Prabhudas Lilladher

Entertainment Network India

Radio 'on air'; OOH business to ramp-up

June 4, 2008

Rating	**Outperformer**
Price	Rs387
Target Price	Rs523
Implied Upside	35.0%
Sensex	15,963

(Prices as on June 3, 2008)

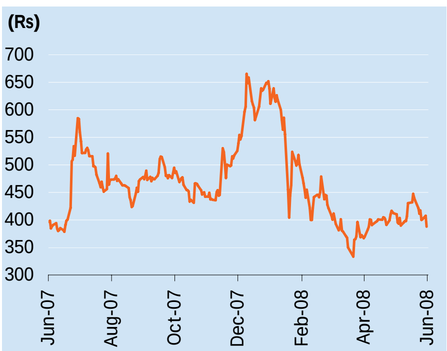
Trading Data	
Market Cap. (Rs bn)	18.4
Shares o/s (m)	47.6
Free Float	28.8%
3M Avg. Daily Vol ('000)	13.8
3M Avg. Daily Value (Rs m)	5.5

Major Shareholders	
Promoters	71.2%
Foreign	19.6%
Domestic Inst.	2.8%
Public & Others	6.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.0)	(25.1)	1.9
Relative	9.7	(4.6)	(5.3)

Price Performance (RIC: ENIL.BO, BB: ENIL IN)



Source: Bloomberg

- **Radio - retains leadership position:** Entertainment Network India's (ENIL) Radio Mirchi completed a year of successful execution in operationalising all its 32 stations. The segment has retained its leadership position with a market share of 48% for the quarter on all India basis.
- **Times OOH - captures 11% market share:** ENIL's Times OOH currently enjoys 11% market share. The recent private equity infusion of Rs2bn has helped the company repay debt of Rs1.49bn and fund future expansion in the promising out-of-home media segment.
- **360º Experience - creating IPRs:** Event business now spun-off into a separate subsidiary – Alternative Brand Solutions, plans to scale-up by focusing towards creation of IPRs. The company already has to its credit events like Smart Living Awards, Mr. India World and Teen Diva.
- **Outlook & valuation:** We are confident on ENIL's ability to retain its leadership position in the fast growing radio industry and show steady improvement in its profitability. Also, the recent private equity infusion would enable the company to expand the network of out-of-home media sites in this promising media segment. Our sum-of-the-parts valuation of the company comes to Rs523 per share, valuing the radio business at Rs359 per share and its subsidiaries at Rs164 per share. At the current market price of Rs387, the stock trades at 36.0x FY09 and 17.7x FY10 earnings estimates. We maintain Outperformer rating on the stock.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	2,351	4,135	6,692	8,810
Growth (%)	*71.0*	*75.9*	*61.9*	*31.6*
EBITDA (Rs m)	435	321	1,218	2,090
PAT (Rs m)	251	(171)	514	1,045
EPS (Rs)	5.3	(3.6)	10.8	21.9
Growth (%)	*17.7*	*NA*	*NA*	*103.4*
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	*18.5*	*7.8*	*18.2*	*23.7*
RoE (%)	*9.0*	*(4.5)*	*10.2*	*17.9*
RoCE (%)	*7.7*	*(0.0)*	*9.6*	*16.7*
EV / sales (x)	8.3	4.4	2.7	2.1
EV / EBITDA (x)	44.6	57.1	15.1	8.7
PE (x)	73.3	NA	36.0	17.7
P / BV (x)	6.3	3.9	3.5	2.9
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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Mr. N. Subramanian, CFO
Mr. Dalpat Jain, Business Analyst

Radio

Q: Can you give us some update on the Indian radio industry?

A: The size of the Indian radio industry currently stands at Rs7bn (private FM industry is Rs5.1bn). As per FICCI-PWC 2008 report, the industry is expected to grow at 24% CAGR over the next five years. ENIL continues to be the market leader with 48% market share.

Q: How effective is radio vis-à-vis other advertising mediums?

A: For an advertiser/media planner, effectiveness of an advertising medium is determined based on cost per thousand. As per our study, cost for a media planner to reach an audience of thousand people (CPT) is 1:10 in case of radio:print, and 1:6 in case of radio:television.

Again as per a research done in UK, radio is claimed to be 60% as effective as television at a relatively lower cost.

Q: What will be the possible impact if the recent TRAI recommendations for the radio industry are implemented?

A:

1) The geographical basis for bidding may be changed from city to district – bringing in more coverage per station.

2) News and current affairs will help in content differentiation.

3) FDI/FII limit to 26% from present 20% for news radio channels and 26% to non-news radio channels, will allow more foreign investor participation.

4) Auto renewal of radio license on paying highest bid amount for a particular city.

5) Networking of FM radio programs across the radio network will result in lower opex and capex (less number of repeaters required).

Q: How many radio stations are currently operational?

A: ENIL is the first company to complete national network rollout of all stations bided in Phase II of radio licensing. We completed rollout across 22 new cities in FY08 and are currently operational across all 32 stations. Besides our 32 owned stations, we also have a sales alliance with ten additional stations (eight belonging to the Jagran group, one with Gwalior Farms and one with Guwahati-based Radio Chaska).

Q: What will be the key revenue drivers for the radio business going ahead?

A: There are various growth drivers for the radio business:

1) We expect pricing lead growth from legacy (ten) stations. This will be on the back of replacing low value plans. Increasing in pricing is possible in FY09 unlike last year, wherein there was enough supply of inventory with entry of newer players. Over the year in FY08, the industry has seen average inventory utilisation. Current inventory utilisation (in metros and tier A cities) for some of the major players stands at 65-70%.

