Event Update

Accumulate

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India
Media & Entertainment

CMP(Rs.) 248

Bloomberg Code:	ENIL IN
No of Shares (mn):	477
M cap (Rs Bn):	11.82
52 Wk High/Low:	275.8/195
FV (Rs)	10.0
Average Daily Vol (nos)	57,600

Price Chart

Entertainment Network India Ltd **TP 295**

Supreme Court verdict favors ENIL!

On 6th April 2011 the Supreme Court vacated the stay imposed on 18th March 2011 for levying royalty @ 2% on Net Ad-Revenues and directed Madras High Court to finish the hearing in 2 months. The news to be positive for ENIL as this paves way for Phase III expansion and reduced royalty will improve EBITDA margins from 26% in FY10 to 37% for FY12E.

We are positive on ENIL 1) Zero Debt balance sheet and cash of Rs 940 Mn provides a strong base to bid for Phase III licence.2) Revival in ad-rates to sustain driving revenues higher 3) Innovative Mobile radio to drive revenues with a subscriber base of 3.5 Mn 4) Phase III could change the scale and reach of FM radio listeners. 5) Additional revenues to add to EBITDA as most costs are fixed in nature.

INVESTMENT THEME

- **Radio EBITDA margins to improve significantly as royalty fees decrease -** The finalization of revenue sharing of 2% has been a boon for the Radio companies. With majority of the costs being fixed in nature ENIL can expect to maintain the EBITDA of 35-38%.

Profit and loss account (Rs mn)	FY09A*	FY10A*	FY11E	FY12E	FY13E
Total Revenue	2,808	2,667	3,455	3,937	4,566
Total Expenses	2,283	1,962	2,344	2,461	2,620
EBIDTA	**525**	**705**	**1,111**	**1,476**	**1,947**
EBIT	121	335	728	1,049	1,508
PBT	24	277	730	1,287	1,813
PAT	27	254	489	863	1,215
EBITDA margin	**19%**	**26%**	**32%**	**37%**	**43%**
EV/EBITDA	**21**	**17**	**12**	**9**	**7**

**FY09, FY10 adjusted to reflect sale of OOH biz*

- **Breather for ENIL post Supreme Court Verdict -** Finally Radio companies to benefit from the direction given by Supreme Court on implementing the new regime on Royalty fees @ 2% on net advertisement revenues. In 2010 when Supreme Court affirmed Mumbai High Court to set aside the fix rate and directed Copyright Board to arrive at a rate, Copyright Board fixed royalty @2% on August 2010. During the course Music Company owners appealed against the order in the Madras High Court arguing that voluntary licences are paying between Rs 500-900/hour as compare to Rs 600/hour paid by AIR which is more than 2% fixed by Copyright Board. ENIL filed a petition before Supreme Court the music companies approaching various high courts, delaying the verdict. When the Music Companies appealed in Madras High Court, interim referral was made by the Supreme Court and ordered a stay on the new regime on 18th March 2011 but 2 weeks later Supreme Court vacated its own stay and implied the new regime of 2% to continue and directed Madras High Court to finish the hearing in 2 months.

- **Spike in ad rates to drive EBIDTA -**ENIL during the year managed to hike its Ad- rates by 37% from the levels of April 2010. The average yield per 10 sec is Rs10560 which is expected to reach the levels of 11,500 in FY12. Increase in ad rates coupled with growth in volume led to EBIDTA hike by 68% YOY basis.

- **Innovation:** Mirchi Mobile service has proved to be a great innovation and is expected to yield good returns in the future. The company expects to extend its services to Reliance, BSNL, Vodafone and Tata Docomo. The model is on a 60-40%revenue sharing basis with the Telephone operators. With a subscriber base of ~3.5 Mn we expect

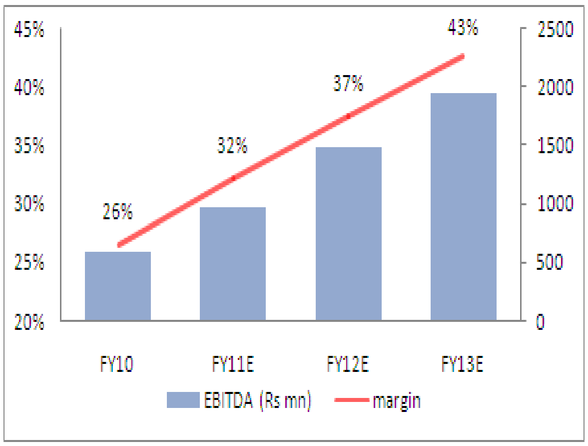
- **Fixed Expenses constitute a major portion of expenses -** A major portion of operating expenditure is fixed in nature which provides high operating leverage. Accordingly once breakeven is achieved, any additional revenue improves the EBITDA margins. We expect EBITDA to improve from 26% to 43% over FY10-FY13E. as ENIL has already built infrastructure which can be scaled up with minimal additional costs.

