Prabhudas Lilladher

Entertainment Network India

Annual report analysis

August 25, 2008

Rating	**Outperformer**
Price	Rs299
Target Price	Rs383
Implied Upside	28.2%
Sensex	14,450

(Prices as on August 25, 2008)

Trading Data

Market Cap. (Rs bn)	14.2
Shares o/s (m)	47.6
Free Float	82.8%
3M Avg. Daily Vol ('000)	5.1
3M Avg. Daily Value (Rs m)	1.7

Major Shareholders

Promoters	17.2%
Foreign	19.6%
Domestic Inst.	56.8%
Public & Others	6.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.8)	(31.5)	(29.2)
Relative	(5.0)	(13.4)	(29.4)

Annual Report 2008

- **Highlights from MD&A:** Entertainment Network India's (ENIL) third annual report discusses the promising outlook of India's fast growing radio, out-of-home and event industry. FY08 has largely been a year reflecting ENIL's execution abilities. The company has commenced its operations across all 32 stations (as against 10 stations in FY07) by rolling out all 22 new stations in eleven months. ENIL's *Radio Mirchi* has maintained an average 48% market share over the year. As the increase in contribution of the company's out-of-home business boosted the consolidated revenue to Rs4135m, the segment during the year also suffered from lower occupancies and delay in hand over of displays. Consequently, the company reported a consolidated loss of Rs171m.

- **Organisation restructuring for focused execution:** During the year, the company transferred its events management business from Times Innovative Media (TIML) to a new subsidiary - Alternative Brand Solutions. The company expects this move to provide a separate focus to both outdoor and events business and have their own future fund-raising plans.

- **Balance sheet size has grown dramatically:** ENIL's capital employed has grown at a compounded annual growth rate (CAGR) of 70% during the period between FY05-08. In FY08, it grew by 64% with Rs2bn as private equity infusion in the out-of-home subsidiary and additional debt taken for the radio business.

- **Attractive Valuation:** We remain upbeat about ENIL's city-centric model and its ability to retain its leadership position in the radio business. At the same time, company's out-of-home business continues to suffer from poor site utilisations coupled with escalating license fees. However, at current valuations of 41.2x FY09 and 17.6x FY10, we expect the scrip to outperform with a revised price target of Rs383 per share.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	2,351	4,135	6,178	8,062
Growth (%)	*71.0*	*75.9*	*49.4*	*30.5*
EBITDA (Rs m)	435	321	1,031	1,913
PAT (Rs m)	251	(171)	345	810
EPS (Rs)	5.3	(3.6)	7.2	17.0
Growth (%)	*17.7*	*NA*	*NA*	*134.6*
Net DPS (Rs)	-	-	-	-

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	*18.5*	*7.8*	*16.7*	*23.7*
RoE (%)	*9.0*	*(4.7)*	*7.8*	*16.8*
RoCE (%)	*7.7*	*(0.1)*	*7.1*	*11.9*
EV / sales (x)	6.5	3.9	2.6	1.9
EV / EBITDA (x)	35.0	49.7	15.6	8.2
PE (x)	56.6	NA	41.2	17.6
P / BV (x)	4.9	3.0	3.0	2.5
Net dividend yield (%)	-	-	-	-

Source: Company Data; PL Research

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MD&A stresses on diversified business model

ENIL's third annual report discusses the promising outlook of India's fast growing radio, out-of-home and event industry and the company's positioning in the growing competitive landscape.

Industry performance in FY08 and future outlook

Industry	Snippets from ENILS's FY08 MDA
Radio	■ For the year under review, Indian radio industry has grown by more than 40-45% with an estimated size of Rs7bn.
	■ Radio now shares 4% of the advertising industry; the management expects this to reach 7-8% levels.
	■ The annual report also discusses opportunities for the company with TRAI's wide ranging recommendations for Phase III - district level liscenses, allowing news and current affairs, Increase in FDI, networking, tradability liscenses, automatic extension of liscenses, and allowing multiple frequencies.
Out-of-home	■ The Out-of-home industry registered a growth of 25% yoy, with a contribution of 6.4% share in total advertisement industry.
	■ Capital infusion by various global investors has enabled many companies to participate in upcoming growth opportunities which include fast growing new segments in outdoor advertising at Multiplexses, SEZs, Malls, etc.
	■ There is a need for an audience measurement system, this we believe is important to keep a check on aggressive bidding of projects, which may turn out to be unfeasible in the long run.
Events	■ Event management business is expected to gain momentum with media buyers giving thrust on below-the-line advertising.

