Equity Research
December 20, 2007
BSE Sensex: 19163

INDIA

Entertainment Network India

BUY

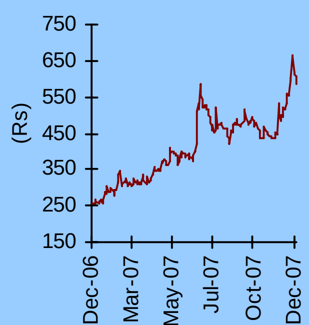
Media

Shareholding pattern

	Mar '07	Jun '07	Sep '07
Promoters	71.3	71.2	71.2
Institutional investors	20.7	21.5	21.7
MFs and UTI	0.9	2.2	2.1
Insurance Cos.	0.0	0.0	0.0
FIIs	19.8	19.2	19.6
Others	8.0	7.3	7.1

Source: NSE

Price chart



Riding high on urban infrastructure

Rs586

Reason for report: Initiating coverage

Entertainment Network India (ENIL) is an emerging play in new media, with Indian ad space witnessing massive growth in Radio and OOH. The OOH industry is set to ride the urban infrastructure wave in India with huge investments in airports, SEZs, roads, bridges, metro rail, malls etc. ENIL is well positioned to emerge as one of the largest plays in OOH, especially post bagging contracts for airports at Delhi and Mumbai. We expect ENIL to register earnings CAGR of 72.4% over FY07-10E backed by a strong management team. We initiate coverage with a BUY and target price of Rs652/share. Our optimistic case target price assuming extension of airport contracts is Rs.757/share, a 29% upside from current levels.

- **Leader in Radio.** Share of Radio in Indian ad pie is expected to increase to 6% in the next three years from 3.5% at present, post grant of 266 licenses under phase II of the licensing policy. ENIL, the leader in Radio space with 50% market share and 32 licenses for operation of radio stations, is the only company with presence across all top-13 cities. We expect the company to maintain its leadership position despite rising competition on the back of superior execution capabilities.

- **Taking OOH by storm.** ENIL is set to emerge as the leader in OOH space on account of bagging prestigious contracts for the airports at Mumbai and Delhi. We believe that ENIL would largely benefit from huge growth in the OOH market due to increasing investment in urban infrastructure.

- **Earnings to be robust.** We expect ENIL to register robust revenue CAGR of 54.4% through FY07-10E primarily driven by the OOH business revenue growth of 132.4% over the same period. Operating leverage would lead to EBITDA CAGR of 79.6% and EPS CAGR of 72.4 % through FY07-10E.

- **BUY potential media titan.** Our SOTP valuations for ENIL are at Rs652/share based on Rs445/share for Radio, Rs176/share for OOH and Rs31/share for Event Management. Our optimistic-case scenario assumes extension of airport contracts and an even higher growth in Radio leading to a target price of Rs757/share. BUY.

Market Cap	Rs27.8bn/US$706mn
Reuters/Bloomberg	ENIL.BO/ENIL IN
Shares Outstanding (mn)	47.6
52-week Range (Rs)	667/250
Free Float (%)	28.8
FII (%)	19.6
Daily Volume (US$'000)	3,200
Absolute Return 3m (%)	14.9
Absolute Return 12m (%)	130.2
Sensex Return 3m (%)	15.7
Sensex Return 12m (%)	43.2

Year to March	FY07	FY08E	FY09E	FY10E
Revenue (Rs mn)	2,351	4,442	6,676	8,650
Net Income (Rs mn)	251	(66)	638	1289
EPS (Rs)	5.3	(1.4)	13.4	27.1
% Chg YoY	11.7	-	-	102.0
P/E (x)	110.9	NM	43.7	21.6
CEPS (Rs)	9.2	5.4	22.4	37.0
EV/E (x)	67.4	72.6	21.7	11.9
Dividend Yield	0.0	0.0	0.0	1.4
RoCE (%)	7.9	2.0	13.2	21.5
RoE (%)	9.0	(2.3)	20.6	31.8

Vikash Mantri
vikash_mantri@isecltd.com
+91 22 6637 7161

TABLE OF CONTENTS

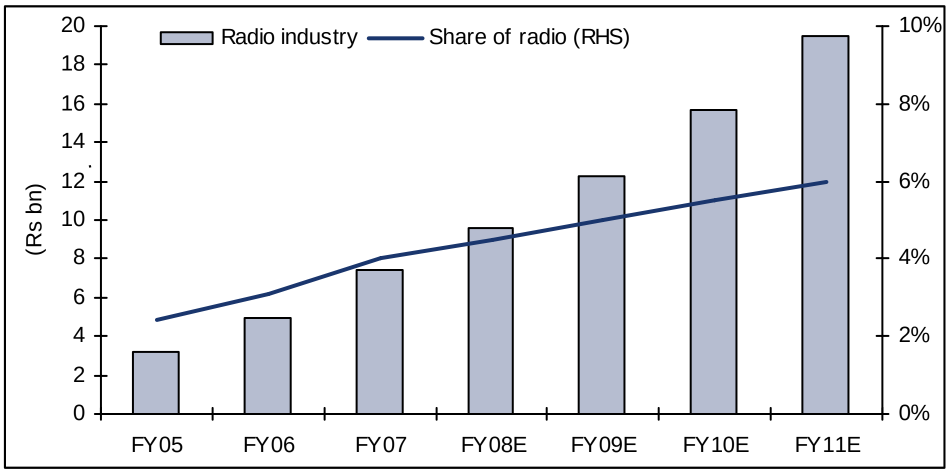
Investment argument

Leader in booming radio industry

Radio industry – Tuned in

Radio, which is the leading form of media in terms of reach, has seen a sea change in the past couple of years with the phase II of FM licensing already rolled out and phase III expected in the near future. We expect the radio industry to increase to Rs19.4bn by CY11E, a robust growth of 31.2% through CY06-11E (Rs17bn by CY11E, 27.7% CAGR as per the PwC Report ’07), driven by the favourable license fee regime and opening up of the sector to FDI. We believe that share of radio in total ad pie would increase to 6% by CY11E (globally, radio accounts for 8% of ad pie) from 3.5% in CY07E.

Chart 1: Radio industry growth and share of ad pie



Source: i-SEC Research

Radio to outscore traditional media

Network expansion. With completion of phase II licensing policy, the number of stations in India is set to propel to 266 within the next 6 months from 21 under phase I. Also, bidding for phase II (remaining licenses) and phase III is likely to happen in the next six months, leading to further growth in the sector. Award of multiple frequencies and opening up of segments such as News would further boost growth in the segment.

Popular local ad medium. Local advertising in India continues to be low due to lack of effective media such as radio and OOH; moreover, English print has transformed into a national advertising vehicle. A local medium such as radio, on the other hand, can be used more cost effectively for localised advertising by a large number of small advertisers.

Low ad avoidance. Radio offers relatively low ad-avoidance and is able to connect one-on-one with listeners. Fragmentation is on the increase in other forms of media on account of emergence of time-shifting technologies.

ENIL – Numero uno

ENIL has been the # 1 player in the private FM broadcasting segment, accounting for more than 50% of the market till FY07. The company has registered 69% growth in revenues over FY03-07. Also, it has secured licenses for seven cities during phase I, all of which were for Category A/A+ cities that capture a major chunk of the radio market in India. The company, therefore, already has a well established presence in most key Indian cities (seven stations were rolled out by May '03).

ENIL's total licenses stand at 32, post securing 25 licenses in phase II; the company had selectively bid for stations that are commercially viable. ENIL is the only company with presence across all 13 cities within Categories A+ and A as on date, thereby providing advertisers to target the highest-income audience in the country.

Table 1: ENIL's presence across India (Category-wise)

Category – City type	Total cities	ENIL presence	% of cities
A+	4	4	100
A	9	9	100
B	17	11	65
C	47	7	15
D	13	1	8

Source: Company data, i-SEC Research

Table 2: Category-wise presence across India – ENIL versus peers

	Category						
Company	A+	A	B	C	D	Of top 13 towns	Total
ENIL (Radio Mirchi)	4	9	11	7	1	13	32
Adlabs (BIG FM)	4	4	10	24	3	8	45
Sun TV (South Asia FM)	0	6	9	5	3	6	23
Sun TV (Kal Radio)	1	2	4	14		3	21
MBPL (Radio City)	3	8	3	6		11	20
Mid-Day (Radio One)	4	3				7	7
HT Media (Fever 104)	3	1				4	4
Red FM	3	0				3	3

Source: Company data, i-SEC Research

Well-spread network

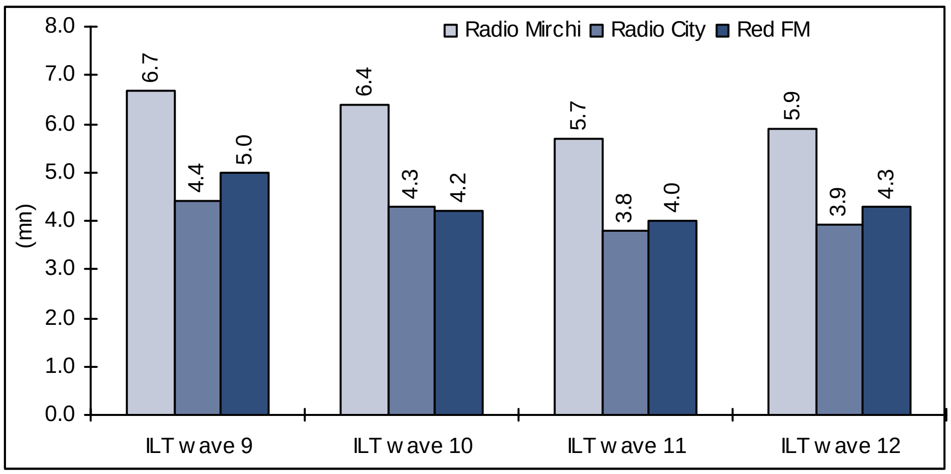
ENIL owns the best portfolio of licenses in the top 13 towns and has a network spread across the country. With advertising concentrated in urban areas (better demographics), ENIL's network is best suited for national advertisers as they generally prefer bouquet advertising as well as a well-spread network to avoid dealing with too many media owners.

Further, ENIL has signed sales & marketing MoUs with two companies – Shri Puran Multimedia (part of the Jagran Group) and Purvy Broadcasts (Pvt) that together hold 9 licenses to operate radio stations in India. As per the MoUs, ENIL will leverage sales support for airtime sale on these stations for a commission. Most stations belong to Category C/D cities, where the radio market is smaller as compared with Category A+/A/B cities and setting up a radio station may not be feasible. We believe this is a viable business model owing to regulatory limitations of consolidation in the sector.