- **Potential for Phase III -** The royalty issue between radio broadcasters and music companies, almost settled, takes radio broadcasters like ENIL one step closer to the bidding process for Phase III. With this issue settled, we expect Phase III expansion policy to be finalised. With reduced royalty payments, it is now more viable for radio companies to bid for Phase III licences and therefore likely to press forward with the bidding wherein multiple frequencies can be broadcast within a single city. This norm, if cleared will take revenues even higher for an established player like ENIL as incremental costs required to run these new stations will be marginal. Our estimates have not factored in any upside on account of Phase III as details are not yet known. We will revise our estimates once Phase III commitments and licence wins are decided.
    - **Benefits of Phase III : New geographies to be added -** Radio Listenership expected to grow dramatically with greater reach over 750 geographies up from 240 at present. Listeners are more than readers and ENIL could easily increase its listeners reach the levels of print publication and becoming comparable to TV viewership.
    - **Multiple frequencies -** Multiple frequencies within a city will help increase programming diversity – a broadcaster is likely to offer a different programming format on its 2nd or 3rd channels within the city. This would help capture newer audiences and grow listenership in the larger cities. This in turn will increase advertising opportunities for ENIL. With multiple frequencies being available within a single city and Tier II and Tier III cities becoming increasingly profitable with the variable royalty of 2% and infrastructure already in place, earnings are likely to grow further.
    - **Tradability of licenses -** Change of ownership may be permitted after 3 years of operation instead of 5 years (as at present). This will help consolidation in the industry which still has too many players – mostly making losses. Some of them may want to look at options to sell. It is in the interest of the large networks also as it gives them an opportunity for growth through acquisitions and not be dependent only on new frequency allocation from the government.
    - **Networking -** Networking may be permitted seamlessly across the network. At present it is only permitted between C and D category towns. The policy could help reduce costs, thus improving profitability radio stations.

- **Valuation -** The prospects for ENIL is very positive with decent cash balance, debt free and being a market leader is in a position to offer better and innovative services as compare to its peers. Currently trading at 12.8 FY11E EV/EBITDA, 8.8 FY12E EV/EBITDA and 2.2x P/B FY12E, with an average ratio of 10, we maintain an ACCUMLATE on declines for the stock with a target price of Rs 295.

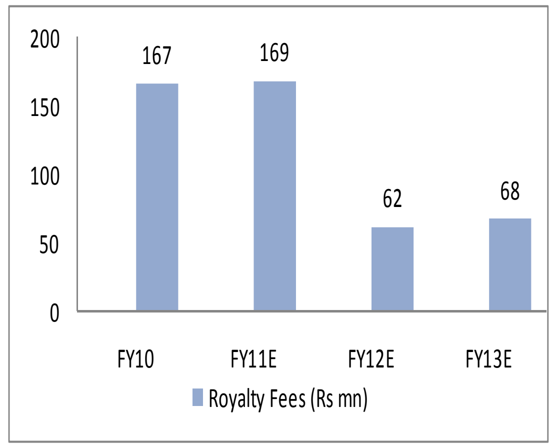
Radio EBITDA margins to improve significantly as royalty fees decrease
With royalty payment issue between radio broadcasters and music companies changing from the current fixed fee basis to 2% of its ad revenue, the company's royalty expenses will significantly decrease. This will result in standalone EBITDA margin of 37% FY12 onwards. The Copyright Board has given its verdict on the music royalty issue in favour of the radio industry. It has decided to shift from the current fixed fee to a revenue sharing model of mere 2% of ad revenues earned by each radio station.