Source: Company Annual Report, PL Research

ENIL's segmental performance and future outlook

Radio - *Radio Mirchi*	■ The company successfully completed the roll out of 22 new stations during the year, and also achieved EBITDA breakeven for the stations on a cumulative basis.
	■ ENIL's Radio Mirchi retained its leadership position with a market share of 48% as against 49% last year.
	■ During the year, company's legacy stations faced pricing pressure on the light of excess inventory supply in the industry with increased competition. The company expects the pricing to improve for the coming year; however, challenge would be to improve inventory utilizations in smaller markets.
Out-of-home - *Times OOH*	■ During the year, TIML transferred its events business in to a separate subsidiary so as to give both out-of-home and events business its own focus and funding plans.
	■ According during January 2008, TIML raised Rs2bn by way of private equity infusion from Goldman Sachs and Lehman Brothers for 8.28% stake each.
	■ TIML also expanded its reach to eight cities adding Bangalore, Hyderabad, Chandigarh, and Jaipur. Some of the new properties added to its kitty include - 200 BQS (Hyderabad), 281 BQS (Bangalore), 8000 poles (NDMC Kiosks), 20 Unipoles (Jaipur), 8 BQS (Chandigarh), BRT 60 units (Delhi).
	■ It also secured extension of the Patel Bridge and DND toll bridge for a period of seven and ten years respectively.
Events – *360º Experience*	■ Event business now forms part of Absolute Brand Solutions (ABSL), as the management focuses on transforming itself from a "managed events" (managing events for third party) company towards creating its own IPR based events.
	■ Besides, Smart Living Awards and Mr. India World, the company during the year added to its credit another IPR for an event named "Teen Diva".

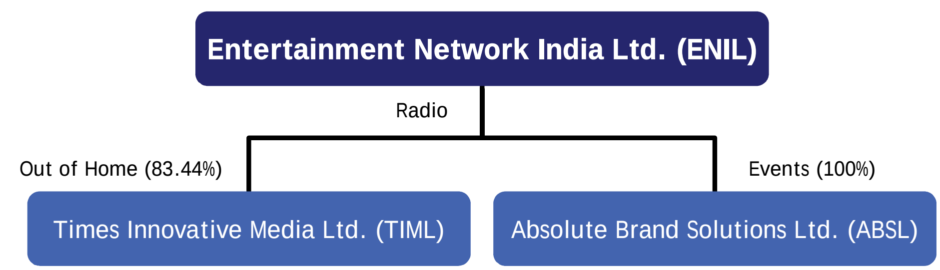
Source: Company Annual Report, PL Research

Change in the organization structure for a focused approach

During the year, the company transferred its events management business from Times Innovative Media (TIML) into a new subsidiary - Alternative Brand Solutions (ABSL). The company expects this move to provide a separate focus to both outdoor and events business and have their own future fund-raising plans. Accordingly, post the restructuring, ENIL raised Rs2bn by divesting 8.28% stake each to Lehman Brothers and Goldman Sachs.

On a standalone basis, both out-of-home and events business are highly volatile in terms of revenue generation. The out-of-business would be focused towards building a pan-India portfolio of outdoor sites with a right mix of airport, billboards, and street furniture properties, thereby eliminating lumpiness. On the other hand, the events business is already focused towards creating IPR-based events against managing events for third parties, which takes care of the seasonal nature of the events business.

Organization structure

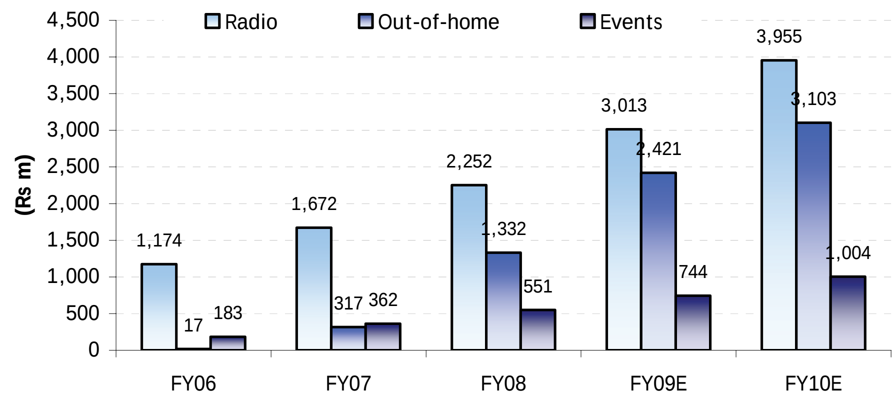


Source: PL Research

Revenue profile

ENIL's revenue grew by an impressive 76% in FY08 and at a CAGR of 77% during the period between FY05-08. Its revenue is broken into three broad categories – radio business, out-of-home advertising and event management. For FY08, the radio grew by 35%, out-of-home business grew by 320%, and the event management business grew by 52%.

Revenue profile



Source: Company Data, PL Research

Increase in out-of-home contribution brings in reasonable revenue diversification

For FY08, ENIL generated about 54.5% of its revenue from radio. It gets another 32.2% from out-of-home and 13.3% from events businesses. From the revenues been largely skewed towards radio in FY07, contribution of revenues from displays in Mumbai and Delhi International Airports (MIAL and DIAL) properties has brought in a reasonable diversification to company's consolidated revenues in FY08. Over the next two years, the company's out-of-home business is expected to grow much faster than the radio business, bringing in a right mix to company's revenue model.

Revenue break-up

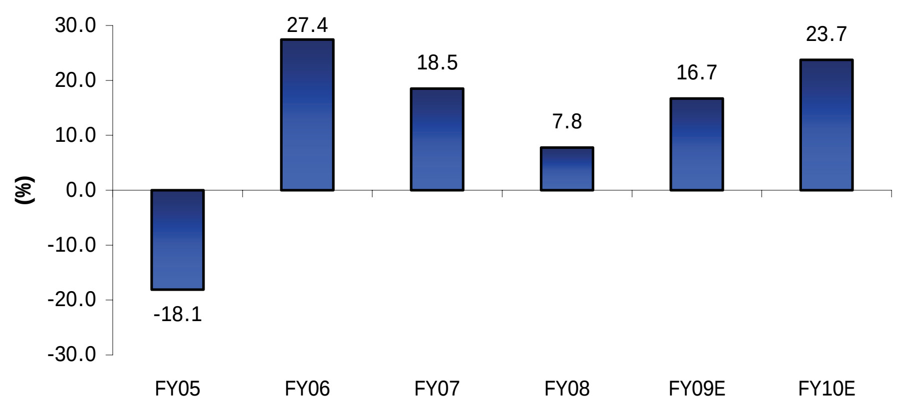
Y/e March	FY06	FY07	FY08	FY09E	FY10E
Radio	1,174	1,672	2,252	3,013	3,955
Segmental contribution (%)	*85.5*	*71.1*	*54.5*	*48.8*	*49.1*
Out-of-home	17	317	1,332	2,421	3,103
Segmental contribution (%)	*1.2*	*13.5*	*32.2*	*39.2*	*38.5*
Events	183	362	551	744	1,004
Segmental contribution (%)	*13.3*	*15.4*	*13.3*	*12.0*	*12.5*
Total	**1,374**	**2,351**	**4,135**	**6,178**	**8,062**

Source: Company Data, PL Research

Operating profit margins to see improvement as radio business stabilise

The radio business alone enjoyed an operating margin of 23.2% in FY08 despite higher expenses relating to launch cost for rolling out 22 new stations during the year. We expect radio business to enjoy a steady operating margin of 34.7% by FY10, thereby lending support to company's overall operating margins, as both outdoor and events businesses are still at their infancy. Going forward, as the radio business witnesses improvement in pricing for its legacy stations and utilizations pick up for the new stations, coupled with outdoor building up a right portfolio mix (adding high margin billboards and street furniture properties), one would expect ENIL's operating margin to improve significantly.

Trend of company's consolidated operating profit margins

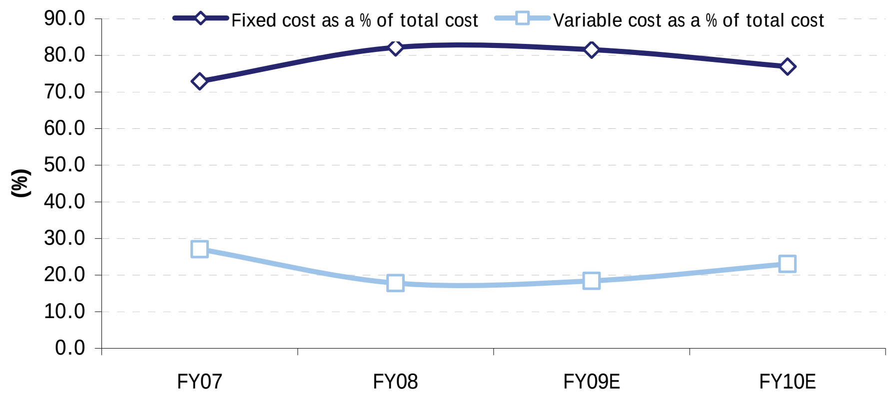


Source: Company Data, PL Research

Cost structure is 82% fixed, offers scope for significant margin improvement

All the three business segments of ENIL enjoy a high operating leverage. For FY08, approximately 82% of ENIL's total cost was fixed cost as against 73% last year. It is important to understand that ENIL has had the first mover advantage in foraying into radio and having rolled out all its 32 stations. However, as competitors roll out newer radio stations, we expect the industry to get cluttered further even in Tier I cities. Consequently, higher marketing cost (accounts for major portion of company's variable cost component) to maintain company's brand loyalty will reduce the level of fixed costs as a percentage of total costs. This would hold true for the events business as well, as the company creates its own IPR-based events.

Break up of company's cost structure in fixed and variable costs



Source: Company Data, PL Research

Balance sheet size has grown dramatically

ENIL's balance sheet size has grown at a CAGR of 70% during the period between FY05-08. In FY08, it grew by 64% with Rs2bn as private equity infusion in the out-of-home subsidiary and additional debt taken for the radio business.

Fund raising in TIML was utilized towards repayment of debt to the tune of Rs1.49bn. The balance amount, coupled with an additional debt to be raised during the year, will be used to scale-up the company's out-of-home business. The company has a total capex plan of Rs2.5bn to be spent over the next 2-3 years.

The radio business raised an additional debt of Rs794mn in Q4FY08 in anticipation for bidding for the available 97 vacant frequencies under Phase II. With the vacant frequencies now likely to be bundled with Phase III, the company has reduced its standalone debt position to Rs880mn.

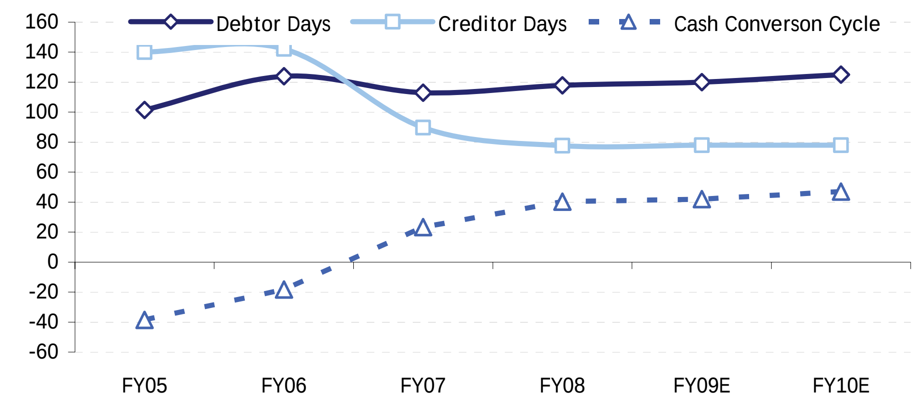
Leverage will rise as out-of-home business scales up

ENIL has maintained its leverage at 0.4 DER; we expect the company to maintain the same over the coming years. Any additional debt for the company would be required for its outdoor segment. In FY08, the out-of-home segment revenues were largely skewed towards transit properties. However going forward, the company expects to strike a balance among transit, street furniture and billboards. Both billboards and street furniture properties are capital-intensive. ENIL's balance sheet is clearly under-leveraged and should augur well, as the company plans to spend Rs2.5bn as capital expenditure over a period of 2-3 years.

Increase in cash-conversion cycle

For the year under review, ENIL's debtor days increased to 118 days as against 113 days last year. Further, the sundry creditors reduced to 78 days from 90 days, during FY07. Consequently, company's cash- conversion cycle in FY08 has witnessed an increase over the year, from 23 days to 40 days.

Increasing trend in company's cash-conversion cycle



Source: Company Data, PL Research

Spike in loans and advances - not a matter of concern

During the year, ENIL's consolidated loans and advances have risen by 290% to Rs2819m and the standalone business by 73% to Rs1352m. Of these advances to the tune of Rs1.17bn (Rs0.8bn in standalone balance sheet) is accounted for investment amount booked and receivable from mutual funds, as on balance sheet date. These mutual fund investments were made during the year, from the standalone-debt raised during Q4FY08 in anticipation of possible bidding of vacant frequencies under Phase II and cash received from private equity investors against 16.56% stake sale in TIML.

RoE decomposition

ENIL's RoCE has shown an erratic trend from -13.0% in FY05 to 7.7% in FY07 and down to -0.1% in FY08. This is because of huge financing requirements initially for laying down the foundation of the company's radio business (capex incurred to the tune of Rs2.15bn towards migration and one time entry fee). In FY08, operational losses from the out-of-home business coupled with fund-raising through private equity in TIML and higher debt resulted in a negative RoCE. However, going forward, we see the company's asset turnover improving from 77.2% in FY08 to 109.6% in FY10, consequently improving the RoCE to 11.9% in FY10.

Both radio and out-of-home segments are characterized by huge operating leverage. As both these businesses stabilize, each of them would take care of its own funding requirements eliminating any lumpiness in company's return ratios. In FY09, we expect ENIL's radio business to stabilize and to generate enough cash to finance for any possible bidding for newer radio stations under Phase III.

RoCE decomposition

Y/e March	FY05	FY06	FY07	FY08	FY09E	FY10E
EBIT margin	-23.5%	20.7%	11.1%	-0.2%	9.8%	17.5%
Asset turnover	55.2%	63.0%	66.6%	77.2%	91.3%	109.6%
Tax impact	100.0%	82.4%	103.5%	94.0%	80.0%	62.2%
RoCE	**-13.0%**	**10.8%**	**7.7%**	**-0.1%**	**7.1%**	**11.9%**
Leverage impact	100.0%	108.7%	126.7%	146.4%	153.1%	152.2%
Interet impact	101.6%	90.9%	93.1%	2301.7%	71.5%	92.5%
RoE	**-13.2%**	**10.6%**	**9.0%**	**-4.7%**	**7.8%**	**16.8%**

Source: Company Data, PL Research

Downgrading earnings; revised target price to Rs383

We remain upbeat on ENIL's city-centric model and its ability to retain its leadership position in the radio business. However, concern lies in the out-of-home space which lacks diversity in its portfolio mix, further the airport sites (MIAL and DIAL) continue to suffer from poor utilizations coupled with escalating license fees (for the Mumbai airport) in FY09. Accordingly we have downgraded our estimates for ENIL with a revised priced target of Rs383 per share. However, at current valuations of 41.2x FY09 and 17.6x FY10, we expect the scrip to outperform.

Revised financials

Y/e March	FY09E			FY10E		
	Old	**Revised**	*chg. (%)*	**Old**	**Revised**	*chg. (%)*
Revenue	6,396	6,178	*3.5*	8,348	8,062	*3.5*
PAT after Minority Interest	385	345	*11.6*	816	810	*0.8*

Source: PL Research

Financials

Income Statement *(Rs m)*

Y/e March	FY05	FY06	FY07	FY08	FY09E	FY10E
Net Sales	**749**	**1,375**	**2,351**	**4,135**	**6,178**	**8,062**
Expenditure						
Production Expenses	64	177	389	637	811	1,029
% of Sales	*8.5*	*12.9*	*16.5*	*15.4*	*13.1*	*12.8*
License Fees	399	64	331	1,365	1,938	2,222
% of Sales	*53.2*	*4.7*	*14.1*	*33.0*	*31.4*	*27.6*
Marketing Expenses	-	230	334	427	638	832
% of Sales	*-*	*16.7*	*14.2*	*10.3*	*10.3*	*10.3*
Administration and Other Expenses	262	249	415	718	850	939
% of Sales	*35.0*	*18.1*	*17.7*	*17.4*	*13.8*	*11.7*
Employee Costs	160	277	447	667	911	1,127
% of Sales	*21.4*	*20.1*	*19.0*	*16.1*	*14.7*	*14.0*
Total Expenditure	885	998	1,916	3,814	5,147	6,149
% of Sales	*118.1*	*72.6*	*81.5*	*92.2*	*83.3*	*76.3*
EBIDTA	**(136)**	**377**	**435**	**321**	**1,031**	**1,913**
% of Sales	*(18.1)*	*27.4*	*18.5*	*7.8*	*16.7*	*23.7*
Other Income	13	32	14	34	29	33
Depreciation/Amortisation	53	124	187	363	457	538
Interest	3	26	18	174	172	106
PBT & exceptional items	**(179)**	**259**	**243**	**(182)**	**432**	**1,302**
Exceptional items	-	98	-	-	-	-
PBT after exceptional items	**(179)**	**357**	**243**	**(182)**	**432**	**1,302**
Total Tax	-	46	(9)	(6)	76	450
Tax Rate (%)	*-*	*17.6*	*(3.5)*	*3.1*	*17.5*	*34.5*
PAT before minority interest	**(179)**	**311**	**251**	**(176)**	**356**	**852**
Minority Interest	-	-	-	(5)	11	42
PAT after minority interest	**(179)**	**311**	**251**	**(171)**	**345**	**810**
PAT Margins (%)	*(23.9)*	*22.7*	*10.7*	*(4.1)*	*5.6*	*10.0*
EPS (Rs)	**(3.8)**	**4.5**	**5.3**	**(3.6)**	**7.2**	**17.0**

Source: Company Data, PL Research

Balance Sheet *(Rs m)*

Y/e March	FY05	FY06	FY07	FY08	FY09E	FY10E
Sources of Funds						
Equity capital	1,170	476	477	477	477	477
Reserves	187	2,180	2,439	3,930	4,286	5,139
Minority interest				325	336	378
Shareholders Funds	1,357	2,655	2,916	4,732	4,763	5,615
Total Debt	-	350	1,138	1,933	2,100	2,233
Total	**1,357**	**3,005**	**4,054**	**6,664**	**6,863**	**7,848**
Application of Funds						
Gross Block (Tangibles)	399	2,555	2,881	3,903	4,993	5,722
Less Acc. Deprecation & Amortisaton	156	281	468	831	1,288	1,826
Net Block	243	2,274	2,413	3,072	3,705	3,896
Capital work In progress	-	47	612	110	250	-
Total Fixed Assets	243	2,403	3,025	3,182	3,955	3,896
Investments (At Cost)	63	302	25	30	35	50
Deferred Tax (net)		2	27	61	61	61
Current Assets	328	846	1,576	4,301	4,244	6,051
Sundry Debtors	208	467	728	1,335	2,031	2,761
Days	*101*	*124*	*113*	*118*	*120*	*125*
Cash & bank balances	17	65	126	147	152	713
Loans & Advances, Prepaid Exp	103	314	722	2,819	2,061	2,576
Current Liabilities & Provisions	297	548	599	910	1,433	2,209
Current Liabilities	288	536	578	879	1,320	1,723
Days	*140*	*142*	*90*	*78*	*78*	*78*
Provisions	9	12	21	31	113	487
Net current Assets	31	298	977	3,391	2,811	3,841
Total	**1,357**	**3,005**	**4,054**	**6,664**	**6,863**	**7,848**

Source: Company Data, PL Research

Key ratios

Y/e March	FY05	FY06	FY07	FY08	FY09E	FY10E
Return Ratios (%)						
ROCE	(13.0)	10.8	7.7	(0.1)	7.1	11.9
ROE	(13.2)	10.6	9.0	(4.7)	7.8	16.8
Growth (%)						
Sales	34.8	83.5	71.0	75.9	49.4	30.5
EBITDA	(44.7)	(378.1)	15.2	(26.1)	221.0	85.6
PAT	(38.9)	(219.0)	17.8	(168.0)	(302.0)	134.6
EPS	(38.9)	(219.2)	17.7	(167.9)	(302.0)	134.6
Liquidity						
Current Ratio	1.1	1.5	2.6	4.7	3.0	2.7
Acid Test Ratio	1.1	1.5	2.6	4.7	3.0	2.7
Per Share Ratios (Rs)						
EPS	(3.8)	4.5	5.3	(3.6)	7.2	17.0
BV	11.6	55.8	61.2	99.3	99.9	117.8
CEPS	(1.1)	9.2	9.2	4.0	16.8	28.3
DPS	-	-	-	-	-	-
Margins (%)						
EBITDA	(18.1)	27.4	18.5	7.8	16.7	23.7
PAT	(23.9)	22.7	10.7	(4.1)	5.6	10.0
Tax Rate	(0.0)	17.6	(3.5)	3.1	17.5	34.5
Valuations (x)						
PER	(79.4)	66.6	56.6	(83.3)	41.2	17.6
P/CEPS	(277.7)	32.6	32.4	74.2	17.7	10.6
P/BV	25.8	5.4	4.9	3.0	3.0	2.5
EV/EBITDA	(104.1)	37.6	35.0	49.7	15.6	8.2
EV/Sales	18.9	10.3	6.5	3.9	2.6	1.9
Market Cap/Sales	19.0	10.3	6.0	3.4	2.3	1.8

Source: Company Data, PL Research

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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