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Stock Rating
Overweight-V

Industry View
Attractive

Initiation

Entertainment Network (India) Limited

First Mover in High-Growth Industry

Conclusion: We initiate coverage of ENIL shares with an Overweight-V rating and DCF-based price target of Rs264, implying 19.8% upside potential from the current stock price. We expect the company to benefit from a favorable evolution of the FM radio market in India. With deregulation, radio is set to increase its share of the Indian advertising market, and ENIL should retain its market leadership based on its broad experience, pan-India presence in the bigger urban centres, and meaningful support from the promoter group, Times group, which has a deep footprint in many of India's media sub-sectors. At our target price, the stock would trade at an EV/EBITDA multiple of 18.5x on our F08 estimate.

Newly unfettered radio industry is embarking on a steep uptrend: India's radio industry should positively surprise the Street with 46.8% compound annual growth in F06-F09E as regulatory curbs are removed. We forecast that radio's proportion of India's advertising market will expand from 2.6% currently to about 5.1% in the next three years.

Tight model, rich experience, synergies with group companies should aid ENIL: We expect ENIL to build on its first-mover advantage, with a tightly woven strategy targeting a young urban audience, extensive experience in the industry, and synergistic efforts with other Times group companies. We look for ENIL to retain a market share of over 25% until F2009, even with the entry of new players, and in the process register a revenue CAGR of 35.0%. Accordingly, we estimate that its EBITDA will grow at a 37.5% compound annual rate through F09. The current EV/EBITDA multiple of 15.4x on our F08 estimate suggests healthy upside for the stock from here. Risks to this scenario would be delays and cost overruns in the rollout of new stations, price-cutting by new entrants, and a slump in broader market sentiment.

Key Ratios and Statistics

Reuters: ENIL.BO Bloomberg: ENIL IN
India Media

Price Target	Rs264
Shr price, close (Nov 16, 2006)	Rs220.60
52-Week Range	Rs287.00-161.00
Mkt cap, curr (mn)	Rs10,493
Mkt cap, curr (mn)	US$232
S'hldr eqty (07e) (mn)	Rs2,905
Sh out, basic, per-end (07e) (mn)	48

Fiscal Year (Mar)	2006	2007e	2008e	2009e
ModelWare EPS (Rs)*	4.46	5.25	5.90	8.81
Rev, net (Rs mn)	1,398	2,074	2,704	3,440
EBITDA (Rs mn)	376	454	669	979
ModelWare net inc (Rs mn)	212	250	281	419
P/E	49.2	42.0	37.4	25.0
P/BV	3.9	3.6	3.3	2.9
Div yld (%)	0.0	0.0	0.0	0.0

* = Please see explanation of Morgan Stanley ModelWare later in this note.
e = Morgan Stanley Research estimates

Financial Summary

Profit and Loss Statements

Rs mn (Year-end March)	F2005	F2006	F2007E	F2008E	F2009E
Total Revenues	**1,001**	**1,398**	**2,074**	**2,704**	**3,440**
License Fees	399	64	95	126	160
Royalty Costs	37	38	50	126	175
Other Production expenses	202	164	237	276	339
Employee Costs	207	277	406	589	789
Admin and Other Expenses	297	479	832	918	998
EBITDA	**(142)**	**376**	**454**	**669**	**979**
Depreciation	55	43	60	145	166
Amortization	-	82	97	145	213
Interest	3	26	16	26	19
Other Income	34	32	25	25	26
Exceptional Item	-	98	-	-	-
PBT	(165)	356	305	377	607
Provision for Tax	5	46	56	97	188
Reported PAT	(171)	310	250	281	419
Adjusted PAT	**(171)**	**212**	**250**	**281**	**419**

Balance Sheets

Rs mn (Year-end March)	F2005	F2006	F2007E	F2008E	F2009E
Sources of Funds					
Share Capital	1,170	476	476	476	476
Reserves & Surplus	(620)	2,180	2,429	2,710	3,129
Shareholders' Funds	**550**	**2,655**	**2,905**	**3,186**	**3,604**
Unsecured Loans	-	386	786	586	486
TOTAL CAPITAL EMPLOYED	**550**	**3,041**	**3,691**	**3,772**	**4,090**
Application of Funds					
Intangible Assets	-	2,046	1,949	1,804	1,591
Gross Block	407	427	658	1,506	1,731
Accumulated Depreciation	160	199	259	404	570
Net Block	**247**	**228**	**400**	**1,102**	**1,160**
Capital WIP	-	47	30	30	30
Preop Exp pending capitalization	-	81	81	81	81
Investments	237	298	98	23	23
Debtors	279	477	511	667	848
Cash & Bank	5	37	919	510	952
Accrued Interest on Deposits	0.1	0.3	0.3	0.3	0.3
Inventories	17	-	20	25	32
Loans & Advances	149	352	341	341	341
Creditors	338	439	554	698	843
Other Liabilities	3	10	26	32	39
Deposits	0.03	0.01	0.01	0.01	0.01
Dues	35	64	64	64	64
Provisions	11	14	17	20	24
Net Current Assets	**64**	**339**	**1,132**	**730**	**1,203**
Other Assets	2	2	2	2	2
TOTAL ASSETS	**550**	**3,041**	**3,691**	**3,772**	**4,090**

Cash Flow Statements

Rs mn (Year-end March)	F2005	F2006	F2007E	F2008E	F2009E
PAT	(171)	310	250	281	419
Depreciation	55	43	60	145	166
Amortization	-	82	97	145	213
Change in Debtors	(51)	(197)	(35)	(155)	(182)
Change in Acc Int on Deposits	0	(0)	-	-	-
Change in Inventories	(4)	17	(20)	(4)	(7)
Change in Loans & Advances	62	(203)	11	-	-
Change in Creditors	159	101	116	144	145
Change in Other Liabilities	(6)	7	15	6	7
Changes in Deposits	(1)	(0)	-	-	-
Change in Dues	5	29	-	-	-
Change in Provisions	1	4	2	3	4
Change in Intangible Assets	-	(2,128)	(0)	-	-
Capex	0	(149)	(214)	(847)	(225)
Impairement of assets	0	(3)	-	-	-
Change in Unsecured Loans	-	386	400	(200)	(100)
Change in Investments	(61)	(61)	200	75	-
Change in Other Assets	2	(0)	-	-	-
Change in Equtiy	(0)	1,795	-	-	-
Change in Cash	**(8)**	**31**	**882**	**(409)**	**441**

Ratio Analysis

	F2005	F2006	F2007E	F2008E	F2009E
Adjusted (Modelware) EPS	(1.5)	4.5	5.2	5.9	8.8
Reported EPS	(1.5)	6.5	5.2	5.9	8.8
Book Value per Share	4.7	55.8	61.1	67.0	75.8
Valuation					
P/E	NA	49.2	42.0	37.4	25.0
EV/EBITDA	NA	28.6	21.9	15.4	10.1
EV/Sales	NA	7.7	4.8	3.8	2.9
Price to Book Value	NA	3.9	3.6	3.3	2.9
Profitability Ratios (%)					
EBITDA Margins	(14.2)	26.9	21.9	24.7	28.5
Adjusted Profit Margins	(17.1)	15.2	12.0	10.4	12.2
Average ROE	(26.9)	13.2	9.0	9.2	12.3
Average ROCE	(26.4)	13.3	7.9	8.2	11.1
Growth (%)					
Sales	NA	39.7	48.3	30.4	27.2
EBITDA	NA	NM	20.5	47.5	46.4
Adjusted Net Profit	NA	NM	17.6	12.5	49.3
Adjusted EPS	NA	NM	17.6	12.5	49.3
Leverage Ratio					
Debt/Equity (x)	-	0.15	0.27	0.18	0.13
Net Debt/Equity (x)	(0.01)	0.13	(0.05)	0.02	(0.13)

E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Investment Case

Summary & Conclusions

We are initiating coverage on ENIL, India's biggest radio player, with an Overweight-V rating and a DCF-based target price of Rs264, implying potential upside of 19.8%.

Radio industry's growth trajectory looks attractive
Our positive stance on the stock is based on our view that with the recent regulatory push (particularly the change in the licenses fee regime from a fixed basis to a revenue-sharing basis), India's radio industry seems set for 3-4 years of intensive growth. We believe that radio, which currently commands about 2.6% of the total advertising market in India, will be able to boost its share to about 5.1% in the next 3-4 years, in the process growing at a compound annual rate of 46.8%. Such a steep growth trajectory should be facilitated by the impending rollout of 236 new stations over the existing base of 30 stations, as well as by geographical expansion and acceptance of radio as a viable low-cost media vehicle.

First-mover advantage, focused positioning
Against this backdrop, ENIL, as the market leader with a 32.5% share in F06, looks attractive to us. We like the company's positioning as an urban-centered channel with a focus on the young crowd. Apart from that, ENIL enjoys the first-mover advantage and a strong backing from its promoter group, Times group, which has a strong presence across various media platforms. With 10 radio stations currently (three having been added in 1QF07), the company has won licenses for 22 more stations that it hopes to commission by mid-F08. At that point, ENIL will be the only radio company to have a presence in India's top 13 cities. The company's other two businesses are Out Of Home (Times OOH), which appears set for a stable growth phase, and Event Management (360^{o} Entertainment), on which we await more clarity.

Strong Earnings Growth despite Front-Loaded Capex
We are projecting a CAGR of 35.0% in the company's top line between F06 and F09. With the rollout of new stations, operating margins will likely be sluggish in F07 and F08, but we expect to see a marked improvement in F09, leading to strong earnings growth after that. Overall, we estimate that ENIL's adjusted PAT should grow at a healthy pace of 25.5% p.a. in F06-09.