EBITDA to rise YOY



Source: Intime Research

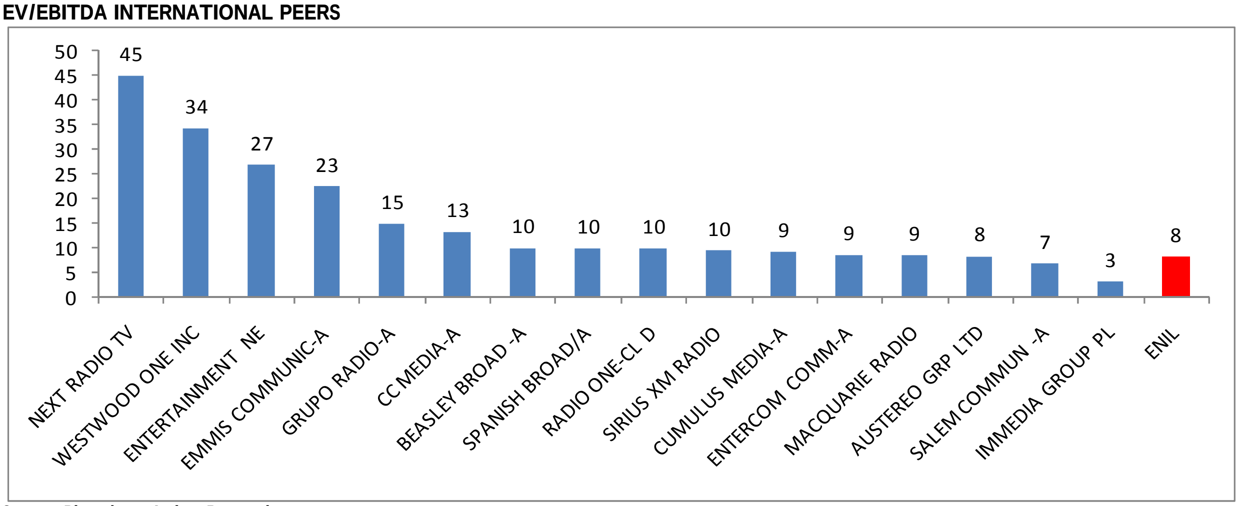
Royalties to drop 63% FY12 onwards



Source: Intime Research

Compared to the global radio companies ENIL trades at discount when compared on EV/EBITDA. Even on comparison with Indian media companies like HT MEDIA , DB Corp, SUN Network ENIL trades attractive at 8.6x EV/EBITDA FY12E as compare to average of 10xEV/EBITDA.

EV/EBITDA INTERNATIONAL PEERS



Source: Bloomberg, Intime Research

Q3 Financial Performance

In INR Mns			STANDALONE			CONSOLIDATED			
Profit and loss account (Rs mn)	**Q3 FY11**	**Q3 FY 10**	**YOY**	**Q2 FY11**	**QOQ**	**9M FY11**	**9M FY10**	**YOY**	**Comments**
Operating Income	746	633.3	18%	607	23%	3654	3,020	21%	37% hike in ad rates as compared to April-2010
Other Income	29	2.1	1290%	21	38%	54	5	980%	
Total Income	**775**	**635**	**22%**	**628**	**23%**	**3709**	**3,025**	**23%**	
Total Expense	**578**	**518**	**12%**	**552**	**5%**	**3389**	**3,329**	**2%**	
Production Expense	35	55	-36%	41	-14%	407	387		
License Fees	38	33	18%	30	28%	1,036	1,104		
Employees Cost	141	110	28%	140	1%	593	498		
Depreciation	30	37	-20%	30	0%	176	238		
Amortization	55	57	-3%	54	1%	163	169		
Marketing Expense	69	75	-7%	92	-25%	190	150		
Admin and Other Expense	210	152	38%	165	27%	825	783		Increase on account of Legal fees
EBITDA	**197**	**117.3**	**68%**	**73**	**172%**	**319**	**(304)**	-205%	Average Yields @ 10560/sec,up15% QOQ basis
PAT *	**249**	**107.4**	**50**		**396%**	**-238**	**(307)**	-22%	Loss on sale of OOH reflecting in consolidated and Profit on sale of OOH in standalone
EPS	**5**	**2.25**	**1**						

* Includes Exceptional Income of 1238 lacs on sale of subsidiary OOH.
*Includes Exceptional Loss of 1790 lacs on sales of subsidiary OHH

Summary Financials

Profit and loss account (Rs mn)	FY09A*	FY10A*	FY11E	FY12E	FY13E
Total Revenue	2,808	2,667	3,455	3,937	4,566
Production Expenses	383	309	327	348	365
Royalty Fees	178	167	169	66	68
Employees cost	632	539	691	820	899
License Fees	123	119	113	131	137
Marketing Expenses	222	197	198	208	218
Other operating expenses	746	632	846	889	933
Total Expenses	2,283	1,962	2,344	2,461	2,620
EBIDTA	525	705	1,111	1,476	1,947
Depreciation	404	370	383	426	438
EBIT	121	335	728	1,049	1,508
Interest (Net)	97	65	5	2	-
Other Income	-	7	7	240	305
PBT	24	277	730	1,287	1,813
Total Tax	(3)	23	241	425	599
PAT	27	254	489	863	1,215
EPS (basic, post-except) (Rs)	0.6	5.3	10.3	18.1	25.5
Free Cash Flow Yield	8.4	32.0	19.3	27.0	39.9

Balance sheet (Rs mn)	FY09A*	FY10A*	FY11E	FY12E	FY13E
Sundry Debtors	817	1,008	1,106	1,377	1,501
Cash & Equivalents	116	242	1,103	893	1,308
Loans & Advances	596	441	851	779	699
Current Assets	1,528	1,691	3,060	3,050	3,508
Current Liabilities & Provisions	415	455	417	391	401
Net Current Assets	1,113	1,236	2,644	2,659	3,107
Fixed Assets	2,525	2,131	1,875	1,545	1,202
Investments	-	400	902	2,080	3,189
Differed Tax Asset	284	285	264	246	229
Net Assets	3,922	4,052	5,686	6,530	7,727
Debt	913	334	0	0	0
Deffered Tax Liability	208	216	195	175	158
Total liabilities	1,121	551	195	175	158
Share capital	477	477	477	477	477
Reserves	2,324	3,025	5,015	5,878	7,093
Total liability & Shareholder's Equity	3,922	4,052	5,686	6,530	7,727
BVPS (Rs)	59	73	115	133	159

Growth & margins (%)	FY09A*	FY10A*	FY11E	FY12E	FY13E
Sales growth	17%	-5%	30%	14%	16%
EBITDA growth	-11%	34%	58%	33%	32%
EBIT growth	-55%	177%	117%	44%	44%
EPS growth	-86%	837%	92%	76%	41%
EBITDA margin	19%	26%	32%	37%	43%
EBIT margin	4%	13%	21%	27%	33%

Ratios	FY09A*	FY10A*	FY11E	FY12E	FY13E
ROCE (%)	1%	7%	9%	14%	16%
RONW (%)	1%	7%	9%	14%	16%
Receivables days	107	245	176	210	193
Payable days	137	154	145	145	145
Debt/equity (x)	0.3	0.1	0.0	0.0	0.0
Interest cover - EBIT (x)	1.2	5.2	138.3	511.5	-

Cash flow statement (Rs mn)	FY09A*	FY10A*	FY11E	FY12E	FY13E
PAT	24	277	489	863	1,215
Depreciation	404	370	383	426	438
Net change in working capital	(399)	484	(209)	(331)	(96)
Cash from operations	29	1,131	663	957	1,556
Capital expenditure	372	394	256	331	343
Investments	30	(400)	281	(1,498)	(1,485)
Cash from investing activities	402	(6)	537	(1,167)	(1,142)
Change in borrowings	(1,019)	(579)	(334)	(0)	(0)
Change in Equity	-	-	-	-	-
Interest Paid	(97)	(65)	(5)	-	1
Cash from financing activities	(1,116)	(644)	(334)	(0)	(0)
Free cash flow	401	1,525	919	1,288	1,899
Net Cash Flows	(5)	126	861	(210)	414
Opening Balance	121	116	242	1,103	893
Closing Balance	116	242	1,103	893	1,308

Valuation	FY09A*	FY10A*	FY11E	FY12E	FY13E
P/E (analyst) (X)	435.2	46.5	24.2	13.7	9.7
P/B (X)	4.2	3.4	2.2	1.9	1.6
EV/EBITDA (X)	21.0	16.6	11.6	8.6	6.7

Note: Last actual year may include reported and estimated data.
Source: Company data, Intime Research

INTIME SPECTRUM SECURITIES LTD

A Sharyans Group Company

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Analyst holding in the stock: No.