2) We expect volume lead growth in case of 22 new stations rolled out last year.

3) Mirchi Activation which is a combination of radio (on air) and events (ground events) contributed approximately Rs400m as revenue in FY08. The company conducted various such campaigns for various BFSI and real estate clients last year. With thrust on 'target marketing', the segment will further catapult growth in the coming years.

4) As part of the Times Group, the company has also benefited by way of business with its various private treaty clients. The company expects more business to come from such clients in the subsequent years.

Q: What are the current realisations for all 32 stations combined and a` la carte?

A: Combined average price paid by the buyers for all 32 stations stand at Rs14,500 per 10 second slot. A` la carte realisation for all 32 stations stand at Rs18,000-19,000 per 10 second slot.

Q: What have been the utilisation for legacy and new stations in FY08?

A: Average utilisation for ten legacy stations in FY08 was 65%. Average utilisations for 22 new stations in FY08 was 30-32%.

Q: What have been the operating margins for legacy and new stations in FY08?

A: For FY08, the radio segment reported 25.1% operating margin. The ten legacy stations reported operating margin of 31.5%, whereas the new 22 stations reported an operating loss of Rs35m (positive 6% OPM for Q4FY08).

Q: What is your outlook on the operating margin for the radio business?

A: We expect our radio business to have a steady state operating margin of around 35-40% two years down the line. Robust revenue growth and lower operating expenditure will drive margins going ahead.

We expect robust revenue growth for the radio business. Our legacy stations are expected to see a pricing led growth, whereas the 22 new stations will grow backed by increasing utilisation.

Again, we expect relatively lower operating expenditure for the subsequent years. Our marketing cost should be relatively lower as compared to last year as we have incurred all of our launch and marketing expenses in rolling 22 new stations.

In terms of recent developments (in May 2008) in the music industry, the Indian Supreme Court has passed an order for compulsory licensing of music content for radio players in the industry. In case of any disagreement over pricing between the radio player and the music company, the pricing will be determined by the copyright board.

Out-Of-Home (OOH)

Q: What is the current size of the Indian OOH industry? What are the different categories of OOH advertising in India?

A: Indian OOH advertising industry is very fragmented. As per the recent FICCI-PWC report, the current industry size stands at Rs14.5bn. This is expected to grow at 14% CAGR over the next five years to Rs24bn in 2012.

Indian OOH can further be segmented based on various categories of displays:

Billboards (hoardings) – 65%

Transit (airports, metro stations, buses) – 14%

Street furniture – bus queue shelters, pole kiosks, etc. - 20%

Alternatives – 1%

Q: What was the financial performance of the OOH segment in FY08?

A: For FY08, Times OOH reported revenue of Rs1,340m, with the airport properties contributing to the tune of Rs770m and the balance Rs570m from non-airport properties. All properties except the Delhi International Airport (DIAL) were profitable. Delay in handover of sites and change in site layouts affected realisation and utilisation for the DIAL property. For the full year, the company reported an EBITDA loss of Rs219m.

Q: How are we looking at resolving issues pertaining to DIAL?

A: We are in discussions with DIAL management on the possible means of compensation.

Q: Going ahead what will drive revenue and profitability in the outdoor segment?

A: We expect issues pertaining to utilisation and pricing at the DIAL property to normalise by Q3FY09. Revenue growth will be primarily led by better utilisation for the airport properties, whereas profitability will come from non-airport properties. Airport properties typically can yield about 14-15% operating margin vis-à-vis non-airports (billboards), which can yield a steady state 30% operating margin. Again, transit properties like airports are low capex, high RoE driven, unlike the billboards category. Going ahead our contribution from airport portfolio of outdoor properties will gradually come down.

Q: What has been the like-to-like growth for our existing outdoor properties? What was the operating margin for these properties in FY08?

A: On a like–to-like basis, our existing properties grew by 76.7% with about 20% gross margin.

Q: What new outdoor contracts have been bagged by the company recently?

A: We have won six new outdoor contracts, this include:

1) Hyderabad BQS – 200 units

2) Bangalore – 281 units

3) New Delhi (BRT) – 60 BQS

4) Chandigarh BQS – 8 units

5) NDMC Kiosks – 8,000 poles -> 16,000 display sites

6) Jaipur Unipoles – 20 Unipoles

Q: What is your outlook on your OOH business?

A: We expect revenue to double in this segment. Further, we expect improvement in operating profit margin with increase in occupancy for both airport and non-airport outdoor sites. New contract wins will further drive growth.

Events

Q: What is the outlook on the event business?

A: In case of 360º Experience, we are making a gradual shift from 'managed events' to creation of owned properties. This will ensure better visibility in the business. We already have our credit events like – Mr. India World, Smart Living Awards, Teen Diva Beauty Pageant. We expect this business to grow at 20-25% over the coming year.

Q: What is the kind of capex lined up for the coming years?

A: We would be incurring a nominal maintenance capex of around Rs80m for our radio business. In case of OOH segment, we have a total capex plan of Rs2.5bn to be spent over the next 2-3 years. Of this, Rs1.25bn would be incurred as capex in FY09, majority of this would be in the street furniture segment.

Q: What is the current debt and cash on books?

A: We have consolidated debt of Rs1.95bn on our books. Our subsidiaries are debt free.

Our consolidated balance sheet has cash of Rs1.25bn (Rs870m on standalone basis and Rs380m in Times OOH).

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly