

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	ENIL.BO
Bloomberg code	ENILIN
Market cap. (US\$ mn)	204
6M avg. daily turnover (US\$ mn)	1.0
Issued shares (mn)	48
Target price (Rs)	150

Performance (%)	1M	3M	12M
Absolute	(1)	2	45
Relative	(2)	(6)	(25)

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	(3.1)	5.6
+/- (%)	NA	NA
PER (x)	NA	35.6
PBV (x)	2.5	2.3
EV/Sales (x)	2.6	3.0
EV/EBITDA (x)	26.7	13.5

#### Major shareholders (%)

Promoters	71
FII's	8
MF's	2
Public & Others	19

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1QFY10	QoQ (%)	FY09 YoY (%)	FY10E	YoY (%)	FY11E	YoY (%)	
Net Sales	616	559	(9.2)	502	11.4	4,262	3.1	4,174	(2.1)	3,559	(14.7)
EBITDA	85	145	70.8	92	57.1	(92)	(128.6)	406	(541.9)	802	97.7
EBITDA Margin (%)	13.8	25.9	-	18.4	-	(2.2)	-	9.7	-	22.5	-
Depreciation	(101)	(95)	(6.2)	(90)	5.2	(526)	45.3	(513)	(2.3)	(458)	(10.8)
Other Income	2	1	(28.3)	0	370.2	30	(9.6)	26	(16.3)	23	(9.8)
Interest	(27)	(13)	(52.0)	(17)	(23.9)	(144)	(17.0)	(115)	(20.4)	(86)	(25.2)
PBT	(42)	38	(191.6)	(15)	(356.4)	(731)	304.4	(197)	(73.1)	281	(242.5)
Tax	9	0	(100.0)	0	(100.0)	3	(54.5)	(20)	(887.8)	(18)	(10.0)
PAT	(33)	38	(216.6)	(15)	(363.6)	(603)	254.9	(148)	(75.5)	267	(280.8)
EPS (Rs)	(0.7)	0.8	(216.6)	(0.3)	(363.6)	(12.7)	254.9	(3.1)	(75.5)	5.6	(280.8)
PAT Margin (%)	(5.3)	6.8	-	(2.9)	-	(14.1)	-	(3.5)	-	7.5	-

\*Quarterly numbers are standalone, annual are consolidated.

## Entertainment Network Maintain Underperformer

Price: Rs 200

BSE Index: 16,741

26 October 2009

### 2QFY10 Result – Profitability to improve going forward...

Entertainment Network (ENIL) reported better than expected numbers at the net level.

- Radio revenue at Rs 559 mn (B&K: Rs 542 mn) declined by 9% YoY as the radio ad market is yet to revive. Sequential growth of 11% in revenues is seasonal as 2QFY is better than 1QFY. Prudent cost management led to 22% YoY decline in operational expenses (marketing and employee expenses curtailed) leading to a 1,210 bps improvement in radio EBITDA margin to 25.9% (B&K: 21.9%). EBITDA grew by 71% YoY. Net profit at Rs 38.2 mn was better than our expectation of Rs 13.2 mn on higher EBITDA and lower than expected interest costs (repaid Rs 120 mn debt this quarter).
- Consolidated revenues declined by 11.4% YoY to Rs 984 mn (B&K: Rs 950 mn) due to drop in radio (at 9%), drop in outdoor (at 5% to Rs 366 mn) and drop in events (at 37% to Rs 67 mn). Outdoor EBITDA loss stood at Rs 139 mn and events losses at Rs 12 mn. Net loss stood at Rs 138 mn (B&K: Loss of Rs 150 mn).

### Outlook

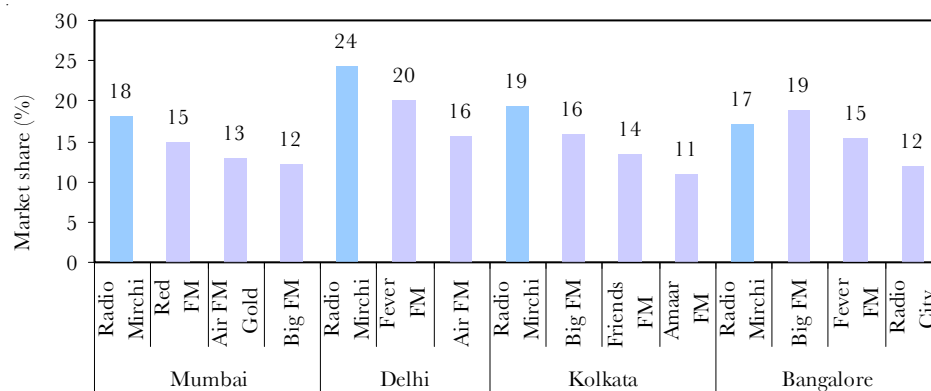
We expect the radio ad market to improve with the onset of the festive season in 3QFY10E and the low base of 2HFY09 should also help. Although 'Radio Mirchi' is the leader in 3 out of the 4 metro markets, the gap with its nearest competitor is decreasing (especially in Delhi), leadership could come at a cost. The 18.4% QoQ growth in outdoor ad revenues hints at a better 2HFY10E as festive season demand picks up and the ad market stabilises. However, losses in outdoor will lead to net level losses in FY10E, expect earnings revival in FY11E.

One trigger for the stock is the increase in the FDI+FII limit in radio to 26% (from the current 20%). Thematically, Phase III policy declaration is another trigger; however, we do not perceive it to be very positive for ENIL if it bids aggressively because smaller town stations are financially unviable. If ENIL wins the T3 Delhi airport advertising contract (for 20 years) at reasonable bidding it could change our stance to positive. Maintain Underperformer.