Undaunted by competition

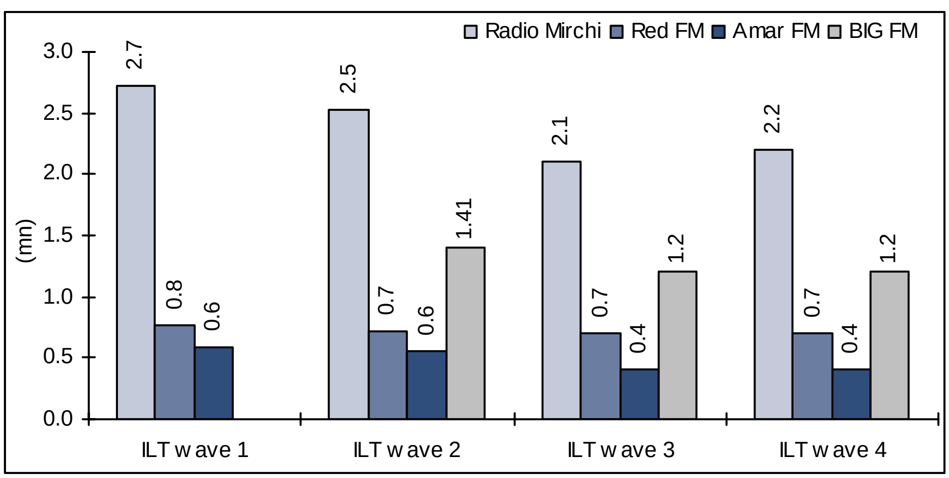
The radio industry has seen massive rise in number of players being granted licenses, thereby leading to 3-4x increase in players per city. However, ENIL is undeterred by new players, with the company boasting of the highest brand recall of *Radio Mirchi* amongst consumers and advertisers. ENIL has seen only a marginal dip in its listenership in most metros and maintains strong leadership over the #2 player. As per recent listenership data (MRUC Survey), *Radio Mirchi* is the leader in Mumbai and Delhi with ~5.9mn listeners, 37% more than the #2 player. The radio station is way ahead of competition in Kolkata, with ~2.2mn listeners, 83% more than its closet competitor. Also as per the new measurement method – Radio Audient Measurement (RAM) – *Radio Mirchi* is the leader in Delhi (Annexure 4).

Chart 2: Listenership in Mumbai & Delhi



Source: Company data, MRUC Survey, AC Neilsen (Wave 12, fieldwork February '07 to April '07)

Chart 3: Listenership in Kolkata



Source: Company data, MRUC Survey, AC Nielsen (Wave 4, fieldwork May '07 to August '07)

Financials – Pain before gain

ENIL witnessed FY03-07 CAGR of 69% in radio revenues, which account for ~50% market share. Radio industry growth in India has been synonymous with ENIL's, which is amongst the first FM players to establish base despite unrealistic license fee policy. We believe ENIL will witness FY07-10E revenue CAGR of 31% on the back of its 32 licenses. The company has been able to maintain strong revenue growth despite competition quadrupling in the past 12 months of operations.

We estimate FY08-09E to be an investment phase for the Radio business, with ENIL setting up 22 stations in April-December '07. We expect the new radio stations to breakeven within 12-15 months, ahead of the 24-month industry average, on the back of *Radio Mirchi*'s network.

Table 3: Radio model

	FY07	FY08E	FY09E	FY10E
Total Advertising industry	160,800	185,700	214,200	245,900
Private FM Radio industry *	3460	5,765	7,843	10,355
Growth (%)	*92.2*	*66.6*	*36.0*	*32.0*
Private FM's share of Advertising (%)	*2.2*	*3.1*	*3.7*	*4.2*
ENIL				
Total Radio Revenue	1,672	2,341	3,125	3,770
Growth (%)	*42.4*	*40.0*	*33.5*	*20.6*
ENIL's share of Private FM (%)	*48.3*	*40.6*	*39.9*	*36.4*
No. of legacy stations	7	10	10	10
Legacy station revenue	1,406	1,925	2,348	2,771
Growth (%)	*19.7*	*37.0*	*22.0*	*18.0*
No. of other stations	3	22	22	22
Other stations revenue	266	416	777	998
Growth (%)	-	*56.0*	*86.9*	*28.5*
Legacy station Costs	934	1418	1559	1715
Growth (%)	*19.4*	*51.9*	*10.0*	*10.0*
Other stations Costs	294	441	621	714
Growth (%)	-	*49.9*	*40.8*	*15.0*
Legacy stations EBITDA	472	507	789	1056
EBITDA Margin (%)	*33.6*	*26.4*	*33.6*	*38.1*
Other stations EBITDA	(28)	(25)	156	284
EBITDA Margin (%)	*(10.4)*	*(6.1)*	*10.1*	*28.5*
Total Radio EBITDA	444	482	945	1340
EBITDA Margin (%)	*26.6*	*20.6*	*30.2*	*35.6*

*** i-SEC Research**

Source: Company data, i-SEC Research

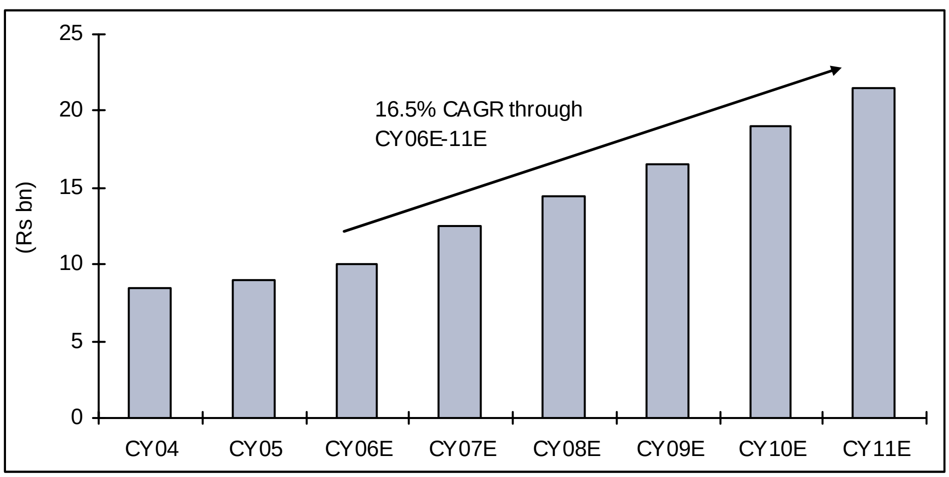
Key risks

Key risks for ENIL in Radio are: i) lack of differentiation in the industry, ii) sector yet to open up for News and multiple frequencies, iii) limited license for 10 years for radio stations, post which policy is silent, iv) lack of widely accepted measurement metric for listenership – ENIL has not subscribed to Radio Audience Measurement (RAM) data (introduced by Nielsen Media Research), which uses the Diaries method, v) any steep increase in production expenses, i.e. royalty fee for Music (the matter is *sub judice* at present), can lead to decline in profitability.

OOH – Mounting opportunity

The OOH segment is likely to emerge as a huge opportunity in India, with investments already taking place in developing media infrastructure. As per the PwC Report '07, the OOH segment is expected to grow at 16.5% through CY06-11E, maintaining a 6-7% market share of the ad pie. We believe that the segment would garner interest from advertisers as it witnesses consolidation with the emergence of few key players and development in metric of effectiveness. OOH scores over traditional forms of Media such as Print & Television which are witnessing audience erosion owing to fragmentation. OOH and Radio which are relatively less avoidable are to garner favour over the avoidable medium by the advertisers. We believe that the combined effect of fragmentation in traditional forms of media (Print & TV) and increasing investment in media infrastructure is likely to fuel shift in advertising towards OOH.

Chart 4: OOH industry growth



Source: PwC Report '07

Media infrastructure on the rise

We see infrastructure boom in India fuelling OOH growth going forward. Infrastructure projects are set to increasingly encompass media advertising as an important revenue stream. Modernisation of existing airports, development of new airports, construction of long-distance highways, development of SEZs, growing organised retail and increasing number of multiplexes are expected to boost OOH growth. The sector is witnessing strong investment flow from private equity as well as investment in innovation to address the growing opportunity.

Table 4: Infrastructure opportunity

Infrastructure	Opportunity	OOH Medium	Present companies
Multiplexes and retail malls	400 malls expected in next five years	In-store television and LED screens	Future Media, OOH Media, vJive
Airports	US$9.9bn investment towards construction and modernisation of 45 airports	Billboards, Campaigns, LEDs & Television	ENIL, Laqshya Media
SEZs	Formal approval granted to 404 SEZs	Billboards and Street furniture	
Roads and Bridges	US$89.4bn investment on construction and widening of National highways and expressways	Billboards and Street furniture	ENIL, Percept, Selvel, Jagran Engage, JCDecaux
Metro Rail	Projects in Mumbai, Delhi, Bangalore and Hyderabad	Small-sized billboards and transport	R-ADAG, ENIL

Source: i-SEC Research

Table 5: Recent private equity deals

Year	Investor	Investee	Amount
2007	Amwal Al Khaleej	Right Angle Media*	US$37.4mn
2007	Intel Capital	Tag Media Network	Not disclosed
2007	Sequoia Capital	Digital Signage Networks	US$2mn
2007	Draper Fisher Jurvetson	LiveMedia	Not disclosed
2006	UTI Venture Funds	Laqshya Media	US$10mn
2006	Matrix Partners India	vJive	US$4.5mn
2006	3i	OOH Media	US$4mn

*Dubai-based subsidiary of Laqshya Media
Source: i-SEC Research

We expect the OOH segment to witness a rapid phase of consolidation with the emergence of large players such as ENIL, Laqshya Media, OOH Media and Future Media that are aggressively acquiring properties. Outdoor media sites at present are predominantly owned & operated by small & local players due to lack of regulations. We expect growth in OOH to be higher owing to consolidation in the sector *vis-à-vis* other forms of media that are increasingly witnessing fragmentation due to increase in number of players.

Times OOH – Leader in OOH space

Times OOH is set to emerge as a leader in OOH space on the back of bagging two prestigious airport contracts for Delhi and Mumbai. *Times OOH* has been aggressively focusing on acquiring Media infrastructure and has won ad rights in Delhi and Mumbai Airports (both international and domestic), DND flyover, Mumbai bus shelters etc. We expect the company to emerge as the largest player in OOH space, garnering ~21% of the organised OOH market by FY10E on the back of its current strong project portfolio. The company's aggressive acquisitions in OOH space will spiral it in line with global leaders such as JCDecaux and Clear Channel, which command a significantly high proportion of their domestic markets.

Table 6: Share of global companies in their domestic markets

Company	Share of OOH market in US (%)
Clear Channel Outdoor	20
CBS Outdoor	17
Lamar Advertising Company	16
Total	**53**
Company	**Share of OOH market in France (%)**
JCDecaux	32
Clear Channel Outdoor	28
Total	**60**

Source: Company data, i-SEC Research

Table 7: ENIL – Properties in OOH

City	Property	No. of sites	Contract expiry
Mumbai	Bus shelters	1,438	’22
	Patel Bridge	Two large billboards	’09
	Mumbai Airport	Two LED screens and +300 display sites	’10
Delhi	Metro stations (six)	398 display sites	’11
	DND flyover	One LED screen and 197 display sites	’17
	Sahara Mall	One LED screen	’14
	Delhi Airport	233 display sites	’10
Kolkata		>80 display sites	’11
Pune		Eight billboards	March ’09

Source: Company data, i-SEC Research

Times OOH – Monopoly in airport space

Airport projects worldwide are the most coveted in the OOH industry. ENIL has acquired ad rights for the airports (both international and domestic) at Delhi and Mumbai, bagging a three-year contract for ~Rs3.9bn (payment to be adjusted downwards on pro-rata basis in case any particular ad site is not available due to delay, renovation etc). We believe that the contract is a measured step by the company to achieve leadership position in OOH space as airports enable an ideal environment for outdoor ads with high footfalls, better demographic profile and extended attention span. Globally, airports are the most preferred destination for outdoor advertising. Delhi and Mumbai airports account for 42.7mn annual footfalls, comparable to industry standards. We expect ENIL to garner revenues of Rs5.45bn from airports over the three-year contract period, based on the projects’ monthly revenues at present.

Table 8: Airport footfalls

(mn)

Airport	Passengers in ’06 (mn)	OOH ad contract holder
London	134.0	JCDecaux
New York	103.0	JCDecaux
Chicago	94.2	Clear Channel Outdoor
Tokyo	96.6	Local Company
Atlanta	84.4	Clear Channel Outdoor
Paris	81.7	JCDecaux
Los Angeles	68.2	JCDecaux
Dallas	66.1	JCDecaux/Clear Channel Outdoor
Frankfurt	55.7	JCDecaux/Fraport
Houston	50.5	JCDecaux
Tokyo Haneda	64.9	JCDecaux
Beijing	47.6	White Horse and Guangzhou Baiyun
Hong Kong	43.3	JCDecaux
Bangkok	42.0	JCDecaux
Singapore	34.5	Eye Corporation
Mumbai & Delhi	**42.7**	**ENIL**

Source: Airport Authority of India, JCDecaux Annual Report ’06

While ENIL’s airport contracts are low in profitability with limited contract time, they will enable it to build meaningful relationships with advertisers and ad agencies. Based on this as well as ENIL’s steep learning curve benefit from the acquisition of high-ticket airports contracts, the company would likely bid for more big projects, thereby becoming one of the preferred partners for outdoor business. We see ENIL as the prime contender for multitudinous future OOH projects available for bidding.

Table 9: OOH model

(Rs mn)

	FY06	FY07	FY08E	FY09E	FY10E
Organised OOH market	10,000	12,500	14,500	16,500	19,000
Growth (%)	*11*	*25*	*16*	*14*	*15*
ENIL					
Airport revenue	-	-	**810**	**1,612**	**2,133**
Non-Airport revenue	17	317	716	1,191	1,852
Total	17	317	**1,526**	**2,804**	**3,984**
Growth (%)		*1,761*	*381*	*84*	*42*
Market share (%)	*0.2*	*3*	*11*	*17*	*21*
Airport EBITDA			(207)	57	388
EBITDA margin (%)			*(26)*	*4*	*18*
Non-Airport EBITDA	0.2	10	109	303	631
EBITDA margin (%)	*1*	*3*	*15*	*25*	*34*
Total OOH EBITDA	0.2	10	(98)	360	1,018
EBITDA margin (%)	*1*	*3*	*(6)*	*13*	*26*

Source: PwC Report '07, Company data, i-SEC Research

Key risks

Key risks for ENIL in OOH segment are: i) profitability in the segment is heavily dependent on the airports contracts; sensitivity of revenue output from airports is heavily skewed towards the downside due to contract terms that include license fee payment at ~Rs3.9bn (payment to be adjusted downwards on pro-rata basis in case any particular ad site is not available due to delay, renovation etc) or 70% of revenues, whichever is higher, ii) ability to renew contracts will be a major growth driver for ENIL, iii) government regulation as regards display of OOH properties in metros as per beautification drives may limit growth, and iv) lack of consolidation in the industry could lead to price-based competition and lack of standardisation.

Radio and OOH – Perfect blend

Radio and OOH have complementary functional-media characteristics as both are habitually consumed, are mainly on the move and have low ad avoidance. Also, both focus on local advertising, with one being audio and the other visual. Radio and OOH, which are largely unavoidable forms of media, are gaining popularity over traditional forms of avoidable media. Globally, big players such as JCDecaux and Clear Channel have adopted a similar model with presence in Radio and OOH.

Table 10: Revenue share

(%)

Company	Radio	Outdoor
Clear channel	52	41
CBS	14	15

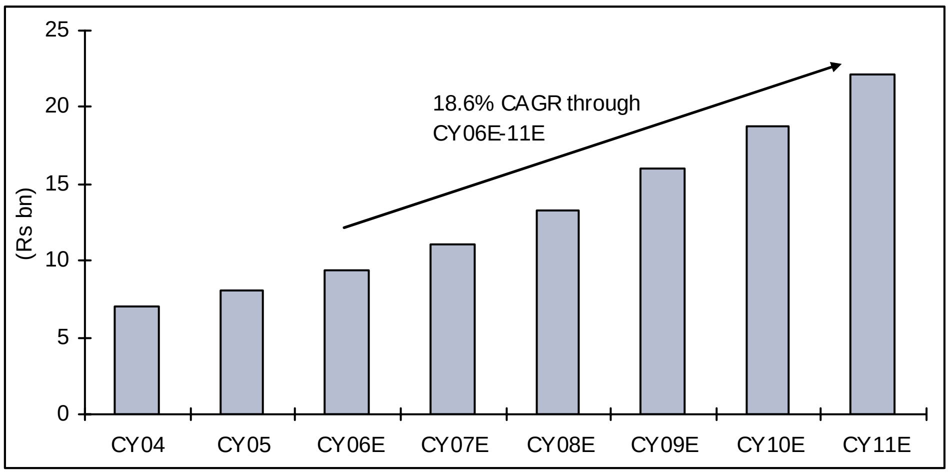
Source: Company data, i-SEC Research

Event Management – Building scale

Strong growth expected

The event management industry in India is in the early-growth phase, with the organised industry size estimated at Rs9.4bn in CY06 (PwC Report '07). However, the industry is expected to register high growth rate on the back of increase in number of events. The organised industry size is estimated to reach Rs22.1bn by CY11E, registering 18.6% CAGR over CY06-11E. The event management industry in India is quite fragmented at present, with large number of small, local players and the unorganised industry estimated at 70% of the total industry size. Share of organised players is likely to increase going forward, with emergence of a few large players such as ENIL, Wizcraft International, Percept D'Mark, IMG, Encompass Events etc.

Chart 5: Event management – Industry growth



Source: PwC Report '07

Well placed to capture growth

ENIL recently announced plans to transfer its event management business to a wholly-owned subsidiary, Alternate Brand Solutions (ABS). ENIL operates its event management business under the brand, *360 Degrees*. ENIL, being a part of the Times Group – the largest media house in India – has been managing the group's properties such as *Miss India* and *FilmFare* awards, both of which are amongst the largest annual events in the country. This offers the company easy access to top advertisers, who are provided synergies to advertise across various media platforms. ENIL is presently in the process of developing own properties that provide higher margins versus commission-based business model. ENIL's own properties include the *Smart Living* awards and *Mr India* that it plans to augment via creating more properties (e.g. *Miss Teen*).

Strong parentage and management team

ENIL belongs to the Times Group (Bennett Coleman & Company-BCCL) stable, which is the largest media house in India. The group has interests across various media platforms including publishing, broadcasting, internet, entertainment and retail (refer to Annexure 2). BCCL publishes widely-read newspapers such as *The Times of India* (*TOI*), *The Economic Times* (*ET*), *Navabharat Times* and *Maharashtra Times*. While *TOI* is the largest national and global English broadsheet daily, *ET* is the largest financial daily and is globally the second largest after *The Wall Street Journal*. The group has the largest newspaper reach in India, with a 40mn readership.

BCCL's success as a media conglomerate is evident from the fact that in FY06, its advertising revenue stood at a whopping Rs23bn, which is ~30% of the total print ad spend in India. BCCL has, over the years, developed a formidable relationship with advertisers by emerging as the leader in Print, with a near monopoly in the Mumbai market. We believe that such strong parentage is an added advantage for ENIL as it will provide access to top advertisers, who would be given synergies to advertise across various media platforms.

Further, the company has a strong and professional management team that has delivered successfully in the draconian license fee policy period and has been a trendsetter in the industry as regards innovation.

Key Risks

Execution risk

ENIL has substantial expansion plans across segments, especially the OOH business. Further, the company has set up 19 new radio stations in YTDFY08. Expansion in Radio and OOH is highly dependent on superior execution capabilities that the management has been able to demonstrate so far.

Slowdown in Advertising

ENIL's revenue model is primarily dependent on ad spends, which have registered high growth since the past few years on the back of robust GDP growth. Both Radio and OOH advertising continues to be cyclical, with a fixed cost structure. Any future slowdown in ad growth as a result of economic slowdown poses a risk to our estimates.

Vulnerability of newness

All three businesses (Radio, OOH and Event Management) in which ENIL is involved are still in the evolution stage in India. As favourable policy guidelines have been announced only recently for the radio industry, sustainability of radio stations across cities is yet to be established. The OOH and Event Management industries are at a nascent stage of evolution and still predominantly unorganised.

Regulatory concerns in Radio

Phase II of the radio licensing policy restricts operators from broadcasting news and current affairs. Also, an operator is not allowed multiple frequencies within a city and the license is granted for only 10 years. For ENIL, which started operating stations under the phase I policy, licenses of its seven major stations will expire between September '11 and April '13. Also, lack of multiple frequencies and, thus, differentiation amongst operators poses a risk to sustainability of revenues and margins.

High dependability on airports

In the OOH segment, ENIL has high dependability on the airport contracts for Mumbai and Delhi, for which it has committed ~Rs3.9bn as license fee (payment to be adjusted downwards on pro-rata basis in case any particular ad site is not available due to delay, renovation etc). This, coupled with short contract duration of three years, can prove risky to revenue growth in OOH, post expiry of contracts.

Financials – On high growth path

OOH to drive growth

We expect ENIL's revenue profile to change significantly from a dominant radio play to an alternate media play, with revenues in OOH surpassing Radio's by FY10E. In FY07, Radio contributed 71.1% to revenues and 103.8% to EBITDA. We expect share of Radio to decline to 43.6% of revenues and 54% of EBITDA by FY10E. We believe OOH share in ENIL's business would grow to 46.1% in FY10E from 13.5% in FY07.

Chart 6: Revenue break-up

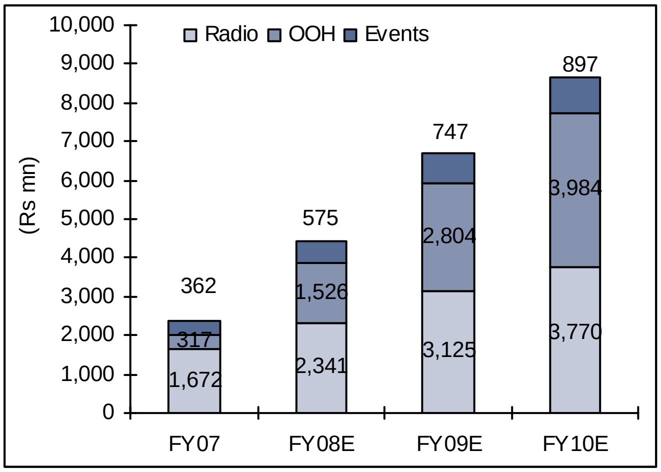
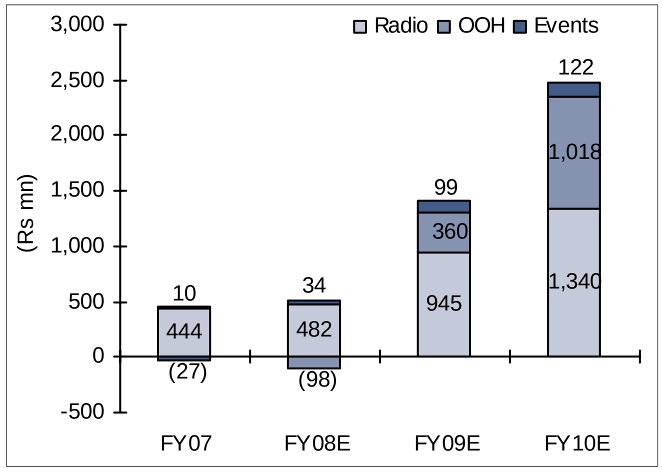


Chart 7: EBITDA break-up



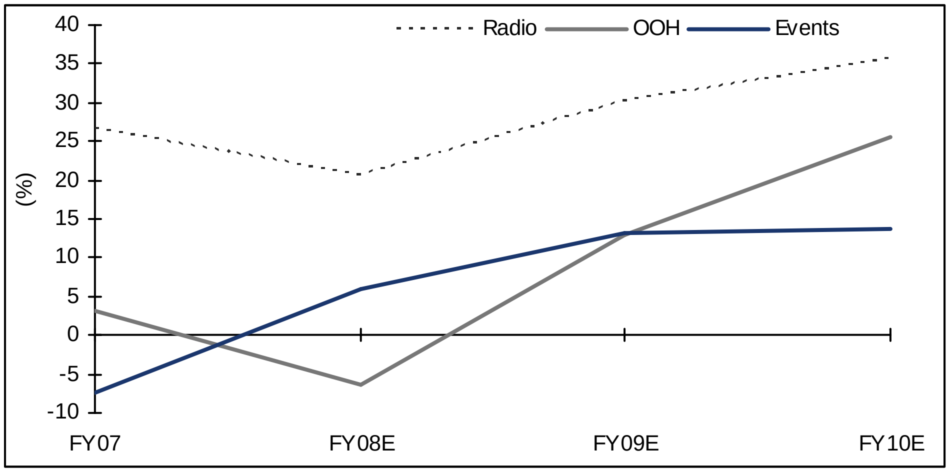
Source: Company data, i-SEC Research

Short term stress on profits

ENIL's business model is fixed cost in nature for both OOH and Radio. ENIL has launched 19 radio stations YTDFY08 and launch of another three is expected by December '07, thereby taking the total to 32. Launch of new radio stations is accompanied with high marketing-related expenditures that, although one-time in nature, are likely to subdue profitability in FY08.

In the OOH segment, ENIL has been granted ad space in Delhi and Mumbai airports and has, consequently, witnessed ad installation in H1FY08. OOH properties have a lead time of 2-3 months, before which they are required to be prepared and made saleable to the advertiser, whereas the cost ticker as regards license fee begins as soon as the properties are handed out. Also, other OOH properties such as the DND Flyover and metro rail contracts are relatively new and gradually gaining advertiser traction.

Chart 8: EBITDA margins

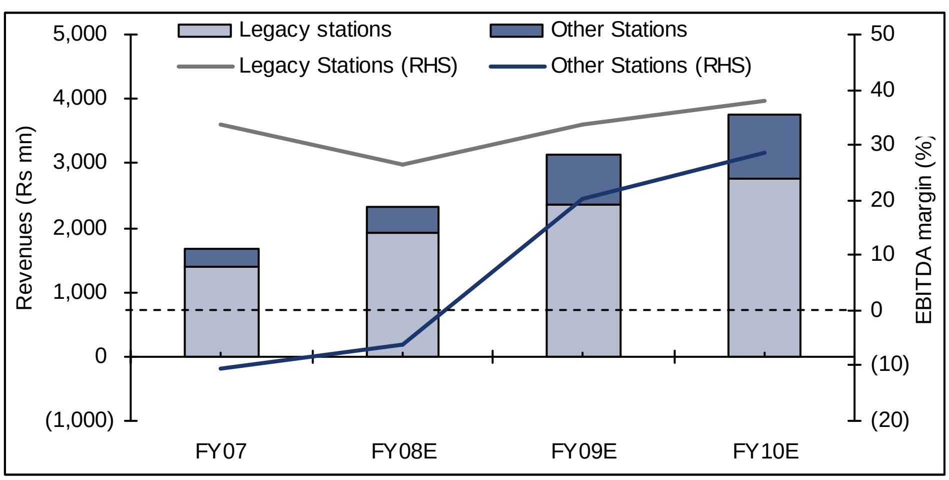


Source: Company data, i-SEC Research

Radio profitability headed north

ENIL's radio business has witnessed decline in growth and profitability in H1FY08 as against FY07. While the decline in growth of legacy stations is due to increase in competition from Q2FY07, profitability has been low on account of investments in new radio stations; H1FY08 witnessed launch of 14 radio stations, leading to significant increase in marketing expenses. We expect these new stations to break even within 12-15 months. ENIL launched three stations, one each in Hyderabad, Bangalore and Jaipur in FY07, all of which registered break even within 9-12 months and garnered 21% EBITDA margin in Q1FY08, in line with other legacy stations. FY08-09E is likely to witness a phase of investment for Radio; we expect the segment to post strong 35.6% EBITDA margin in FY10E. However, we believe that the new stations, which are in Category B, C & D cities, are likely to see lower EBITDA margins vis-à-vis legacy stations.

Chart 9: Radio – Revenue and EBITDA margin



Source: Company data, i-SEC Research

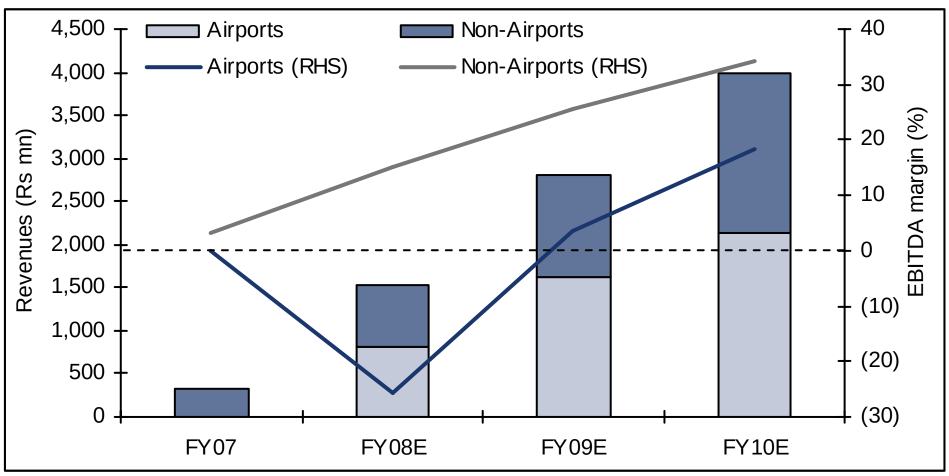
We expect ENIL's radio business to register FY07-10E revenue growth of 31.1% and EBITDA growth of 44.4%. However, we estimate that overall share of *Radio Mirchi* in the FM radio business would decline to 36.4% in FY10E from 48.3% in FY07.

Huge margin expansion in OOH on anvil

OOH properties are fixed cost in nature with the license fee or lease rentals accounting for 50-70% of the topline. As ENIL is ramping its OOH business, we expect profitability to be low in the initial phase, owing to low occupancy rates and lack of proven effectiveness record.

As regards OOH, its Street Furniture sub-segment enjoys the highest margins followed by Billboards; the Transport sub-segment has the lowest EBITDA margin. As per current projects, airports account for a major chunk of ENIL's topline, which is likely to register low margins. Besides airports, ENIL's Street Furniture segment is likely to register high EBITDA margin. We do not expect airports to contribute significantly to EBITDA before FY10E on account of the high license fee in the initial phase. We expect OOH business to increase 12.6x to Rs3.98bn in FY10E from Rs317mn in FY07.

Chart 10: OOH – Revenue and EBITDA margin



Source: Company data, i-SEC Research

Own properties to hoist Event Management

We expect ENIL's subsidiary ABS to register FY09E and FY10E revenues of Rs747mn and Rs897mn respectively, implying 25% CAGR through FY08E-10E. We estimate EBITDA margin to improve to 13.6% in FY10E from 6% in FY08E primarily on account of increase in owned event properties.

Low capex business

Both OOH and Radio are relatively low capex businesses, with one-time entry fee as the largest capex component for Radio. ENIL has completed capex for launching 32 stations in FY08 via investing additional Rs400mn in FY08 in fixed assets. As regards OOH, the company has invested in projects with very low fixed assets as on date. However, some big ticket projects such as airports require capital for security deposit and investment in working capital. The company is in the process of raising upto Rs5bn in its OOH subsidiary, Times Innovative Media.

Working capital cycle

Working capital cycle for Radio is within the 80-90 day range. However, OOH requires significant investments in working capital in the form of advances or security deposits.

Tax benefits till FY09E

ENIL has additional benefit of accumulated losses of ~Rs500mn for Radio that can be used for tax benefit. We expect effective tax rate for the consolidated company to be low due to benefits in Radio, while OOH and Event Management to pay at full corporate tax rate.

Valuation – Excellence at a premium

SOTP valuation

Our investment thesis for the Media sector is to invest in only the # 1 company in the sector and, we believe, regional/local forms of advertising would overtake national media as advertisers are increasing focus on consumption-driven advertising and connecting with individuals. ENIL is a good fit for our hypothesis, based on its leadership in Radio as well as likely dominance in OOH backed by the key airports contracts in its kitty.

We see ENIL as an emerging play in media infrastructure, with the company benefiting substantially from upsurge in investment in airports, urban highways, metro rail and the revolution in organised retail. Our SOTP-based valuation for ENIL is Rs652/share. We have valued the Radio business based on a DCF-based model at Rs445/share and the OOH and Event Management businesses based on EV/EBITDA multiples at Rs176/share and Rs31/share respectively. We initiate coverage with a BUY rating and a 12-month price target of Rs652/share. Our target price is at FY09E and FY10E P/E of 48.6x and 24.1x and EV/EBITDA of 23.9x and 13.2x respectively.

Table 11: SOTP valuation

(Rs mn)

		Scenario		
	Remarks	**Base case**	**Pessimistic**	**Optimistic**
Radio Business EV		21,687	19,728	24,358
Less: Net Debt		500	500	500
Equity Value		21,187	19,228	23,858
Value/Share (Rs)		445	404	501
OOH EV		9,894	8,380	12,220
Non-airports	@ FY10E EV/EBITDA of 12x	*7,567*	*6,054*	*7,567*
Airports	@ FY10E EV/EBITDA of 6x	*2,326*	*2,326*	*4,653*
Less: Net Debt		1,500	1,500	1,500
Equity Value		8,394	6,880	10,720
Value/Share (Rs)		176	145	225
Events EV	@ FY10E EV/EBITDA of 12x	1,463	1,463	1,463
Value/Share (Rs)		31	31	31
Target Price (Rs)		**652**	**579**	**757**
Current Price (Rs)		586	586	586
Upside/(Downside) (%)		11.3	(1.1)	29.3

Source: i-SEC Research

Radio business – Music to ears

We value ENIL's Radio business at Rs445/share based on DCF methodology on the back of current licenses bagged by ENIL, without factoring in any growth from new station launches or change in regulation. ~97 licenses in phase II are remaining and 300 fresh licences in phase III are expected for bidding within three months. Also, we see possibility of introduction of multiple frequencies & News to be a major upside for *Radio Mirchi*, which is likely to witness boost in its revenue profile.

Our fair value estimate at Rs445/share is 45.0x and 32.1x FY09E and FY10E P/E and 22.9x and 16.2x FY09E and FY10E EV/EBITDA respectively for the radio business.

Table 12: ENIL Radio – DCF Valuation

(Rs mn)

	Current	1-Yr Forward
PV of free cashflows	7,464	7,842
PV of Terminal Value	12,306	13,844
Firm Value	19,770	21,687
Less: Net debt	937	500
Equity Value	18,832	21,187
No. of shares (mn)	47.6	47.6
Target Value (Rs)	396	445
Share of Terminal value (%)	62.2	63.8
Terminal growth (%)	6.0	6.0
WACC (%)	12.5	
Market return (%)	12.6	
Beta	0.8	
Risk-free rate (%)	8.0	
Implied Valuation Multiple	**FY09E**	**FY10E**
P/E (x)	45.0	32.1
EV/EBITDA (x)	22.9	16.2

Source: i-SEC Research

Table 13: DCF sensitivity analysis

		WACC				
		11.5%	**12.0%**	**12.5%**	**13.0%**	**13.5%**
Terminal growth	4%	432	401	373	348	326
	5%	477	438	404	375	349
	6%	538	488	445	409	378
	7%	625	557	501	455	416
	8%	763	661	582	519	468

Source: i-SEC Research

Our DCF-based valuation implies a 50-60% premium multiple for ENIL's radio business versus global peers. Radio companies worldwide trade at an average P/E of 19-20x CY09E and EV/EBITDA of 10-11x CY09E. Premium attributed to ENIL is in line with Indian media companies' vis-à-vis global peers across media segments. The high differential in valuation is due to superior growth opportunities in India where the media sector is growing in the high teens as compared with single-digit growth in US-based companies. Our DCF-based model assumes terminal growth rate of 6% and WACC of 12.5%.

Table 14: Global Radio Valuations

Year end	Country	Company name	Currency	Market cap (mn)	P/E (x) FY08E/ CY07E	P/E (x) FY09E/ CY08E	P/E (x) FY10E/ CY09E	EV/E (x) FY08E/ CY07E	EV/E (x) FY09E/ CY08E	EV/E (x) FY10E/ CY09E	RoE FY07/ CY06 (%)	RoCE FY07/ CY06 (%)	EBITDA margin (%)
Dec '06	US	Salem Communications	USD	159	18.7	15.8	15.6	9.0	8.6	8.5	7.8	5.9	24.4
Dec '06	US	Cox Radio Inc	USD	1,049	14.9	14.8	13.1	9.1	9.1	9.3	(2.0)	(0.8)	36.8
Dec '06	US	Beasley Broadcast Grp Inc	USD	153	25.3	23.7	19.4	12.3	12.2	12.3	11.5	6.6	23.6
Dec '06	US	Entercom Communications	USD	543	12.8	11.7	11.6	8.2	8.0	7.8	5.8	5.0	32.6
Dec '06	US	Radio One Inc	USD	208	31.7	14.7	NA	9.0	9.5	7.4	(0.7)	NA	37.8
Dec '06	US	Clear Channel Communications	USD	17,303	22.8	21.7	19.8	10.8	10.3	10.0	8.2	6.3	32.4
		Average			**22.1**	**21.0**	**19.0**	**10.6**	**10.2**	**9.9**	**3.6**	**3.4**	**29.8**
Jun '07	Australia	Austereo Grp Ltd	AUD	838	16.4	15.2	14.6	11.1	10.5	10.1	7.0	6.4	33.9

Source: Bloomberg, i-SEC Research

OOH's huge potential ups valuation

We value the company's non-Airports OOH business at FY10E EV/EBITDA of 12x at Rs7.56bn due to strong growth and high EBITDA margin in the segment. The non-Airports business of *Times OOH* has a contract size range of 5-15 years, thereby leading to a predictable revenue growth model for current properties. The Airports contract for *Times OOH* is for a limited period of three years with an extension possibility of one year. Post this 4-year period, the contract is likely to be again put up for bidding, with higher revenue sharing by the owner in case of strong performance. We value the Airports business at Rs2.32bn based on FY10E EV/EBITDA of 6x, post factoring in 50% probability of the airport contract continuing with *Times OOH*.

Table 15: ENIL OOH – Valuation

(Rs mn)

OOH EV	9,894	
Non-airports	*7,567*	@ 12x FY10E EV / EBITDA
Airports	*2,326*	@ 6x FY10E EV / EBITDA (Assuming 50% probability of renewal)
Less: Net Debt	1,500	
Equity Value	8,394	
Value/Share *(Rs)*	176	

Source: i-SEC Research

Table 16: Global OOH valuations

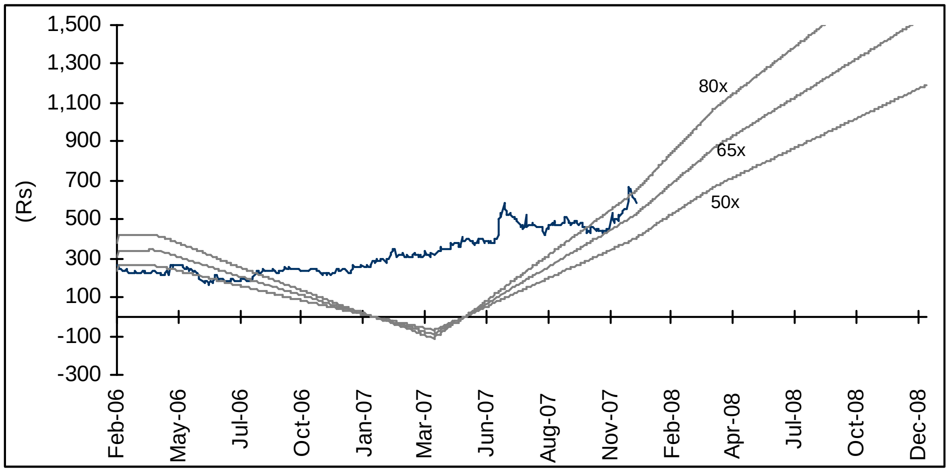
Year end	Country	Company name	Currency	Market cap (mn)	P/E (x) FY08E/ CY07E	P/E (x) FY09E/ CY08E	P/E (x) FY10E/ CY09E	EV/E (x) FY08E/ CY07E	EV/E (x) FY09E/ CY08E	EV/E (x) FY10E/ CY09E	RoE FY07/ CY06 (%)	RoCE FY07/ CY06 (%)	EBITDA margin (%)
Dec '06	US	Lamar Advertising Co	USD	4,492	103.6	83.6	49.7	13.2	12.1	10.9	2.6	3.1	43.3
Dec '06	US	Harte-Hanks Inc	USD	1,171	13.0	12.3	NA	6.7	6.5	NA	21.2	17.5	18.6
Dec '06	US	Clear Channel Outdoor	USD	9,568	44.0	38.4	30.4	13.1	12.3	11.1	11.0	6.1	28.7
		Average			**59.2**	**49.7**	**33.8**	**12.6**	**11.8**	**10.2**	**11.6**	**8.9**	**30.2**
Dec '06	France	Publicis Groupe	EUR	5,219	12.8	11.5	10.6	7.1	6.5	6.2	21.3	13.1	18.7
Mar '07	France	Prismaflex International	EUR	39	12.7	12.4	NA	7.1	6.9	NA	8.1	6.5	9.4
Dec '06	France	JCDecaux Sa	EUR	5,930	27.0	24.0	21.9	12.0	11.1	10.4	10.9	8.9	25.8
		Average			**20.3**	**18.1**	**16.9**	**9.7**	**9.0**	**8.4**	**13.4**	**9.5**	**18.0**
Dec '06	Britain	Aegis Group Plc	GBP	1,266	14.6	13.1	1167.6	9.0	8.3	7.8	38.3	14.6	2.0
Dec '06	China	Focus Media Holding	USD	7,036	38.7	27.4	20.5	37.2	23.6	17.3	13.4	13.4	47.1
Dec '06	Switzerland	Affichage Holding	CHF	690	18.4	16.7	15.3	8.8	7.4	6.6	14.4	14.3	19.3
Mar '07	Japan	Dentsu Inc	JPY	806,734	21.1	20.6	18.9	11.2	10.5	10.4	5.7	5.1	3.9

Source: Bloomberg, i-SEC Research

Event Management – Budding star

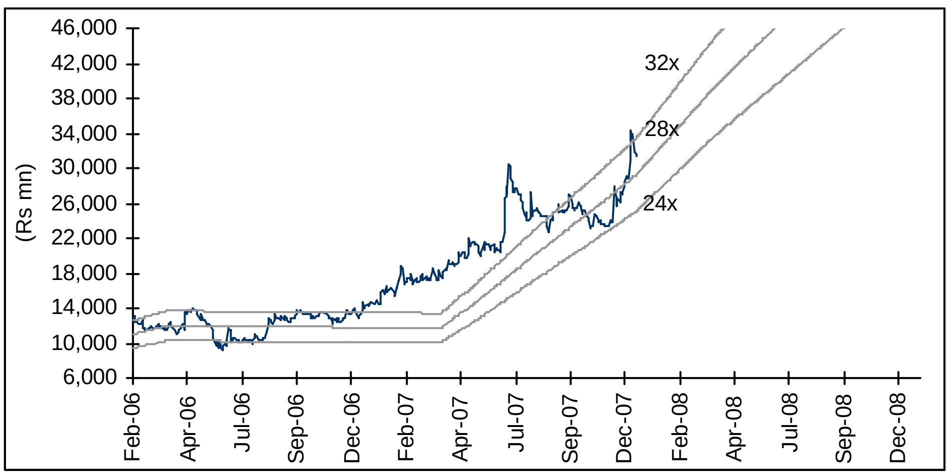
We value the Event Management business (*360 Degrees*) at FY10E EV/EBITDA of 12x at Rs1.46bn; the business is at a nascent stage and we expect it to contribute 10.6% to FY10E revenues. We believe profitability in the events business would ramp up post the scaling of company-owned projects to six properties from two at present. ENIL's own properties in Event Management would be more profitable versus a commission-based model, which is not likely to garner high margins or valuation.

Chart 11: One-year forward P/E bands



Source: CMIE, Company data, i-SEC Research

Chart 12: One-year forward EV/EBITDA bands



Source: CMIE, Company data, i-SEC Research

Annexure 1: Financials

Table 17: Profit and loss statement

(Rs mn, year ending March 31)

	FY06	FY07	FY08E	FY09E	FY10E
Net Sales	**1,374**	**2,351**	**4,442**	**6,676**	**8,650**
of which Airtime Sales	*1,174*	*1,672*	*2,341*	*3,125*	*3,770*
of which Out Of Home Media Income	*17*	*317*	*1,526*	*2,804*	*3,984*
of which Event Income	*183*	*362*	*575*	*747*	*897*
Total Operating Income	**1,374**	**2,351**	**4,442**	**6,676**	**8,650**
Less:					
Production expenses	181	391	625	767	911
License fees	68	331	1,471	2,248	2,694
Employee cost	275	447	771	914	1,064
Admn & other expenses	458	754	1,156	1,342	1,500
Total Operating Expenses	**982**	**1,923**	**4,023**	**5,272**	**6,170**
EBITDA	**392**	**428**	**419**	**1,404**	**2,481**
Depreciation & Amortisation	124	187	321	428	470
Other Income	16	25	26	29	57
EBIT	**284**	**265**	**124**	**1,006**	**2,068**
Less: Gross Interest	26	22	170	245	189
Recurring Pre-tax Income	**258**	**243**	**(46)**	**761**	**1,879**
Add: Extraordinary Income	98	-	-	-	-
Less: Taxation	46	(9)	20	122	589
Net Income (Reported)	**310**	**251**	**(66)**	**638**	**1,289**
Recurring Net Income	**225**	**251**	**(66)**	**638**	**1,289**

Source: Company data, i-SEC Research

Table 18: Balance sheet

(Rs mn, year ending March 31)

	FY06	FY07	FY08E	FY09E	FY10E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	65	126	1,087	549	290
Inventory	-	-	34	42	50
Sundry Debtors	467	728	1,095	1,555	1,896
Loans and Advances	314	722	1,522	1,722	1,907
Operational	314	722	1,522	1,722	1,907
Total Current Assets	**846**	**1,576**	**3,738**	**3,868**	**4,143**
Current Liabilities & Provisions					
Current Liabilities	**536**	**578**	**300**	**305**	**344**
Sundry Creditors	499	483	205	210	250
Other Current Liabilities	37	94	94	94	94
Provisions	**12**	**21**	**15**	**15**	**17**
Total Current Liabilities and Provisions	**548**	**599**	**315**	**320**	**361**
Net Current Assets	**298**	**977**	**3,423**	**3,548**	**3,782**
Investments					
Strategic & Group Investments	-	-	-	-	-
Other Marketable Investments	302	25	25	25	25
Equity	-	-	-	-	-
Debt	*302*	*25*	*25*	*25*	*25*
Total Investments	**302**	**25**	**25**	**25**	**25**
Fixed Assets					
Gross Block	2,555	2,881	3,461	3,901	4,296
Less Accumulated Depreciation	281	468	789	1,217	1,687
Net Block	2,274	2,413	2,672	2,684	2,609
Add: Capital Work in Progress	128	612	267	268	261
Total Fixed Assets	**2,403**	**3,025**	**2,939**	**2,953**	**2,870**
of which intangibles	*2,128*	*2,151*	*1,773*	*1,558*	*1,343*
Total Assets	**3,003**	**4,027**	**6,388**	**6,526**	**6,677**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Short Term Debt	-	318	818	318	-
Long Term Debt	350	820	2,820	2,820	2,000
Total Borrowings	**350**	**1,138**	**3,638**	**3,138**	**2,000**
Deferred Tax Liability	**(2)**	**(27)**	**(27)**	**(27)**	**(27)**
Share Capital					
Paid up Equity Share Capital	476	477	477	477	477
No. of Shares outstanding (mn)	*47.6*	*47.6*	*47.6*	*47.6*	*47.6*
Face Value per share (Rs)	*10*	*10*	*10*	*10*	*10*
Reserves & Surplus	**2,180**	**2,439**	**2,300**	**2,938**	**4,227**
Share Premium	1,866	1,870	1,870	1,870	1,870
Capital Reserve	2	2	(64)	(64)	(64)
Profit & Loss account	308	560	494	1,132	2,421
Employee stock option outstanding	3	8	0	0	0
Net Worth	**2,655**	**2,916**	**2,776**	**3,415**	**4,704**
Total Liabilities & Shareholders' Equity	**3,003**	**4,027**	**6,388**	**6,526**	**6,677**

Source: Company data, i-SEC Research

Table 19: Cash flow statement

(Rs mn, year ending March 31)

	FY06	FY07	FY08E	FY09E	FY10E
Cash Flow from Operating Activities					
Reported Net Income	310	251	(66)	638	1,289
Add:					
Depreciation & Amortisation	153	187	321	428	470
Provisions	3	9	(6)	0	2
Deferred Taxes	(0)	(25)	-	-	-
Less:					
Other Income	16	25	26	29	57
Net Extra-ordinary income	98	-	-	-	-
Operating Cash Flow before Working Capital change (a)	**353**	**398**	**223**	**1,037**	**1,704**
Changes in Working Capital					
(Increase) / Decrease in Inventories	-	-	(34)	(8)	(8)
(Increase) / Decrease in Sundry Debtors	(259)	(261)	(367)	(460)	(341)
(Increase) / Decrease in Operational Loans & Adv.	(211)	(408)	(800)	(200)	(185)
(Increase) / Decrease in Other Current Assets	-	-	-	-	-
Increase / (Decrease) in Sundry Creditors	215	(15)	(278)	5	39
Increase / (Decrease) in Other Current Liabilities	33	57	-	-	-
Working Capital Inflow / (Outflow) (b)	(222)	(627)	(1,479)	(663)	(495)
Net Cash flow from Operating Activities (a) + (b)	**131**	**(228)**	**(1,257)**	**375**	**1,209**
Cash Flow from Capital commitments					
Purchase of Fixed Assets	(2,284)	(810)	(235)	(442)	(387)
Purchase of Investments	-	-	-	-	-
Purchase of intangible asset	(29)				
Consideration paid for acquisition of undertaking					
Cash Inflow/(outflow) from capital commitments (c)	**(2,313)**	**(810)**	**(235)**	**(442)**	**(387)**
Free Cash flow after capital commitments (a) + (b) + (c)	**(2,182)**	**(1,038)**	**(1,492)**	**(67)**	**822**
Cash Flow from Investing Activities					
Purchase of Marketable Investments	**(240)**	**277**	**-**	**-**	**-**
Other Income	16	25	26	29	57
Net Cash flow from Investing Activities (d)	**(224)**	**302**	**26**	**29**	**57**
Cash Flow from Financing Activities					
Issue of Share Capital during the year	-	1	-	-	-
Proceeds from fresh borrowings	350	788	2,500	(500)	(1,138)
Repayment of Borrowings					
Buyback of Shares	(694)	-	-	-	-
Dividend paid including tax	-	-	-	-	(441)
Others	2,700	8	(73)	(0)	441
Net Cash flow from Financing Activities (e)	**2,356**	**797**	**2,427**	**(500)**	**(1,138)**
Net Extra-ordinary Income (f)	**98**	**-**	**-**	**-**	**-**
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d)+ (e) + (f)	**48**	**61**	**961**	**(538)**	**(259)**
Opening Cash and Bank balance	**17**	**65**	**126**	**1,087**	**549**
Closing Cash and Bank balance	**65**	**126**	**1,087**	**549**	**290**
Increase/(Decrease) in Cash and Bank balance	**48**	**61**	**961**	**(538)**	**(259)**

Source: Company data, i-SEC Research

Table 20: Key ratios

(Year ending March 31)

	FY06	FY07	FY08E	FY09E	FY10E
Per Share Data (Rs)					
Diluted Recurring Earning per share (DEPS)	4.7	5.3	(1.4)	13.4	27.1
Reported Earnings per share	6.5	5.3	(1.4)	13.4	27.1
Recurring Cash Earnings per share (CEPS)	7.3	9.2	5.4	22.4	37.0
Free cashflow per share (FCPS-post capex)	(45.9)	(21.8)	(31.4)	(1.4)	17.3
Reported Book Value (BV)	55.8	61.3	58.3	71.8	98.9
Dividend per share	-	-	-	-	8.1
Valuation Ratios (x)					
Diluted Price Earning Ratio	123.9	110.9	(423.4)	43.7	21.6
Price to Recurring Cash Earnings per share	79.8	63.5	109.3	26.2	15.9
Price to Book Value	10.5	9.6	10.0	8.2	5.9
Price to Sales Ratio	20.3	11.9	6.3	4.2	3.2
EV / EBITDA	71.0	67.4	72.6	21.7	11.9
EV / Total Operating Income	20.3	12.3	6.8	4.6	3.4
EV / Operating Free Cash Flow (Pre-Capex)	212.7	(126.3)	(24.2)	81.2	24.4
EV / Net Operating Free Cash Flow (Post-Capex)	(12.8)	(27.8)	(20.4)	(454.5)	35.9
Dividend Yield (%)	-	-	-	-	1.4
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	NM	11.7	NM	NM	102.0
Diluted Recurring CEPS Growth	782.1	25.6	(41.9)	317.9	65.0
Total Operating Income Growth	83.3	71.1	88.9	50.3	29.6
EBITDA Growth	389.2	9.1	(2.2)	235.6	76.6
Recurring Net Income Growth	NM	11.8	NM	NM	102.0
Operating Ratios (%)					
EBITDA Margins	28.6	18.2	9.4	21.0	28.7
EBIT Margins	20.7	11.3	2.8	15.1	23.9
Recurring Pre-tax Income Margins	18.6	10.2	(1.0)	11.3	21.6
Recurring Net Income Margins	16.4	10.7	(1.5)	9.6	14.9
Production expenses / Revenues	13.1	16.7	14.1	11.5	10.5
License Fees / Revenues	5.0	14.1	33.1	33.7	31.1
Other Income / Pre-tax Income	6.1	10.3	(57.2)	3.8	3.0
Effective Tax Rate (excluding FBT)	10.4	(10.1)	0.0	13.1	30.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	14.9	7.9	2.0	13.2	21.5
Return on Invested Capital (RoIC)	24.1	12.5	9.1	24.9	40.1
Return on Net Worth (RoNW)	15.0	9.0	(2.3)	20.6	31.8
Dividend Payout Ratio	0.0	0.0	0.0	0.0	30.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	13.1	38.1	130.1	91.1	41.9
Long Term Debt / Total Debt	100.0	71.4	77.3	89.8	100.0
Net Working Capital / Total Assets	7.8	21.1	36.6	46.0	52.3
Interest Coverage Ratio-based on EBIT	11	12	1	4	11
Debt Servicing Capacity Ratio (DSCR)	16	1	0	2	13
Current Ratio	0.97	0.93	1.96	3.36	6.19
Cash and cash equivalents / Total Assets	12.2	3.8	17.4	8.8	4.7
Turnover Ratios					
Assets Turnover Ratio (x)	0.8	0.7	0.7	1.0	1.3
Working Capital Cycle (days)	(4.3)	39.6	156.3	99.8	79.1
Average Collection Period (days)	124.0	113.0	90.0	85.0	80.0
Average Payment Period (days)	1,007.6	450.5	120.0	100.0	100.0

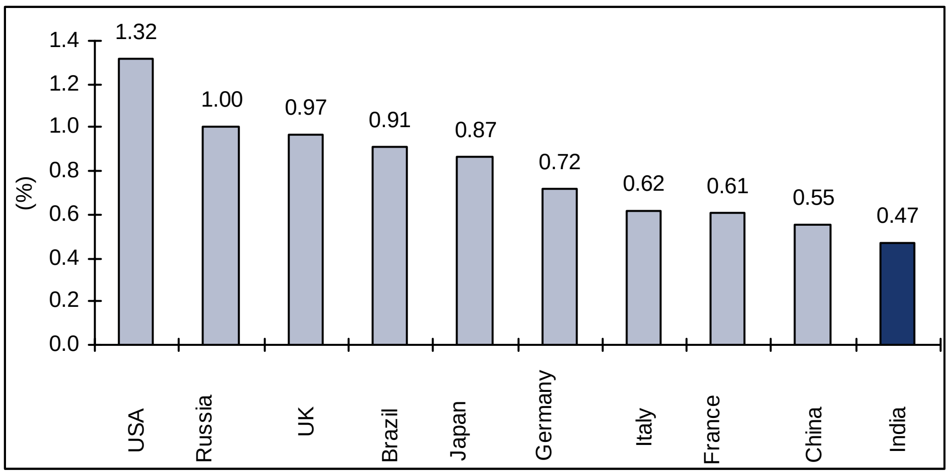
NM – Not meaningful
Source: Company data, i-SEC Research

Annexure 2: Industry overview

High growth in Advertising

India has been witnessing robust advertising growth in the past few years on the back of high GDP growth and investments, which is a key driver of ad growth. Robust GDP growth going forward would further benefit the ad industry, which we believe would register 18-20% CAGR over CY06-11E. As per the PWC Report '07, the ad industry is expected to grow at 15% CAGR through CY06-11E.

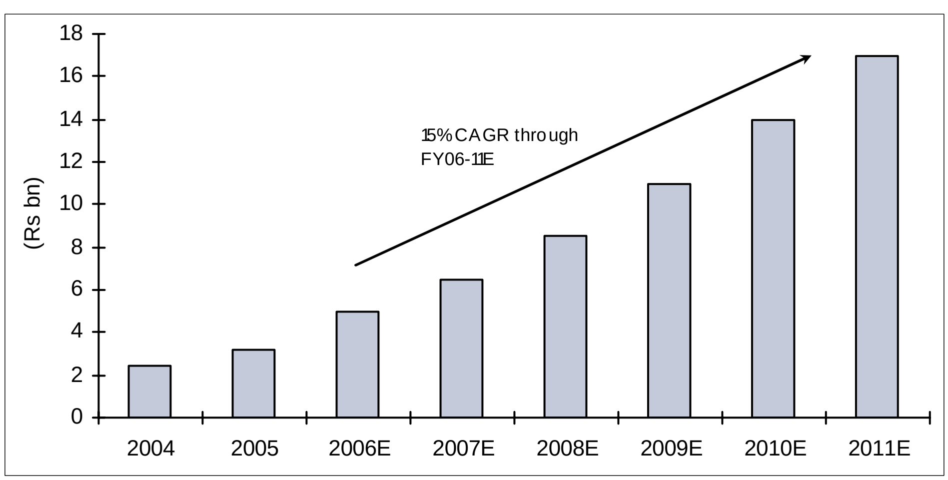
Chart 13: Low ad spend-to-GDP – India



Source: ZenithOptiMedia

We believe that the high growth in advertising would be driven by new industry segments such as Retail, Telecom and Real Estate. India's low ad spend-to-GDP ratio of 0.47% (CY05) as against global average of 0.98% leaves ample scope for advertising growth. We see the impending General Elections ('08-09), the Commonwealth Games in '10 and the Cricket World Cup '11 in India as key event triggers for this growth.

Chart 14: Ad growth – India



Source: PwC Report '07

New Media takes lead

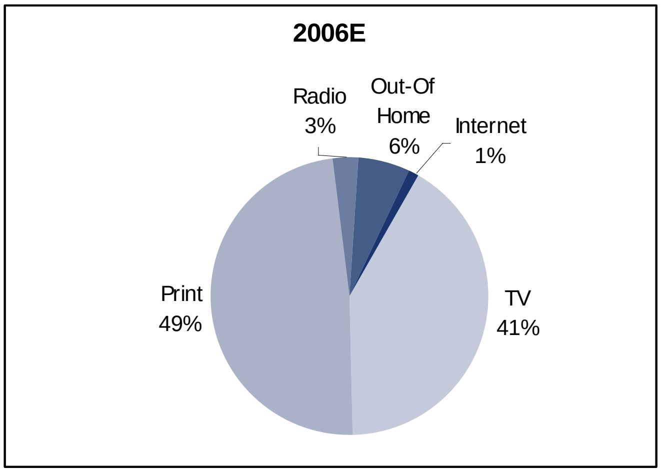
The advertising industry is expected to expand to Rs323.9bn by CY11E, driven by new forms of media such as radio, Out-Of-Home (OOH) and internet, whose combined share in the ad pie would increase to 14.8% in CY11E from 10.3% in CY06E. While OOH media is expected to register 16.5% CAGR through CY06-11E, the radio industry is expected to grow at a robust 27.7% over the same period.

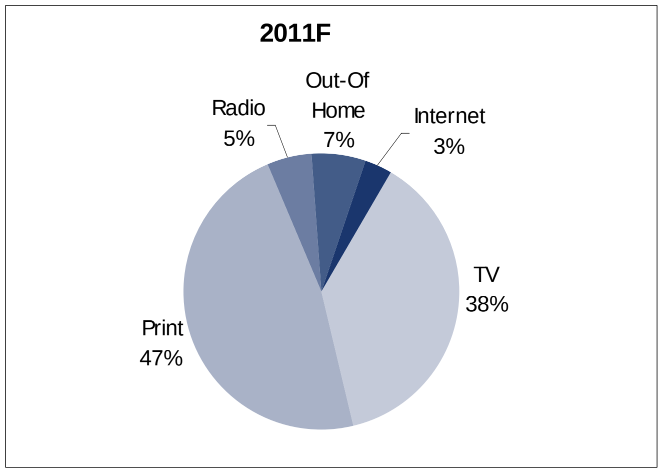
Table 21: Ad growth in India – Segmentwise

Segment	CY04	CY05	CY06E	CY07E	CY08F	CY09E	CY10F	CY11F	CAGR (%) CY06-11E
TV	48,000	54,500	66,200	74,000	83,000	94,500	109,000	123,000	13.2
Print	54,000	63,000	78,000	90,000	104,000	117,900	135,100	152,900	14.4
Out-of-Home	8,500	9,000	10,000	12,500	14,500	16,500	19,000	21,500	16.5
Radio	2,400	3,200	5,000	6,500	8,500	11,000	14,000	17,000	27.7
Internet	600	1,000	1,600	2,700	4,200	6,000	8,200	9,500	42.8
Total	113,500	130,700	160,800	185,700	214,200	245,900	285,300	323,900	15.0

Source: PwC Report '07

Chart 15: Ad share





Source: PwC Report '07

OOH riding urban infrastructure wave

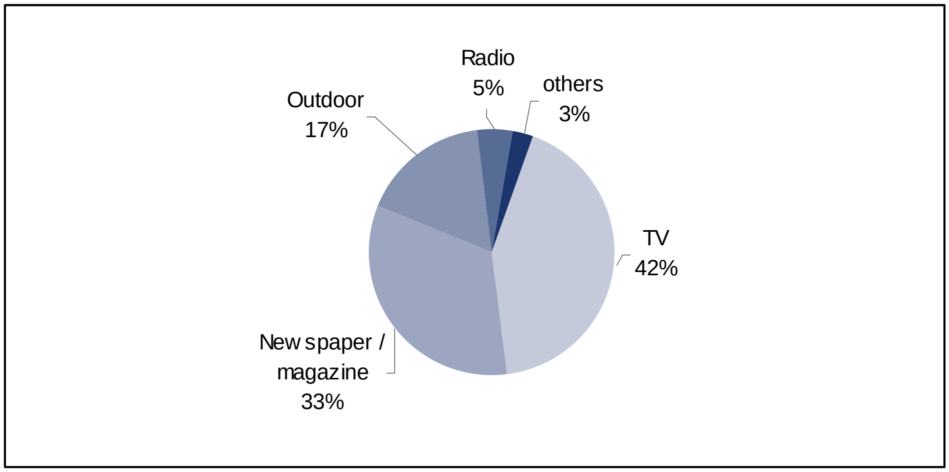
We expect the OOH Industry to gain from high investment via private-public partnerships in urban infrastructure such as airports, metro rails, urban beautification projects and SEZs. We expect Local Government bodies to promote standardised OOH properties for urban beautification projects. We believe that multitudinous contracts for metro rails, national railways, SEZs, airports and bus shelters across the breadth of the nation would be available for bidding in the next few years. Such contracts are likely to favour organised players, who have a history of superior execution and net worth. Investment in digital OOH properties will likely drive the next growth phase.

India is likely to follow China, where OOH accounts for more than 17% of total ad revenues. As commuting time remains high in densely populated cities, OOH will continue to see increase in share of advertisements.

Indian OOH to match step with China

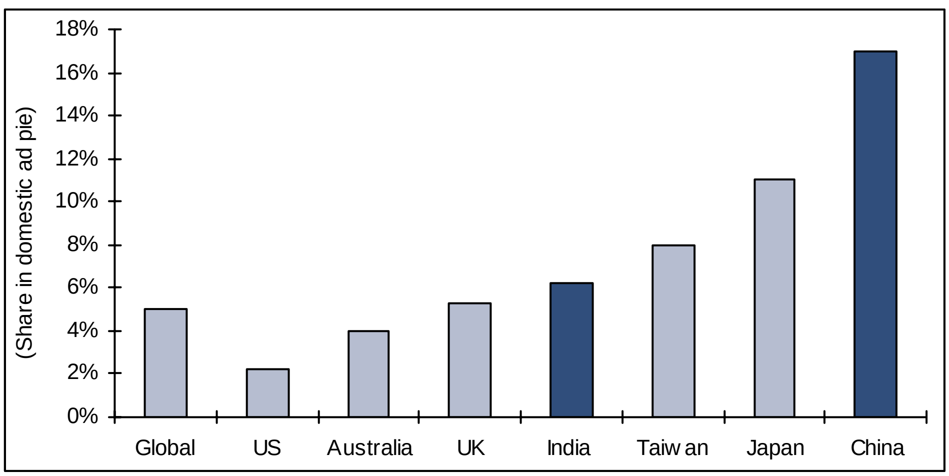
As per ZenithOptimedia, ad spend in China in CY06 stood at ~US$12.5bn, accounting for 29.6% of total ad spend in Asia excluding Japan. Further, ZenithOptimedia has projected the ad market in China to be one of the fastest growing worldwide in the next three years, at a CAGR of 18.2% through CY06-09. OOH occupies a high share of the ad budget in China at 17%. China's high ad spend in OOH is due to increased investment in urban infrastructure and digital signage.

Chart 16: Media mix in China



Source: Science Applications International Corporation '05

Chart 17: Share of OOH in domestic ad spend



Source: Outdoor Advertising Association of America, Outdoor Advertising Association of Great Britain, MPA Research estimates, PwC Report '07

Focus Media – Case study

Focus Media, founded in '03, is China's largest out-of-home life-style media company with focus on digital network. The company's portfolio includes commercial location network, in-store network, poster frame network, mobile handset advertising network and outdoor LED network covering 90 major cities in China. By '06, the company's in-store network of LCDs expanded to more than 4,000 retail stores with an installed base of ~40,000 LCDs. Focus Media has been on the forefront of technology, adopting new technology models through acquisitions. Shortly after its inception, the company posted strong growth with revenue CAGR of 169% through CY04-06. The high growth was also accompanied by high EBITDA margin of 33-45%. Going forward, the company is expected to grow at a CAGR of 58% over CY06-10E.

Table 22: Focus Media Financials

(US$ mn)

	CY03	CY04	CY05	CY06	CY07E	CY08E	CY09E
Sales	4	29	68	212	470	763	1,003
Growth (%)		*677*	*134*	*211*	*122*	*62*	*31*
EBITDA	1	13	23	80	183	285	378
EBITDA margin (%)		*45*	*33*	*38*	*39*	*37*	*38*
Net Profit	0	0	24	83	174	255	335
Growth (%)		*1,343*	*6,225*	*253*	*109*	*46*	*31*
Net Profit margin (%)		*1*	*35*	*39*	*37*	*33*	*33*
P/E (x)					39.8	27.4	20.5
EV/EBITDA (x)					37.2	23.6	17.3

Source: Bloomberg

Focus Media's commands market capitalisation of as much as US$7.03bn based on CY06 sales of US$212mn (CY07E sales of US$470mn). The stock is currently trading at CY09E P/E of 20.5x and EV/EBITDA of 17.3x primarily on the back of high earnings growth expectations of 58% through CY06-09E. Focus Media has recently been included in the NASDAQ 100. Other companies in China such as Vision Media (market cap of US$602mn) and Air Media (market cap of US$1.3bn) have seen fast growth in the OOH segment.

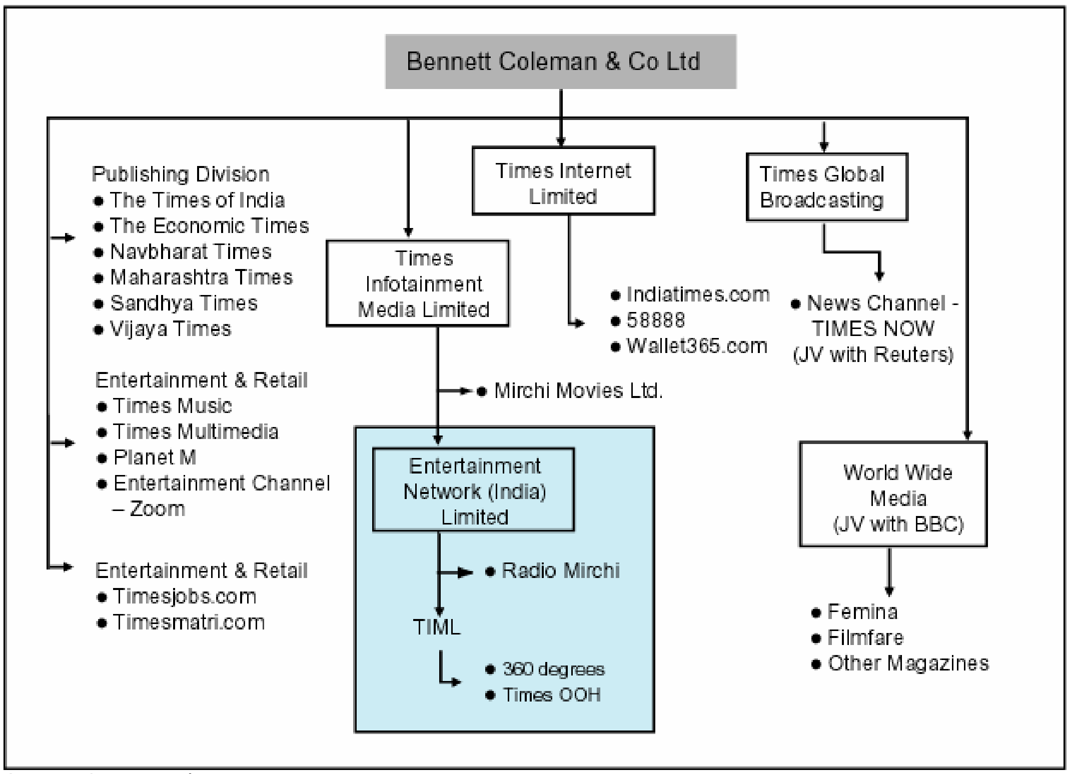
Annexure 3: BCCL group

BCCL – History

Year	
1838	Launch – The Bombay Times
1861	Launch – The ToI brand
1948	Sahu Jain becomes owner of the company
1950	Launch – ToI, Delhi edition
1961	Launch – ET
1998	Foray into the music business with Times Music
1999	Launch – Indiatimes web portal and foray into music retailing through Planet M
2001	Launch – Radio Mirchi - Private FM & Events management
2002	Launch – Times Outdoor
2004	Enters broadcasting through launch of *ZOOM* - lifestyle channel
2005	Launch – Matrimonial website - *timesmatri.com* (now renamed as *Simply Marry*)
2006	Launch – News channels: *Times Now*, Property service portal - *Magicbricks.com*

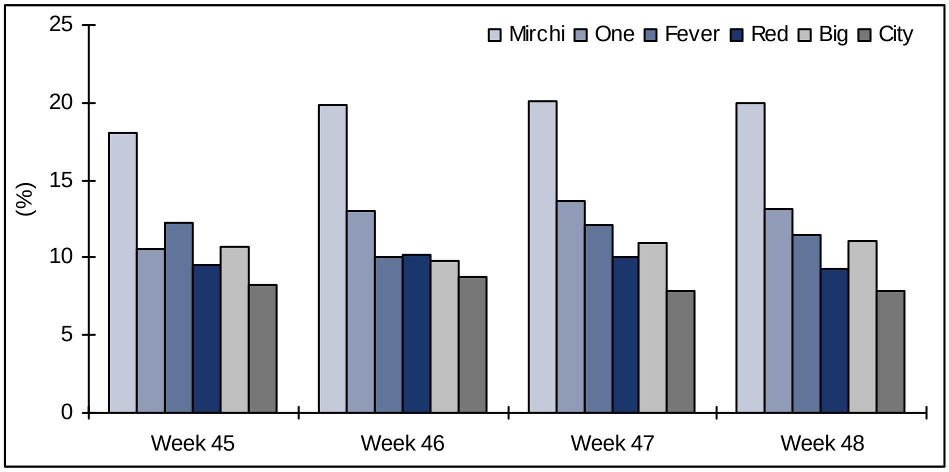
Source: Industry

Organisation structure



Source: Company data

Annexure 4: Listenership as per RAM in Delhi



Source: RAM

Annexure 5: Index of Tables and Charts

Tables

Charts

ANALYST CERTIFICATION

We /I, Vikash Mantri, PGDBM research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees (“ICICI Securities and affiliates”) are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Vikash Mantri, PGDBM* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Vikash Mantri, PGDBM* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

EQUITIES			
A Murugappan	Executive Director	+91 22 6637 7101	a_murugappan@isecltd.com
Equity Research – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2448			
ANALYST	**SECTOR ALLOCATION**	**DIRECT NOS.**	**E-MAIL**
Anand Shah	Co-Head Research – FMCG	+91 22 6637 7230	anand_shah@isecltd.com
Girish Pai	Co-Head Research – Strategy	+91 22 6637 7311	girish_pai@isecltd.com
Amar Kedia	Aviation, Logistics	+91 22 6637 7271	amar_kedia@isecltd.com
Amit Mishra	Oil & Gas, Petrochemicals	+91 22 6637 7274	amit_mishra@isecltd.com
Dharmesh Shah	Capital Goods, Engineering	+91 22 6637 7367	dharmesh_shah@isecltd.com
Gaurav Pathak	Real Estate	+91 22 6637 7339	gaurav_pathak@isecltd.com
Krupal Maniar, CFA	Technology	+91 22 6637 7254	krupal_maniar@isecltd.com
Novonil Guha	Cement	+91 22 6637 7385	novonil_guha@isecltd.com
Poonam Nishal	Telecom, Utilities	+91 22 6637 7443	poonam_nishal@isecltd.com
Prakash Goel	Agriculture	+91 22 6637 7373	prakash_goel@isecltd.com
Rajesh Vora	Pharmaceuticals	+91 22 6637 7508	rajesh_vora@isecltd.com
Rahul Jain	Metals	+91 22 6637 7314	rahul_jain@isecltd.com
Sanjay Singh	FMCG	+91 22 6637 7196	sanjay_singh@isecltd.com
Sandeep Shah	Technology	+91 22 6637 7114	sandeep_shah@isecltd.com
Shilpa Gupta	Automobiles, Healthcare	+91 22 6637 7134	shilpa_gupta@isecltd.com
Siddharth Teli	Banking	+91 22 6637 7298	siddharth_teli@isecltd.com
Vikash Mantri	Media	+91 22 6637 7161	vikash_mantri@isecltd.com
Nishant Bhargava	Sr Associate (Textiles)	+91 22 6637 7143	nishant_bhargava@isecltd.com
Swarit Dakalia	Sr Associate (Construction)	+91 22 6637 7366	swarit_dakalia@isecltd.com
Alok Kapadia	Associate (Banking)	+91 22 6637 7231	alok_kapadia@isecltd.com
Abhijit Mitra	Associate	+91 22 6637 7289	abhijit_mitra@isecltd.com
Abhishek Murarka	Associate	+91 22 6637 7351	abhishek_murarka@isecltd.com
Amit Shah	Associate	+91 22 6637 7297	amit_shah@isecltd.com
Hemant Joshi	Associate	+91 22 6637 7380	hemant_joshi@isecltd.com
Rishi Agrawal	Associate	+91 22 6637 7436	rishi_agrawal@isecltd.com
Rohit Dhundele	Associate	+91 22 6637 7288	rohit_dhundele@isecltd.com
Sagar Thakkar	Associate	+91 22 6637 7225	sagar_thakkar@isecltd.com
Sanket Maheshwari	Associate	+91 22 6637 7159	sanket_maheshwari@isecltd.com
Shaleen Silori	Associate	+91 22 6637 7188	shaleen_silori@isecltd.com
Prakriti Singh	Editor	+91 22 6637 7239	prakriti_singh@isecltd.com
Simmu Kahlon	Editor	+91 22 6637 7202	simmu_kahlon@isecltd.com
Hemant Jathar	Production	+91 22 6637 7135	hemant_jathar@isecltd.com
Ruben Fernandes	Production	+91 22 6637 7442	ruben_fernandes@isecltd.com
Equity Sales – Asia-Pacific – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2341			
Rishikesh Joshi		+91 22 6637 7229	rishikesh_joshi@isecltd.com
Sachin Shahane		+91 22 6637 7223	sachin_shahane@isecltd.com
T S Baskaran		+65 6823 1556	ts_baskaran@icicisecurities.com
Vinay Patel		+91 22 6637 7275	vinay_patel@isecltd.com
Equity Sales – Europe – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2341			
Darshit Shah		+91 22 6637 7152	darshit_shah@isecltd.com
Equity Sales – US – Telephone : +1 212-921-2344 / +1 212 453 670			
Melrick D'Souza		+1 646-701-4465	melrick_dsouza@icicisecurities.com
Yudhvir Mahajan		+1 212-921-2344	yudhvir_mahajan@icicisecurities.com
Equity Dealing – Telephone : +91 22 2281 4570 **Fax:** +91 22 2288 2341			
Kishore Chinai		+91 22 6637 7130	kishore_chinai@isecltd.com
Ketan Shah		+91 22 6637 7121	ketan_shah@isecltd.com
Rajashekhar Hiremath		+91 22 6637 7319	rajashekhar_hiremath@isecltd.com
Viren Sompura		+91 22 6637 7316	viren_sompura@isecltd.com
Equity Derivatives – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2341			
Dr. C. K. Narayan		+91 22 6637 7365	ck_narayanan@isecltd.com
Sriram Jagdish		+91 22 6637 7455	sriram_jagdish@isecltd.com
Viresh Joshi		+91 22 6637 7129	viresh_joshi@isecltd.com
Anant Rao		+91 22 6637 7131	anant_rao@isecltd.com
Rishad Tehrani		+91 22 6637 7193	rishad_tehrani@isecltd.com

ICICI Securities Limited
ICICI Centre, H T Parekh Marg, Churchgate, Mumbai 400 020, **Telephone:** +91 22 2288 2460/70 **Fax:** +91 22 2288 2448

ICICI Securities Inc.
Level 57, Republic Plaza, 9, Raffles Place, Singapore 048 619
Telephone: +65 6823 1556/57 **Fax:** +65 6823 1425

ICICI Securities Inc.
1 Liverpool Street, London EC2M 7QD, United Kingdom.
Tel (Board): +44 20 79562051,
Tel (Direct): +44 20 79562554 / 2555 **Fax:** +44 20 79562211

ICICI Securities Inc.
461, 5th Avenue, 16th Floor, New York, NY 10017, USA. **Telephone:** +1 212-921-2344 / +1 212 453 6704 **Fax:** +1 212-453-6710