
M-cap/Sales	3.6	3.0	2.7	2.2	1.8

Source: Company, Centrum Research Estimates

## Appendix A

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	Neutral	Buy
	Underperform	Accumulate
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	Neutral	Neutral
	Underperform	Neutral
<b>Underperform</b>	Outperform	Reduce
	Neutral	Sell
	Underperform	Sell

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