Valuation and Price Target
Based on our F08 estimates, the stock trades at a P/E of 37.4x and an EV/EBITDA multiple of 15.4x. In our view, these valuation multiples reflect only part of the positives that can accrue to ENIL with the recent changes in the licensing regime — and none of the upside from either the rapid growth that the radio industry is likely to display or ENIL's ability to grow at a healthy pace, even if slower than the industry, and retain its leadership status.

Positive earnings surprises in the coming quarters and the pace of new station launches could act as potential triggers for the stock, in our view.

Concerns and Risks
Factors that could spell trouble for ENIL's stock performance include: underdeveloped sources for measuring the impact of radio programming and advertising; the nascent nature of the industry, potentially implying lack of long-term clarity, and the large number of new players.

Factors that could pose risks to our positive outlook on ENIL include: irrational pricing behavior by new entrants in the radio space for a sustained period; saturation of the urban markets on which ENIL's strategy focuses, and intensification of pressure from younger media like the Internet. A further risk could come from a dampening of the economic environment, leading to slower growth in India's advertising market.

Company Description

ENIL owns and operates radio stations in India. It was the first private FM radio player in India and currently has a Pan-India presence. It also operates the Out of Home and Event Management businesses through its TIMPL subsidiary.

Industry View: Attractive

We believe that with the recent change in regulations, the radio industry in India is set to grow at a significant pace and, as a result, increase its share of total advertising spend in the country.

MSCI Country: India

Asia Strategist's Recommended Weight: 2.4%
MSCI Asia/Pac All Country Ex Jp Weight: 7.0%

Investment Positives

Widening horizon for India Advertising Industry
We believe that the Indian advertising industry is set for a sustained phase of steep growth as favorable economic, demographic and evolutionary factors fall into place. Thus, ad spend as a percentage of GDP, which is currently close to 0.48% (48 bps lower than the global average), should inch up, in our view. We estimate that the India advertising market will show a revenue CAGR of 16.7% in the next 3-4 years.

Improving living standards in India, leading to higher disposable incomes per household, should further strengthen the desire for entertainment among a larger proportion of the population. In our view, growing consumerism with reduced barriers to goods and information flow is another economy-related factor that could support advertising industry growth in India. In our view, competition-driven advertising spend will increase as the number of large Indian players with deep pockets and patience is growing.

In terms of demographic changes, as large urban centres witness a continued influx of people from the semi-urban and rural areas, we should see goods and service providers race to lure consumers to their brands and products. We believe spending patterns are already changing in the middle-size urban centres, where consumerism is taking hold. Against this backdrop, we think smaller urban centres will emerge as the next growth platform for India's advertising industry.

Radio – In the high-growth phase of the S curve
Radio's status as an effective, low-cost medium has not been recognized by media buyers and planners, who have questioned its reach and viability due to a regulatory log jam. However, post the rationalization of the regulatory regime in early CY06 (though a lot will depend on the next phase of reforms), radio is getting the attention that it deserves from all the stakeholders–radio operators, listeners, and media buyers.

Radio as a medium is unique for its low cost (useful in the small urban centres) and high frequency (the differentiator in the large city-based markets), and hence can become an important option for advertisers.

We forecast radio market revenue to show a CAGR of 46.8% in the coming three years, and expect its proportion of ad industry revenue to grow rapidly from current low levels of 2.6% (to 5.1% in F09) versus a global average of 8.5%.

ENIL: Market leader with pan-India presence should remain at the top of the pile…
ENIL currently runs 10 radio stations and is in the process of starting another 22 in the coming year. In the process, we think it will likely emerge as one of the strongest radio operators in urban India. With leadership status in most of the centres where it has a presence, the company currently controls about a 32.5% share of the total FM radio advertising market in India. With the entry of new players, the company's market share will clearly be eroded. However, we feel the company should enjoy a strong share of a fast-growing Indian radio market. We forecast the company to register a revenue CAGR of 35.0% in the coming three years.

…with a focused, urban and youth-centric approach
We like the company's strategy of attempting to gain a stranglehold in the larger urban centres, targeting the population segment in the 15-34 age bracket with a contemporary and largely Bollywood-based content. By creating solid brand recall among its target audience in the bigger urban centres and building strong connections in the Bollywood fraternity, the company is further fortifying its position.

Valuations do not reflect earnings growth prospects
Based on our F08 estimates, the stock is trading at a P/E of 37.4x and an EV/EBITDA multiple of 15.4x, or 40.3% and 36.3% higher than its global peer group. However, we note that most of the peers we highlight in Exhibit 1 are in radio markets that are close to saturation and thus are not strictly comparable to ENIL in terms of growth potential. We believe the stock is pricing in likely margin pressure over the next 12-18 months stemming from the rollout of 22 new stations. However, the current valuations, in our view, disregard the fact that the margin progression and rapid top-line growth of ENIL's existing stations will likely contribute to a strong EBITDA CAGR of 33.3% in F06-F08E, followed by 46.4% growth in F09 as earnings for the new radio stations gradually stabilize.

Good opportunities in other businesses too
We believe earnings for Times OOH and 360° Entertainment, which are run by ENIL's 100% subsidiary TIMPL, are likely to grow robustly. TIMPL is considering innovation and technology upgrades as well as acquiring new sites for this purpose. We believe that the company can also exploit the synergies amongst its three businesses to expand its customer base.

Investment Concerns

Shortage of research is an obstacle
There is still no independent research on radio's advertising reach in India (except in Mumbai and Delhi). This hinders the assessment of radio as a medium by media planners and buyers. Obviously, in the absence of cost/benefit data, media buyers may be reluctant to employ radio to promote their campaigns, thus putting players like ENIL at a disadvantage. We believe that as the industry displays a better growth pattern, with increased clarity post the deregulatory steps taken by the government, advertising research should pick up.

Large number of claimants to radio revenue pie
As rationalization in the license fee regime has kicked off with the advent of phase II licensing, the high growth potential of the radio industry has lured some 43 new players, who are set to roll out over 245 new stations in the next two years. *Prima facie*, this could limit the growth opportunities for the market leaders. However, we feel that much will depend on the degree to which market segmentation (urban vs. semi urban) and differentiation in offering evolve. These may be the decisive factors in how India's radio market is split between players, we feel.

Royalty issue yet to be settled
The company is in litigation with its two main music suppliers, Super Cassettes Industries Limited (SCIL) and Phonographic Performance Limited (PPL). We believe that, should the ruling go against ENIL, the increase in royalty costs would pare down the company's margin. Currently, radio broadcasters are required to pay Rs5m in royalties per station per annum irrespective of the station's location. This could hamper the smaller stations' margin growth significantly, or even lead to losses for stations in the 'D' category. In addition, once all the 300 stations go on air, the royalty amount will translate to an estimated Rs1.5b p.a., which would constitute about 13.1% of the entire revenues of India's radio industry in F09, according to our estimates – a very high percentage compared with other countries worldwide.

In most other radio markets, the royalty cost constitutes about 3-4% of revenues. However, the cost of Rs5 m per station could translate to over 50% for smaller stations. We therefore believe that the royalty cost will also be moved towards a percent of revenue basis.

While the music providers are pushing for a 10% revenue linkage, radio companies are reluctant to go above 3-4%, citing global examples.

Threat from new technologies such as satellite radio
New technologies such as satellite radio (a radio service that provides radio signals directly from satellites) or digital audio broadcast (DAB) (a radio service that provides digital radio through a terrestrial broadcast format) could pose a threat to FM Radio. These new technologies provide up to 100 channels, with such features as non-stop, high-quality music and news, sports and weather updates.

There is currently one company in India providing satellite radio – World Space (provides about 40 radio channels). However, these technologies are not free to air (unlike FM Radio), i.e., listeners need to pay subscription fees (more than Rs500 p.a.) and have expensive access equipment (more than Rs2,000). Also, it will be interesting to see how this service is brought under the ambit of the regulatory regime.

Radio may face pressure from new media platforms, regulatory roadblocks
While we see potential for radio to grow its share of ad revenues in India, it may also have to overcome the challenge from new media platforms like internet radio. Regulatory issues, such as having a single frequency in one location and a lack of permission to air news and current affairs, etc, are some of the other potential hurdles to industry growth.

Aggressive behavior of new entrants can spoil the party
We feel that if the new players indulge in price cutting, push up salaries, or go for excessive advertising, ENIL may have to follow suit. This could depress ENIL's revenue growth and margins. However, we feel that most large players will behave in a mature fashion, given their long-term view on radio.

Other businesses – High fragmentation may keep margins muted
The company's event management business works in a space peppered with a large number of small players, thus providing limited opportunity for pricing growth. Furthermore, the absence of specific regulations relating to the one-window clearance procedure (wherein all necessary clearances are received at one place) may cause delays and slow the growth of the industry, dampening revenue generation.

The other business run by TIMPL, i.e. OOH (Out of Home), can be a profitable venture for ENIL, but it remains to be seen how the company will: (a) open up new revenues streams, (b) monetize the planned investments in this business, and (c) separate itself from the cluttered landscape. We feel that all of these situations may be fairly challenging given the underdeveloped regulatory regime, large number of competitors and relatively low pace of market growth.

Valuation

ENIL trades at EV/EBITDA multiples of 15.4x and 10.1x based on our F08 and F09 estimates, respectively. On F08E and F09E P/E, the stock is trading at 37.4x and 25.0x, respectively. In our view, this leaves room for meaningful upside potential given the likelihood of a strong earnings growth pattern coupled with the prospects for positive industry-related news flow.