### Highlights

- Standalone revenues have recognized Rs 44.8 mn from Private Treaties (PT) arrangement which its parent company, Bennett Coleman and Company Limited (BCCL) enters into for the group.
- ENIL has booked a provision for doubtful debt of Rs 39 mn on this revenue item in the standalone entity. Once the money is recovered from the PT clients this provision will be reversed. We appreciate the conservative accounting policy.
- In the consolidated numbers, the administration costs include a one-time write-off of Rs 8 mn as Alternate Brand Solutions (its event management company) shifted its office premises.
- The consolidated licence fees also have a charge of Rs 11.4 mn for the quarter towards an outdoor property which was not operational; this charge could be reversed in subsequent quarters.

### Radio Mirchi's listenership market share in 2QFY10



Source: RAM, Week 28 to Week 40

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>4,135</b>	<b>4,262</b>	<b>4,174</b>	<b>3,559</b>
<i>Growth (%)</i>	75.9	3.1	(2.1)	(14.7)
Operating expenses	(3,814)	(4,354)	(3,768)	(2,757)
Operating profit	321	(92)	406	802
<b>EBITDA</b>	<b>321</b>	<b>(92)</b>	<b>406</b>	<b>802</b>
<i>Growth (%)</i>	(24.9)	(128.6)	NA	97.7
Depreciation	(362)	(526)	(513)	(458)
Other income	34	30	26	23
<b>EBIT</b>	<b>(7)</b>	<b>(587)</b>	<b>(82)</b>	<b>367</b>
Interest paid	(174)	(144)	(115)	(86)
Pre-tax profit	(181)	(731)	(197)	281
(before non-recurring)				
Pre-tax profit	(181)	(731)	(197)	281
(after non-recurring)				
Tax (current + deferred)	6	3	(20)	(18)
Net profit (before Minority)	(175)	(729)	(217)	263
Interest, Pref. Dividend, etc.)				
Minority interests	5	126	69	4
Reported PAT	(170)	(603)	(148)	267
<b>Adjusted net profit</b>	<b>(170)</b>	<b>(603)</b>	<b>(148)</b>	<b>267</b>
<i>Growth (%)</i>	(167.6)	NA	NA	NA

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	147	162	75	60
Other current assets	4,154	3,041	3,093	3,217
Investments	30	0	0	0
Net fixed assets	3,182	3,182	3,122	3,101
Other non-current assets	61	92	112	112
<b>Total assets</b>	<b>7,574</b>	<b>6,478</b>	<b>6,402</b>	<b>6,491</b>
Current liabilities	910	994	1,246	1,426
Total debt	1,933	1,481	1,300	950
<b>Total liabilities</b>	<b>2,843</b>	<b>2,475</b>	<b>2,546</b>	<b>2,376</b>
Share capital	477	477	477	477
Reserves & surplus	3,930	3,328	3,111	3,374
<b>Shareholders' funds</b>	<b>4,407</b>	<b>3,805</b>	<b>3,588</b>	<b>3,851</b>
Minorities interests	325	199	268	264
<b>Total equity &amp; liabilities</b>	<b>7,574</b>	<b>6,478</b>	<b>6,402</b>	<b>6,491</b>
<b>Capital employed</b>	<b>6,664</b>	<b>5,484</b>	<b>5,156</b>	<b>5,065</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	(181)	(731)	(197)	281
Depreciation	181	301	289	234
Change in working capital	(2,393)	1,196	201	55
Total tax paid	(29)	(29)	(40)	(18)
Other operating activities	0	21	45	0
<b>Cash flow from oper. (a)</b>	<b>(2,421)</b>	<b>759</b>	<b>298</b>	<b>552</b>
Capital expenditure	(520)	(515)	(453)	(437)
Change in investments	(5)	30	0	0
Others	181	214	224	224
<b>Cash flow from inv. (b)</b>	<b>(343)</b>	<b>(272)</b>	<b>(229)</b>	<b>(213)</b>
<b>Free cash flow (a+b)</b>	<b>(2,764)</b>	<b>487</b>	<b>69</b>	<b>339</b>
Equity raised/(repaid)	1,611	(1)	0	0
Debt raised/(repaid)	794	(452)	(181)	(350)
Others	380	0	139	0
<b>Cash flow from fin. (c)</b>	<b>2,785</b>	<b>(453)</b>	<b>(42)</b>	<b>(350)</b>
<b>Net change in cash (a+b+c)</b>	<b>21</b>	<b>34</b>	<b>27</b>	<b>(11)</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	(3.6)	(12.7)	(3.1)	5.6
Growth (%)	(167.6)	NA	NA	NA
Book NAV/share (Rs)	99.4	84.1	81.0	86.5
Tax (%)	3.1	0.3	(10.1)	6.4
EBITDA margin (%)	7.8	(2.2)	9.7	22.5
EBIT margin (%)	(0.2)	(13.8)	(2.0)	10.3
RoCE (%)	(0.1)	(9.7)	(1.5)	7.2
Net debt/Equity (%)	37.7	32.9	31.8	21.6

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	NA	NA	NA	35.6
PCE	49.6	NA	26.0	13.1
Price/Book	2.0	2.4	2.5	2.3
EV/Net sales	2.6	2.5	2.6	3.0
EV/EBITDA	33.7	(118.1)	26.7	13.5

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	(4.1)	(14.1)	(3.5)	7.5
Asset turnover	0.7	0.6	0.6	0.6
Leverage factor	1.6	1.6	1.6	1.6
Return on equity (%)	(4.4)	(13.8)	(3.8)	6.7

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**Analyst Declaration:** We, Rohit Dokania & Vikash Mantry, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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