As there are no listed companies purely in India's radio space, we have tried to look at radio companies globally, keeping in mind the difference in the evolution phase of ENIL and the other companies.

The global radio companies are trading at an average EV/EBITDA of 10.9x on 2007E (F08E for India).

Exhibit 1

Global Radio Comparables

Company name	Share price*	Market Cap (US$mn)	P/E			EV/EBITDA		
			2006	2007	2008	2006	2007	2008
Austereo	2.1	601	19.3	17.8	16.7	11.0	12.0	11.1
Clear Channel	34.1	16,858	24.2	19.9	16.9	10.5	9.7	8.8
Cox Radio	17.4	1,650	20.2	20.8	19.0	12.2	11.3	10.3
Cumulus	11.6	507	76.7	64.3	37.3	11.3	10.2	9.1
Entercom	29.9	1,146	21.4	18.0	17.6	11.3	11.3	10.5
Radio One	7.2	706	29.2	19.0	18.2	11.6	11.0	10.4
Mean			**31.8**	**26.7**	**20.9**	**11.3**	**10.9**	**10.0**

Source: Company data, Morgan Stanley Research Estimates
* Share Price as on Nov 15, 2006

We note that ENIL has a steeper growth trajectory than the global companies. We expect ENIL's EBITDA to show a CAGR of 33.3% between F06 and F08, compared to global companies' growth of -5% to 7% in 2005-2007.

Exhibit 2

Global Radio Companies – EBITDA CAGR (%)

Company name	EBITDA - Local m			
	2005	2006E	2007E	CAGR (%)
Austereo Limited	75	75	79	2.9
Clear Channel	2,053	2,225	2,327	6.5
Cox Radio Incorporated	162	160	161	(0.6)
Cumulus Media Inc.	82	89	94	7.2
Entercom	166	150	170	1.2
Radio One Inc.	160	138	144	(5.1)

Source: Morgan Stanley Research Estimates

Target Price

To arrive at our target price, we have used DCF-based analysis. Our target of Rs264 implies upside potential of 19.8% from current levels. At our target price, the stock would trade at an EV/EBITDA multiple of 18.5x and a P/E of 44.7x on our F08E earnings, which we think is fair. To calculate our DCF value, we have assumed an explicit phase of nine years with a terminal growth rate of 4% and a WACC of 13.3%.

In the high-growth period, F07–F09, we are projecting that the radio market will grow at a compound annual rate of 58%, supported by the rollout of more than 200 stations. With a sizable number of new stations coming up in this period, we forecast that ENIL's market share, which was 32.5% in F06, will decline from 37.9% in F07 to 25.5% in F09. Accordingly, we peg ENIL's revenue CAGR in F07-09 at 28.8%, while its EBITDA margin is likely to rebound from 21.9% in F07 to 28.5% in F09.

For the period F2010-2016, when the Indian radio market should approach maturity levels, we are assuming more stable market growth of 10.5%, and our projected revenue CAGR for ENIL is 10.1%. By F12, we expect ENIL's EBITDA margin to hit 35.6%, which we estimate to be the sustainable margin for a strong radio player in India like ENIL.

Exhibit 3

ENIL (Consolidated) – DCF Calculation

Particulars	Rs Mn
(A) Present value of the explicit phase	4,905
Terminal value	21,575
Terminal growth rate	4%
(B) Present value of the terminal value	7,036
(A+B) Total present value	11,941
Net present value as on Nov 16, 2006	11,363
Net debt	349
Equity Value Rs mn	11,014
Shares (m)	48
Implied DCF value per share (Rs) as of Nov 06	232
Target Price* as of Nov 2007	264

Source: Company data, Morgan Stanley Research
* Implied DCF value discounted forward to set 12-month forward target price.

Thus, we derive a 12-month target price of Rs264 for the stock, which we expect to be propelled by a favourable regulatory atmosphere, strong quarterly results over the next 2-3 quarters, and a fast-paced launch of the new stations.

Exhibit 4

ENIL (Consolidated): WACC Calculation (%)

WACC Calculation	%
Risk Free Return (Rf)	7.0%
Market Premium (Rm)	6.5%
Assumed Beta	1.10
Cost of Equity (Re)	14.2%
Equity (%)	90.0%
Cost of Debt (Rd)	7.5%
Tax rate	30.3%
After-tax cost of debt (Rd [1-t])	5.2%
Debt (%)	10.0%
WACC	13.3%

Source: Morgan Stanley Research Estimates

Risks to our Target Price

Among the potential risk factors to our target price we list the following as foremost:

1. Price wars in the ad market sparked by new players in the arena. This puts pressure on ENIL on both the pricing and inventory utilization fronts, pulling down top-line growth and pressurizing margins.

2. Overly aggressive behavior from competition, inducing increased marketing and production efforts, leading to unduly high cost inflation. This could also manifest itself in a surge in employee cost, as competitors splurge money to poach employees from the leader.

3. Regulatory issues unfold in an unfavorable manner. Issues like royalty on music, broadcast of news and current affairs, and permission for operators to run more than one station in one city are some of the factors that could cloud ENIL's growth prospects and have a negative sentimental impact on stock performance.

Bull Case Scenario

Our bull case scenario calls for 2% higher revenue growth for the radio market from F08 to F16 versus our base case. This assumes that radio catches the attention of the media buyers faster than we anticipate in our base-case scenario, leading to higher inventory utilization and increased pricing power for the radio industry. To put this in perspective, it would imply that the radio industry garners 3.84% and 5.27% shares of the total ad industry in India in F08E and F09E, respectively, versus our base case estimates of 3.79% and 5.15%. We believe that the bullish amongst the industry participants would agree with a radio market share of close to 5.3% by F09.

We further assume that ENIL is able to garner an additional percentage point of market share from F08 to F16 versus our base assumption. We believe that in an optimistic scenario, ENIL would be able to increase ad rates and improve inventory utilization. This would translate into a market share of 26.5% in F09 versus our base case assumption of about 25.5%. We also assume that ENIL is able to rein in marketing and employee costs, leading to 1% higher margins. This leads to our bull case fair value of Rs275 as of today. Discounting Rs275 forward by 12 months, we arrive at our 12-month forward bull case valuation of Rs314, implying upside potential of 42.3% from current levels.

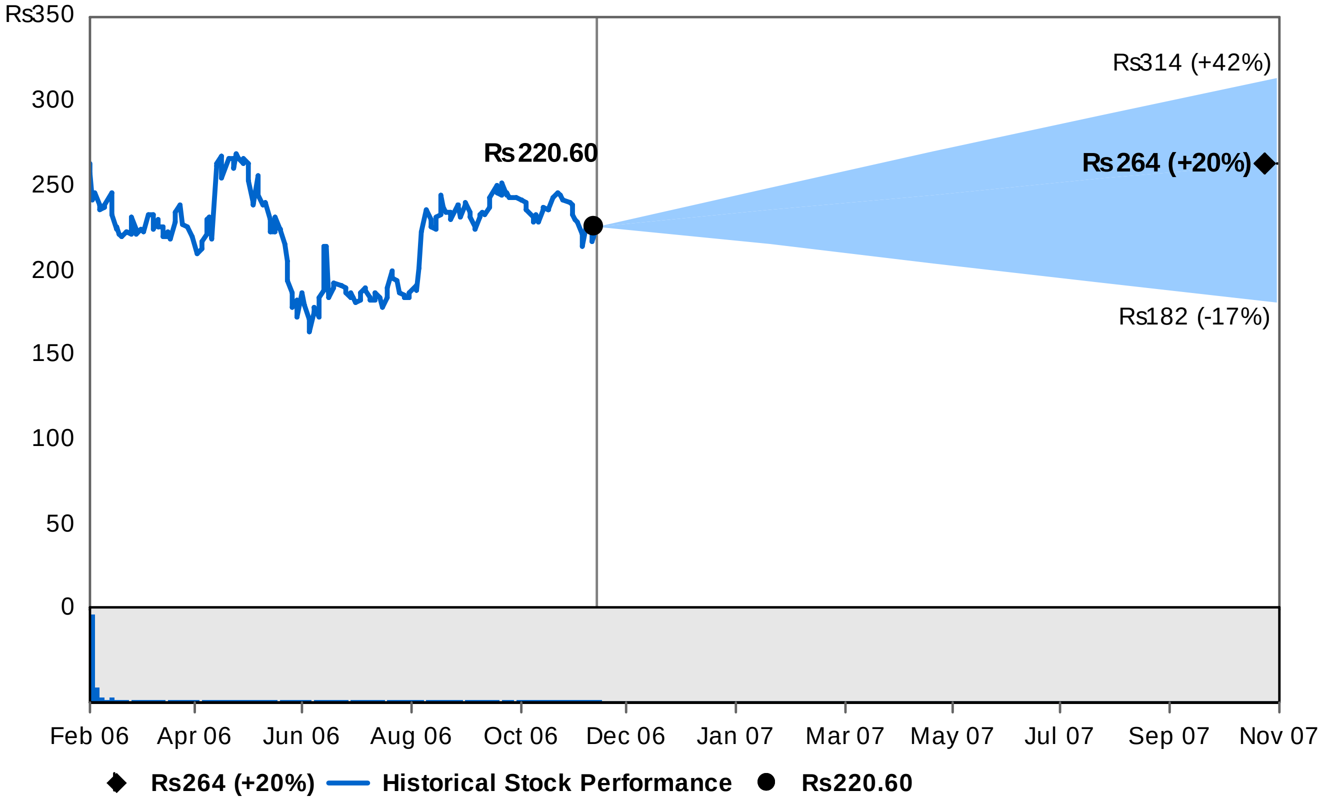
Bear Case Scenario

Our bear case scenario assumes that with increased competition, the market would see price-cutting among players, leading to 2% lower revenues for the radio market versus our base case. This scenario would be supported by a strong response from traditional media like print and by the emergence of new media such as the Internet. This would translate into a 5.03% share for radio in the total advertising market. We believe that given the spate of new stations, there wouldn't be much downside to this number.

Lower prices offered by competitors would force ENIL to reduce prices. Also, as potential customers go to the competition, ENIL would face lower capacity utilization, leading to a 4 ppt reduction in market share relative to our base case assumption of 25.5% in F09. In addition, the company would incur higher marketing and production costs to stem the slippage in market share, causing a 4% drop in margins. This leads to our bear case fair value of Rs160 as of today. Discounting Rs160 forward by 12 months, we arrive at our 12-month forward bear case valuation of Rs182, implying downside potential of 17.3% from current levels.

Risk-Reward Snapshot: ENIL (Overweight-V)

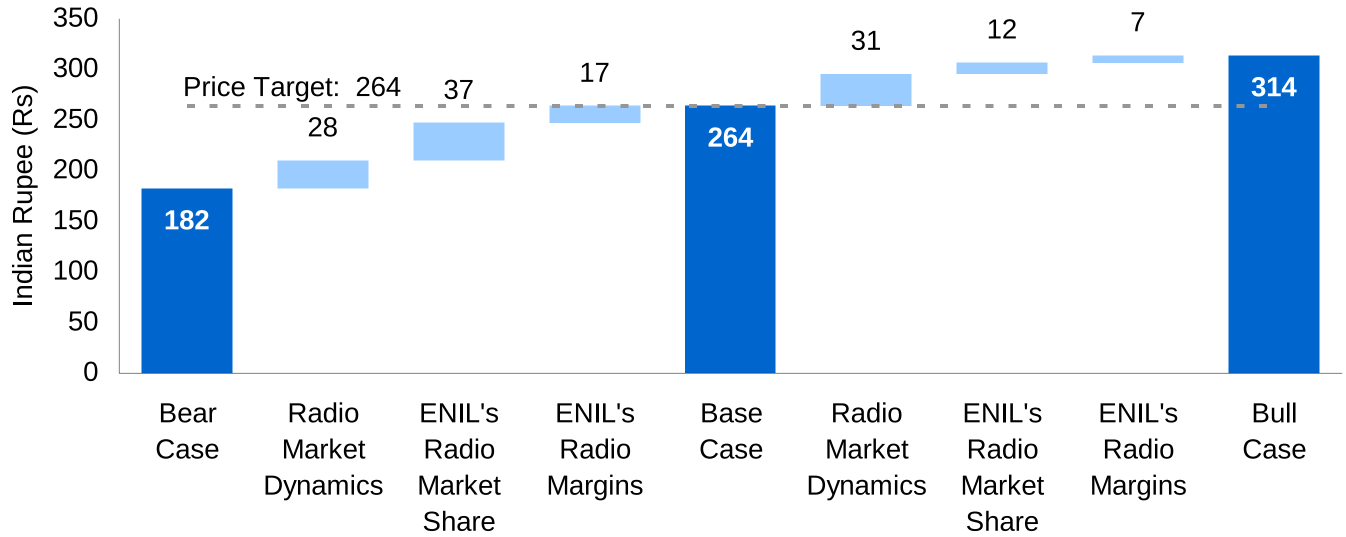
Exhibit 5
ENIL: Risk-Reward Scenario



Source: Morgan Stanley Research Estimates

Bull Case (Rs314)	1) 2 pps higher revenue growth for Indian radio market from F08 till F16 as radio emerges as a stronger than anticipated alternative medium of advertising with roll out of more radio stations in the country. 2) ENIL's market share is 1 pps higher from F08 to F16 versus our base case assumption due to delayed launch from competition and ENIL's improvement in capacity utilization and more price hikes. 3) Reduced marketing and employee costs leading to additional 1% EBITDA margin for ENIL's radio business.
Base Case (Rs264)	Based on our DCF-based analysis, assuming explicit phase of nine years, terminal growth rate of 4%, and a WACC of 13.3%.
Bear Case (Rs182)	1) Price wars leading to 2 pps lesser revenue growth for Indian Radio Market from F08 till F16 2) ENIL has to cut prices in line with market trends and it loses customers leading to reduced capacity utilization pulling down ENIL's market share 4 pps lower than our base case assumption. 3) Higher marketing and production cost than our base case due to increased competition to resist a big drop in market share leading to additional decline of 4% in EBITDA margins for ENIL's radio business

Exhibit 6
ENIL: Bear to Bull



Source: Morgan Stanley Research Estimates

ENIL – Leadership Driven by Focused Approach

Entertainment Network of India Limited (ENIL) is amongst the pioneers of the private radio FM business post privatization of the radio business in 2000 (Phase I of licensing). ENIL won seven stations during the first phase of licensing, viz., Delhi, Mumbai, Kolkata, Chennai, Pune, Indore, and Ahmedabad. The company won an additional 25 stations in the recently concluded Phase II of licensing and expects to roll out all its stations by F08.

Presence in all key markets …

ENIL's strategy is to be present in all the major circles – mainly in the A+ (Metros), A (population above 2m) and B (population between 1-2m) category cities. In the process, ENIL is establishing itself as the only company with a presence in India's top 13 cities. We believe this strategy should help the company as these cities are the ones where we expect radio advertising to see the strongest growth pattern.

….with a clear target base

ENIL's stations target the younger population, airing mainly contemporary, film-based music. This strategy has helped the company carve a niche for itself in a market where differentiation is difficult to achieve – more so with the current regulatory restriction (at one) on the number of frequencies an operator can use in a city. This approach has kept ENIL the market leader in all circles where it operates (including the three new stations of Bangalore, Jaipur, and Hyderabad launched in April 2006).

Exhibit 7

ENIL: Present in Major Circles vis-à-vis Main Competitors

	Category					
	A+	A	B	C	D	Total
ENIL (Radio Mirchi)	4	9	11	7	1	32
Adlabs (Big Radio)	4	4	10	24	3	45
Sun TV (South Asia FM)	-	6	9	5	3	23
Sun TV (Kal Radio)	1	2	4	14	-	21
MBPL (Radio City)	3	8	3	6	-	20

Source: I&B Ministry, Morgan Stanley Research

Robust earnings outlook

We list the following drivers for ENIL's income growth:

1. *Ten existing radio stations* – This will depend on ENIL's ability to: (a) raise inventory utilization, and (b) hike ad rates even in the wake of growing competition.

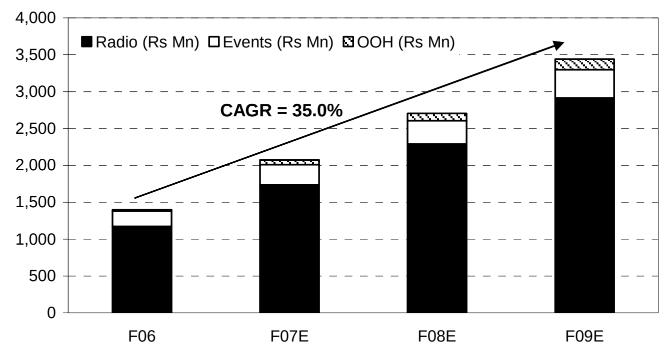
2. *Operationalization of the remaining 22 new stations* – Pace of operationalization and evolution of operating margins are the key parameters.

3. *The manner in which employee, production, and marketing costs progress towards maturity.* Here marketing costs will, to a large extent, depend on the behavior of the competition.

We foresee a robust earnings outlook for the company over the coming 3-4 years. We project consolidated revenue (including TIMPL) to register a CAGR of 35% between F06-F09. We estimate revenues from the radio business will show a CAGR of 35.4% over the period. ENIL's revenue growth should be well supported by the rollout of its remaining radio stations.

Exhibit 8

Consolidated ENIL: Revenues on an Upswing

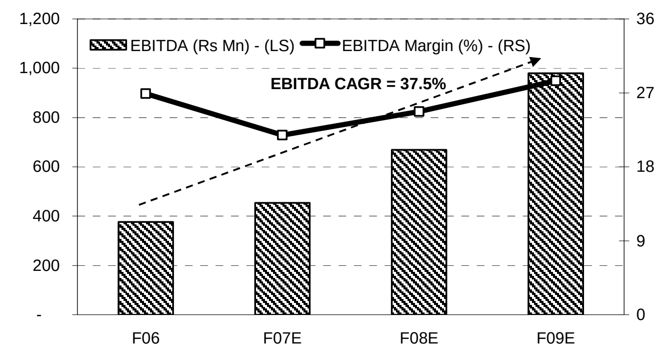


Source: Company data, Morgan Stanley Research
E= Morgan Stanley Research Estimates

With the move to a revenue-sharing system from the fixed license fee regime (post the phase II licensing done in April 2006), the company has been able to show healthy operational profits now that it is rid of the unduly high license fee. We forecast the company's consolidated EBITDA to show a CAGR of 37.5% in F06-F09, with EBITDA margins rebounding from (-)14.2% in F05 to 28.5% in F09.

Exhibit 9

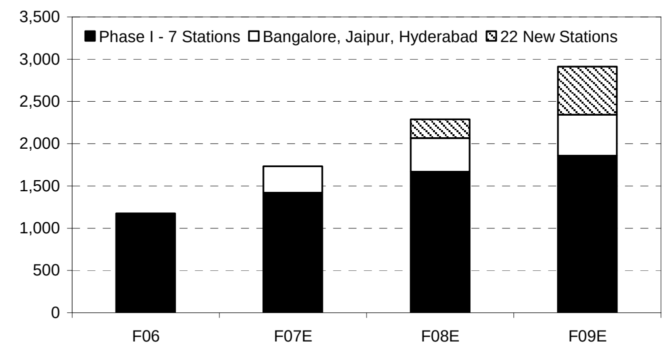
Consolidated ENIL: EBITDA vs. EBITDA Margin (%)



Source: Company data, Morgan Stanley Research
E=Morgan Stanley Research Estimates

Exhibit 10

ENIL (Radio Business): Revenue Breakdown by Station



Source: Company data, Morgan Stanley Research
Morgan Stanley Research Estimates

Existing stations – Revenue on a healthy uptrend

We project a 25.9% revenue CAGR for the existing 10 stations for the period F06-F09. The corresponding CAGR figure is 16.5% for the first seven stations which were operating in the phase I era. Here we are penciling in higher capacity utilization for ENIL's existing stations based on the belief that, with radio gaining increasing acceptance as a viable advertising medium (partly prompted by the entry of new stations), ENIL as the leader in these cities will be able to win a sizeable chunk of new advertising. In addition, we feel that, in the wake of the company's recently announced price hike, our assumption of a 12-20% rise in advertising rate per minute is not a stretch. Notably, the current peak prime time ad rates that the company's big stations manage in the peak season are upwards of Rs10,000 per 10-second slot and look to be on the up. Even as new players enter, we think we are unlikely to witness a price war, as: (a) most players are long-term players with high stakes in the industry, (b) most players have paid high one-time entry fees, which make price wars prohibitive; and (c) given the high growth of the market, there is space for a large number of players, in our view.

Rollout timeframe for new stations will be crucial

While the company is guiding for all its remaining 22 stations to be rolled out by mid F2Q08, we assume that 18 new stations will be operational for six months in F08, and that the other four stations will be rolled out by end-F08. For these 22 stations combined, we derive revenue figures of Rs224m in F08 and Rs570m in F09, and an effective revenue figure per station of about Rs26m for the 22 stations in F09.

Advertising cost – Should remain high near term…

For a typical radio business in India, production expenses (including royalty costs and license fees) constitute about 10-12% of revenue, employee cost about 20-25%, advertising (marketing) expenses about 20-25%, and other administration expenses about 15-20%.

India's radio industry faces a lack of differentiation in content, with most channels in the northern, western and eastern parts of the country broadcasting Hindi music (mainly Hindi film music). The situation may intensify further with the entry of new radio channels over the next 12-18 months. There has been some talk of radio channels being allowed to offer news and current affairs – however until this happens, there is low differentiation in content. As a result, companies will continue to spend a substantial proportion of their revenue on advertising in order to retain their brand value among consumers so as to attract media planners.

However, as the market leader and given the established pedigree of the Times Group, ENIL has strong relationships with the film fraternity, which helps it gain good traction with its listeners and customers. ENIL often bags exclusive rights for a certain period to broadcast music for films just before their release. This helps enhance brand value with the younger crowd. In this sense, we feel ENIL has a head start over the competition, and would be less impacted by high advertising costs, which it can offset by charging a premium to media planners for advertising on its channels.

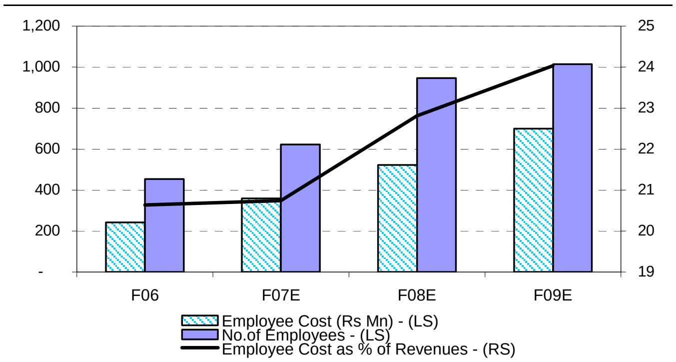
We also note that centralized advertising with the rollout of new stations and allotment of 98.3 frequency to ENIL throughout the country should entail reduction in advertising cost as a percentage of revenues from 31.4% in F07E (19.4% in F06) to 20.0% in F09E. We estimate that ENIL's advertising expense will register a CAGR of 36.8% between F06 and F09.

…but lower on a per station basis
We believe that once all 32 stations become operational, ENIL's advertising expense on a per station basis will fall – some of it, such as spending on TV commercials, etc, will be spread across the country, and hence the proportionate costs will be lower. We estimate that average advertising (or marketing) expenses per station will fall from Rs32.5m in F06 to about Rs18.2m in F09. We therefore forecast marketing (advertising) cost at around 20-25% of revenues going forward.

Employee cost
As ENIL's stations more than triple in number, employee cost will see a significant jump over the coming 2-3 years. In addition, given the increase in competition and as the pioneer in the private FM space, the company may have to pay higher salaries in order to retain its human capital. We estimate the employee cost to grow from Rs242m in F06 to Rs700m in F09. However, on a per station basis, the cost will actually drop as the company will need less personnel for its new stations, with most of the key stations already on air.

In addition, almost all of ENIL's big stations across the country are already operational, and the ones that are left are mainly medium and small stations requiring fewer people. We estimate that the medium and small stations will need about 15-20 staff each. Also, with most of its centralized corporate staff already in place, the company does not need to recruit personnel for these functions. We expect ENIL's employee strength to increase from about 450 people in F06 to about 1,000 people by F09-end.

Exhibit 11
ENIL: Employee Expense vs. No. of Employees



Source: Company data, Morgan Stanley Research
E= Morgan Stanley Research Estimates

License fees – No longer a drag on earnings
During the phase I regime, the radio companies suffered the burden of huge license fees. The significant impact on profitability and viability led to operating losses for all these companies. For ENIL, its license fee was more than 50% of revenues. However, with the move towards a revenue-sharing regime under phase II, ENIL has witnessed a significant uptick in its operating profit, and has managed to break even in F06. We believe that from here, with revenue sharing pegged at 4% of gross revenues, its profitability will no longer be hurt by the license fees.

Exhibit 12
ENIL: Radio License Fees – A Concern of the Past

Rs Mn	F05	F06	F07E	F08E	F09E
ENIL Radio Revenues	749	1,174	1,733	2,290	2,913
Radio License Fees	399	64	95	126	160
EBITDA (Radio Business)	(136)	354	391	584	856
EBITDA Excl License Fees	263	418	486	710	1,016

Source: Company data, Morgan Stanley Research
E = Morgan Stanley Research Estimates

Other businesses should chip in as well
Through its subsidiary TIMPL, ENIL operates the Events (360^{o} Entertainment) and Out of Home (Times OOH) businesses. We feel ENIL's other businesses are on a nascent evolution phase, with the number of contracts and properties increasing. The company has won 40 sites in Kolkata as well as a recent contract for the Delhi Noida Flyover, where it will control 66 billboards. As for the Events business, the company had been awarded a US$1.12m contract by the Jimmy Carter Foundation. Such contracts will help ENIL improve its brand value and procure more such contracts globally in the coming years. In addition, the company handles certain big ticket events organized by the Times Group, such as Femina Miss India, the Filmfare awards, etc, and has externally organized events such as the International Film Festival of India. We project revenues of TIMPL (Events and OOH business combined) to show a CAGR of 33.1% in F06-F09, with EBITDA registering a CAGR of 75.8% over the same period

Visual Radio – Dark horse for the future?
ENIL recently launched Visual Radio on the mobile networks of Hutch and Airtel in Delhi (July 06) and Mumbai (Sep 06). It intends to extend this service to Bangalore over the next 60-90 days in its attempt to open a new revenue stream.

Company Overview

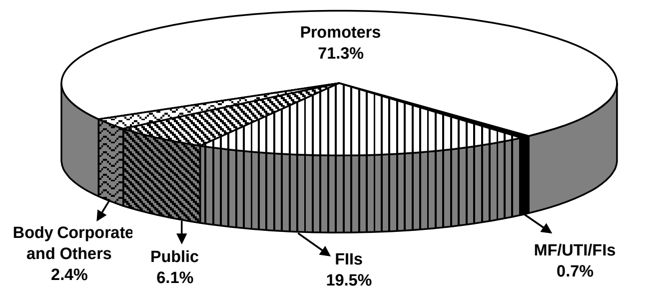
The Group:
Entertainment Networks India Ltd (ENIL) is owned by Times Infotainment India Limited (TIML), a 100%-owned subsidiary of Bennett Coleman and Company Limited (BCCL), the flagship company of The Times Group. The Times Group has an over 150-year presence across various genres of media space such as print media, radio, television broadcasting, internet, etc. ENIL recently had an IPO for 13.2m shares at an IPO price of Rs162 per share. It used the proceeds to invest in the subsidiary, Times Innovative Media Pvt Ltd (TIMPL) – which runs its Out of Home and Event businesses – pay migration fees and one-time entry fees for new licenses, and for general business purposes. ENIL was listed on the bourses on February 15, 2006. Post the IPO, TIML owns about a 64% stake in the ENIL, BCCL owns about a 7% stake, with the rest owned by the public, financial institutions, and FIIs.

Exhibit 13
Times Group –
Presence across Various Media Genres

Genre / Segment	Brand Name
PRINT MEDIA	
Newspaper	The Times of India (No.1 English Daily in India), The Economic Times, Navbharat Times, and Maharashtra Times
Magazines	Femina, Filmfare
BROADCASTING	
Television	Zoom, Times Now
Radio	Radio Mirchi 98.3 FM
MUSIC	
Recording / Distribution	Times Music
Music Retail Outlet	Planet M
OTHERS	
Multimedia	Times Multimedia
Out of Home	Times OOH
Events Management	360^0 Experience
Internet	Indiatimes.com, Timesjob.com

Source: Company data, Morgan Stanley Research

Exhibit 14
ENIL: Shareholding Pattern (Sep 06)



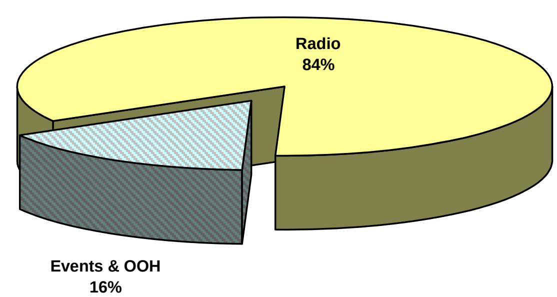
Source: Company data, BSE, NSE, Morgan Stanley Research

Times Group entered the media space in 1838 when it launched its newspaper *Times of India*. Over the years, the group has made further inroads into the media space by launching other newspapers, such as *Navbharat Times*, *The Economic Times*, etc, and magazines such as *Filmfare* and *Femina* in the 1950-60s. The Times Group made its first foray into music by launching Times Music in 1997.

In 2000, when the government allowed the entry of private players into the FM Radio space by auctioning 108 FM stations across 40 cities, ENIL won the largest number of licenses (seven) under its brand name Radio Mirchi, and become the only commercial FM broadcaster to have a presence in all four of India's Metros.

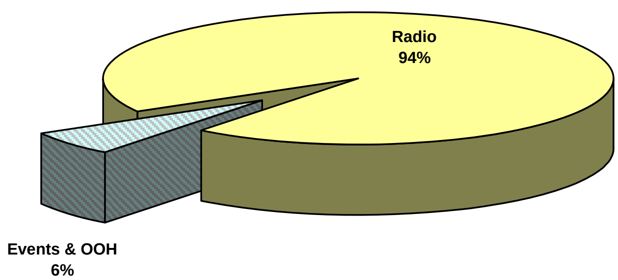
ENIL also operates two businesses under its 100% subsidiary TIMPL (incorporated in October 2005):
1) 360^o Entertainment, which is involved in conceptualising, marketing, and managing events; and
2) Out of Home Media.

Exhibit 15
ENIL (Consolidated):
Revenue Contribution by Segment



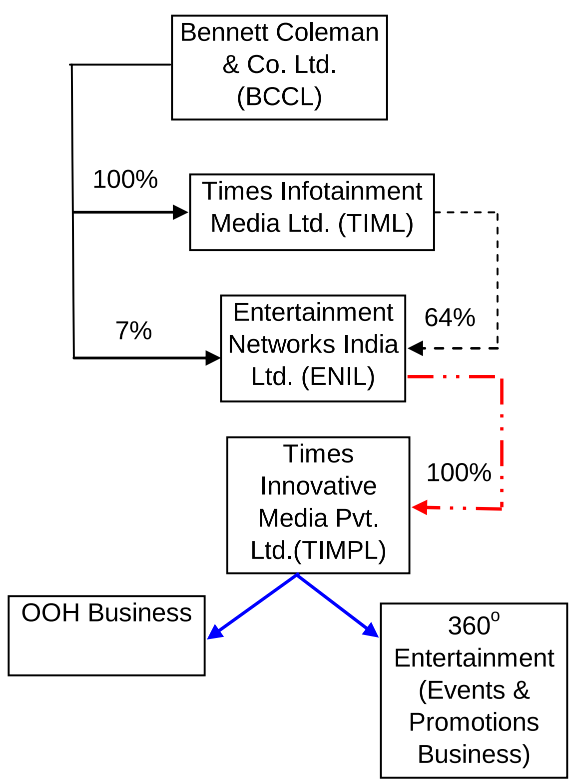
Source: Company data, Morgan Stanley Research

Exhibit 16
ENIL (Consolidated):
EBITDA Contribution by Segment



Source: Company data, Morgan Stanley Research

Exhibit 17
Organizational Structure



Source: Company data, Morgan Stanley Research

ENIL (Radio Mirchi):
Radio is the best-known, established and biggest of the three businesses. The company runs this business mainly through the Radio Mirchi brand and has a leadership position in most of the markets where it operates. ENIL currently has licenses for 32 stations of the total 290 stations that have been allotted since phase II of licensing was instituted. ENIL had licenses for seven stations after phase I of licensing and won an additional 25 stations in the recently concluded phase II. Of the 25 new stations, the company has already started operation for three key stations in Bangalore, Jaipur, and Hyderabad, and plans to operationalize the remaining stations by October 2007.

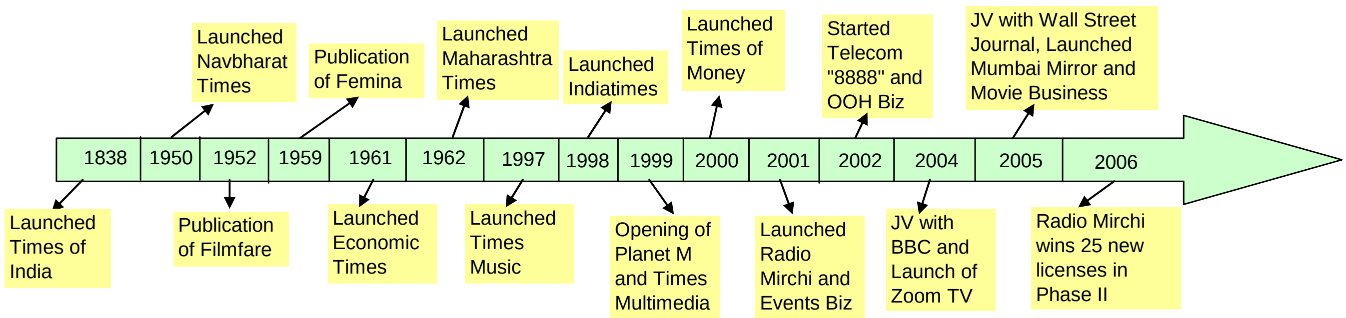
360° Entertainment:
360° Entertainment was established as an in-house event-management arm of the Times of India Group. Over time, it has grown as an independent business, managing big ticket events for other parties as well. Now it aspires to offer a one-stop service in this domain, from the conceptualisation stage to the marketing and management of events. Some of the big ticket events managed by the company include International Film Festival of India (IFFI) Awards and Filmfare Awards.

Out of Home:
Through OOH, the company aims to enter the fast-growing business of outdoor media. The focus of that business is to seek endorsement opportunities in places like bus shelters and Metro railways, and developing them through technological upgrades. The company currently has advertising rights for the following:

a) Bus Queue shelters in Mumbai – Two zones in Mumbai licensed by BEST to BCCL, sub-licensed to TIMPL
b) Patel Bridge in Mumbai – The Patel Bridge Panels caters to heavy vehicular traffic moving to and from South Mumbai Residences and Suburbs to Marine Drive, Nariman Point, and the Stock Exchange.
c) Delhi Metro – The company holds the rights to market advertising space on 13 Metro railway stations – seven from Central Secretariat to part of Kashmere gate, and six from Dwarka sector 9 to sector 14.
d) Kolkata Metro – The company holds the rights to market the hoardings around Metro stations in three zones – South, Central and North.
e) Delhi-Noida Flyover

Exhibit 18

Times Group – History So Far…

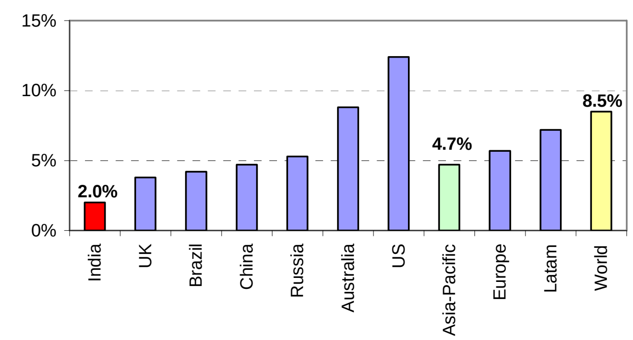


Source: Company data, Morgan Stanley Research

Radio – The Pie Is Expanding

Radio is a unique communication medium, as one of the cheapest forms of entertainment and with more reach than most other communication media. Radio penetration in India by All India Radio is about 99%. Despite all of this, radio in India has not been able to achieve its full potential. Its share of the total advertising pie in the country was a lowly 2% in CY2005, compared to an average of about 4.7% for Asia/Pacific, 8.5% for the world and over 8% for countries such as Australia and US.

Exhibit 19
Radio's Share in Total Advertising Spend (CY05)



Source: Zenith Optimedia, Morgan Stanley Research

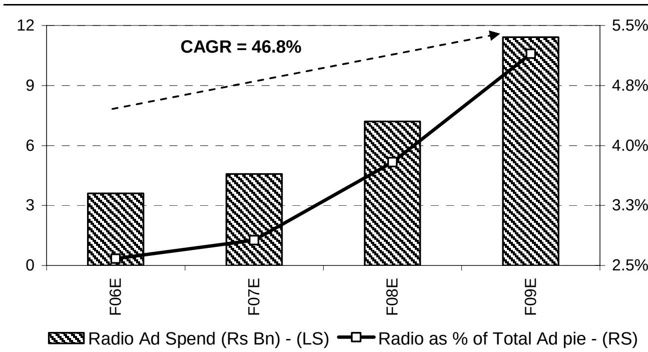
Radio's underperformance may have to do with the late entry of private players, and India's erstwhile licensing system whereby Private FM Radio players were required to pay a fixed sum of money, with a 15% escalation clause, every year as a license fee. This deterred certain players from entering the radio space. Equally important, since the players had entered with a high fixed license fee, they were making huge losses and hence were reluctant to commit more resources to the business.

However, post the recent phase II license auction, the government has decided to shift to a revenue-sharing method, which now makes radio an attractive industry and has led to the entry of some serious players with deep pockets.

Post phase II, radio looks attractive
The progress of India's radio industry has been restricted over the years mainly due to flaws in the licensing policy post phase I of licensing. However, with the government now moving towards revenue-sharing after phase II of licensing; the government inviting bids for 338 stations across 91 cities; and the entry of players with deep pockets, we believe radio is likely to enjoy robust growth in the coming 3-4 years. In addition, the companies should see profitability improve significantly after moving to revenue sharing.

Radio's share in ad pie to rise
Post the announcement of new reforms, and with the entry of new players, we feel radio's share of the advertising pie should increase. It should give advertisers more confidence when looking to radio as a medium of advertising. We believe that total advertising spend in India will show a CAGR of 16.7%, to Rs221.7 bn, between F06 and F09, with ad spend on radio registering a CAGR of 46.8%, to Rs11.4 bn, over the same period – a 5.1% share of the total ad pie.

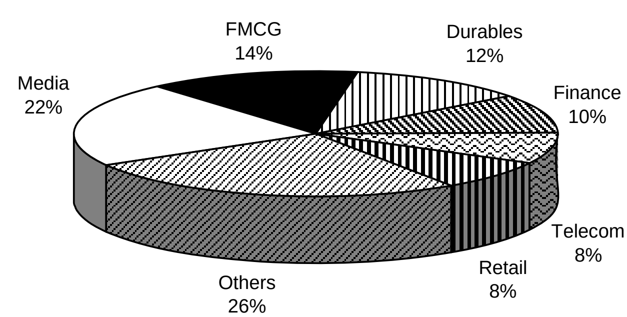
Exhibit 20
Radio Ad Spend: Share to Rise



Source: Morgan Stanley Research Estimates

Also, given the retail industry's growth in India – a segment that contributes more than 50% of radio advertising in many countries, compared to about 8% in India – we don't foresee any risk to our projection for the size of the radio market.

Exhibit 21
Sectoral Advertisers on Radio (CY2005)



Source: Industry data, Morgan Stanley Research

Radio – Emerging as an alternative media option with low-cost high frequency

We believe radio could emerge as a meaningful substitute for other advertising media, such as print media, cinema, cable TV, etc, as it is cheaper and does not need a listener's full attention, unlike other media.

We feel radio could become a good alternative for advertisers looking to target only a small proportion of the population but more frequently, as it is cheaper and could be more effective than other media.

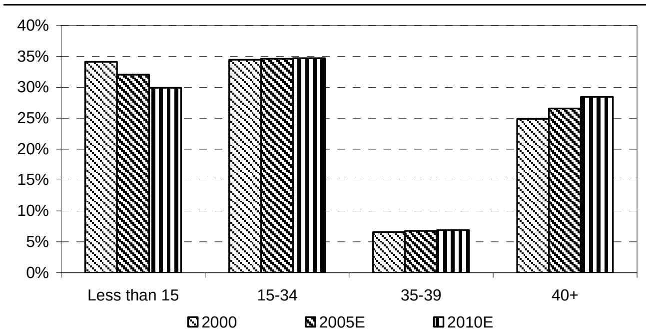
However, the absence of visual impact could reduce the substitutability of radio vis-à-vis other media such as television, which can have both a audio and visual impact.

Rising youth population to aid growth

As a mobile device that does not require the full attention of the listener, radio augurs well for India's youth who are constantly on the move. India is witnessing a growth in its youth population. As can be seen from the exhibit below, about 67% of the country's population falls into the category 0-34 years, wherein more than 35% of the people listen to FM radio. With this category expected to grow in the coming years, it could provide further fillip to radio listenership in the country.

Exhibit 22

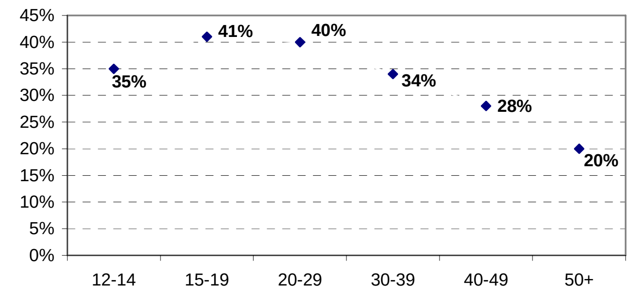
India: Population Breakup Across Age Groups



Source: United Nations Estimates, Morgan Stanley Research

Exhibit 23

India:
Percentage of FM Listeners across Age Groups



Source: MRUC, AC Nielsen ORG Marg's Indian Listenership Track 2004, Morgan Stanley Research

Radio – On the move

We estimate India's radio industry to grow from about Rs3.6bn currently to about Rs11.4 bn by F09, with its share of the advertising pie set to rise by 256 bps to 5.1% during the period.

We build this number based on our bottom-up analysis displayed in Exhibit 24, where we have categorized the stations into five categories: A+, A, B, C, and D. In all, the number of radio stations will likely rise from close to 30 currently to about 266 by F09. On an average basis, we project revenue per station of Rs42.9 mn in F09. We forecast a radio industry size of Rs7.2bn for F08 and Rs11.4bn for F09, indicating a CAGR of 46.8% for the industry between F06 and F09.

Exhibit 24

India Radio: Estimated Market Size by Category

Particulars	F07E	F08E	F09E
Total Operational Stations in "A+" Category	26	32	32
Avg Revenue per "A+" category station (Rs Mn)	86.7	90.1	103.5
Approx market value in "A+" category (Rs Mn)	**2,220**	**2,882**	**3,313**
Total Operational Stations in "A" Category	20	23	39
Avg Revenue per "A" category station (Rs Mn)	62.4	74.9	85.2
Approx market value in "A" category (Rs Mn)	**1,217**	**1,752**	**3,323**
Total Operational Stations in "B" Category	22	35	55
Avg Revenue per "B" category station (Rs Mn)	31.2	37.4	43.1
Approx market value in "B" category (Rs Mn)	**686**	**1,297**	**2,368**
Total Operational Stations in "C" Category	30	72	119
Avg Revenue per "C" category station (Rs Mn)	13.3	15.9	18.3
Approx market value in "C" category (Rs Mn)	**395**	**1,142**	**2,183**
Total Operational Stations in "D" Category	6	14	21
Avg Revenue per "D" category station (Rs Mn)	8	9	11
Approx market value in "D" category (Rs Mn)	**49**	**128**	**226**
Total Radio Market Value (Rs Mn)	**4,569**	**7,201**	**11,413**

Source: Morgan Stanley Research Estimates

Lack of variability, a concern

Post phase I of licensing, after initial attempts to target niche segments of the market (e.g., Go FM), almost all radio operators eventually moved to the same model. Content primarily focused on entertainment viz Bollywood (Hindi film industry) music, personalities and themes as Bollywood music provided a cheap source of content to improve profitability given the high license fees. This resulted in a lack of variability and eventually a lack of loyalty across different channels. This we believe is a concern for the radio channels as they will need to differentiate their product offering to improve loyalty and listenership in order to attract advertisers.

The need to create a niche will be even greater once all companies who won licenses during phase II licensing become operational. In addition, the government stance of not allowing radio companies to provide news and current affairs on their channels closes off avenues for differentiation. Another constraint on differentiation comes from the government's regulatory stance that one operator can operate only one radio station in one city. However, the number does not look too daunting when one considers that there are more than 6,000 radio stations in the United States.

We believe that over the next few years, as new stations go on air, players will try to differentiate themselves by providing content targeting only a specific segment of population, such as tailoring channels to regional languages, kids' interests, lifestyle, etc. This should provide advertisers with a better medium to reach their target audiences. Of course, this will also depend on radio players' obtaining permission to operate more than one station per city.

Information insufficiency…..needs to be resolved

Currently, the radio industry suffers from a lack of information in terms of listenership, listener pattern, etc. Apart from Mumbai and Delhi, there are no surveys or studies that provide media buyers with insights and determine the effectiveness of their advertisements. However, we believe that as competition intensifies and radio's share of the total advertising pie increases, information provision will increase.

Growth drivers

Until F05, all private FM players incurred losses mainly due to high and irrational license fees. The government's decision to move towards revenue-sharing from F06 with phase II of licensing should increase revenue and lead to a significant improvement in company profitability.

The expected growth drivers for the private FM industry are:

- **Increase in competition –** With the shift to revenue-sharing and conclusion of phase II of licensing, we have seen a huge increase in competition. We feel that, under such a scenario, companies with financial strength and media industry experience look better placed to reap the benefits of a growing market. This should lead radio's share of the total advertising pie to increase.

- **Improved penetration –** Post the phase II licensing , we see room for increased penetration, especially in B and C class cities. This should give advertisers a suitable alternative to print media and cinema in these cities, as radio can provide a cheap and more effective medium for advertising.

- **Strong growth being witnessed by advertising industries –** As sectors like retail, banking finance and insurance, real estate, and media are displaying strong growth trends, radio should benefit accordingly as its viability is proved further.

India Radio Industry – An Overview

Radio industry – Key players

The key players in the FM industry post Phase II licensing are All India Radio (AIR), Entertainment Network (India) Limited (ENIL - Radio Mirchi), Adlabs Radio, Music Broadcast Pvt. Ltd. (Radio City), Radio Today (Red FM), Sun TV (Kal Radio and South Asia), Mid Day, HT Media, Virgin Radio and Sumangali.

Exhibit 25

India Private FM Radio: Competitive Landscape

Key Players	Category					
	A+	A	B	C	D	Total
Adlabs (Big Radio)	4	4	10	24	3	**45**
ENIL (Radio Mirchi)	4	9	11	7	1	**32**
Sun TV (South Asia FM)	-	6	9	5	3	**23**
Sun TV (Kal Radio)	1	2	4	14	-	**21**
MBPL (Radio City)	3	8	3	6	-	**20**
Dainik (Synergy Media)	-	4	4	9	-	**17**
India Today (Radio Today)	3	1	1	2	1	**8**
BBC & Mid-Day (Radio One)	4	2	-	-	-	**6**
HT Media (HT Music)	3	1	-	-	-	**4**
Red FM	3	-	-	-	-	**3**
Total	**25**	**37**	**42**	**67**	**8**	**179**

Source: I&B Ministry, Morgan Stanley Research

The start…

Radio broadcasting in India started in 1935 with All India Radio (AIR). AIR works mainly on amplitude modulation (AM). Frequency Modulation (FM) started in 1978 in Chennai (then Madras).

Exhibit 26

Facts at a Glance

	As on Dec, 2004
Area	91.4%
Population	99.1%
Estimated Radio Sets	132 million
a) With FM Band	78 million
b) Without FM Band	54 million
Broadcasting Centres	215
Transmitters	337
a) Medium Wave	144
b) Short Wave	54
c) FM	139

Source: AIR, Morgan Stanley Research

As shown in Exhibit 26, penetration of traditional AM transmission on medium wave (MW) is almost complete in India. However, due to lack of innovation, bad sound quality, and poor content, high penetration has not translated into high listenership. This, in turn, implies that commercialisation of the medium remained low in the pre-FM phase.

The government finally decided to privatize FM in 1999. In May 2000, it auctioned 108 frequencies (VHF 87-108 Mhz) across 40 cities through an Open Auction Bidding Process.

Key features of phase I of licensing

i) Licenses granted for 10 years

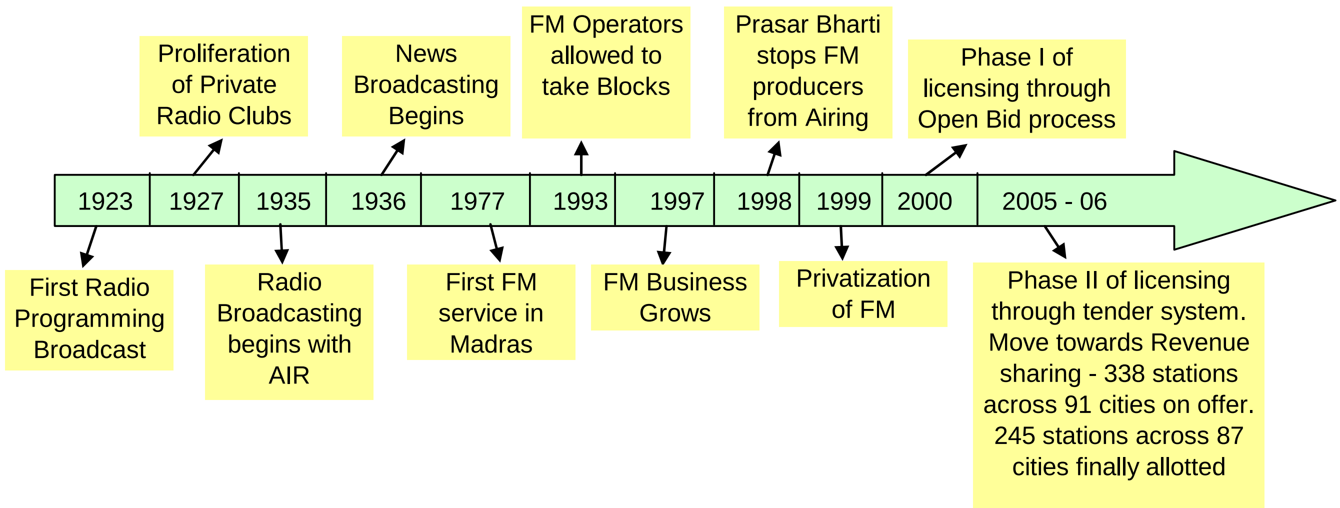
ii) Licenses granted on an annual fee basis, with annual fee increasing by 15% each year

The government finally issued 37 licenses, of which only 22 became operational and one was closed down. The aggressive bidding and exaggerated profitability estimates by bidders were clearly evident, with few license holders able to kick off their stations. In addition, the stations that did go on air had to grapple with high license fees and ran into huge losses. This led a committee of the Telecom Regulatory Authority of India (TRAI) to recommend a shift from an annual license fee to revenue sharing, where license fees are pegged to the revenues generated by the companies.

The government opted to rationalize the system in phase II of licensing. Conducted in 2005-06, this gave existing license holders the option to migrate to revenue sharing by paying a one-time migration fee (OTEF). During this phase, the government invited bids for 338 licenses across 91 cities. Out of these, licenses were allotted for 245 stations in 87 cities.

Exhibit 27

Radio Industry So Far…



Source: AIR, Industry Data, Morgan Stanley Research

Key highlights of the phase II regime

1. The licensing process was simplified to avoid unrealistic inflation of bids. As recommended by Radio Broadcast Policy Committee (RBPC), bidding shifted from the open bid system adopted in Phase I to a tender system.

2. The license fee system was revamped. Instead of a fixed annual fee with an escalation clause, a one-time entry fee (OTEF) coupled with an annual payment amounting to 4% of gross revenues or 10% of the Reserve OTEF for the city – whichever is higher – is charged. Phase I players have the option to migrate to this system. Reserve OTEF is calculated as 25% of the highest valid bid for the city.

3. The licenses are valid for a period of 10 years from the date of operationalisation, and from April 1, 2005, for licenses under migration, i.e., phase I license holders.

4. Only one license is awarded per applicant per city. An additional clause mentions that one player cannot have more than 15% of total operational stations in India.

5. The policy allows up to 20% of paid-up equity as foreign investment, provided an individual or a single company owns more than 50% of the paid-up equity, with the majority shareholders having management control and all key personnel, including the board of directors, being Indian residents.

6. Like the phase I regime, phase II does not permit private FM radio broadcasters to air news and current affairs programs.

7. If the channel is not operationalised within 18 months of signing the grant of permission agreement, the license will be revoked and the license holder will be not be allotted another channel for five years. The license will also be revoked if the channel is closed for more than six months.

8. Basic infrastructure (common location) in new cities will be set up by Broadcast Engineers Consultants of India.

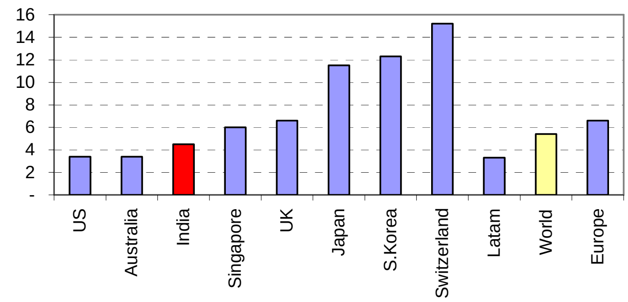
OOH Industry

The OOH (Out-Of-Home) industry in India is at a nascent stage. The industry is fragmented, with no major player dominating the market. This should provide a good opportunity for a company with financial strength, media industry experience, and brand strength to enter this segment, we believe.

Currently, OOH has a share of about 4.5% (Exhibit 28) of the overall advertising market in India, totaling about Rs6-7 billion. Billboards account for the largest share of the OOH industry, while bus shelters, buses, trains and others constitute the rest. The market is highly centralized, with about 80% of the business coming from India's top-10 cities, and is further dominated by the Metros.

Exhibit 28

India vs. World – Outdoor (OOH) as a Percentage of Advertising Spend (CY2005)



Source: Zenith Optimedia, Morgan Stanley Research

Medium

OOH media is broadly categorised as follows:

1. Billboards and hoardings;
2. Street areas, such as bus queue shelters (BQS), newsstands and kiosks;
3. Transit areas, such as airports, trains, station platforms, malls and trucks;
4. Others, such as sides of buildings.

Ownership mix

Of the total space available in India, almost 80% is privately owned and the remaining 20% are tendered properties, belonging to government bodies that are regulated by the various government agencies.

India versus the world

Unlike radio, India's OOH industry does not lag the world average significantly. Its share of total advertising spend was about 4.5% in 2005 versus the world average of about 5.4% (Exhibit 28). This is substantially higher than that of some developed markets, such as the US (3.4%) and Australia (3.4%), however, it is much lower than countries such as Japan (11.5%), S. Korea (12.3%) and Switzerland (15.2%).

Issues

OOH media sites are owned by state governments or their agencies, and are acquired by bidding or via tenders. Companies must make payments on a minimum guarantee basis. Hence, the difference between actual revenue and minimum guarantee can affect the industry's growth and profitability.

OOH media is also subject to governmental regulation at the central, state and local level on the use of land, construction and repair, etc. Changes in these regulations can have a strong bearing on the industry's prospects.

Outlook

We expect the industry to do well in the coming 3-4 years with the opening of new markets. In addition, with the use of new technologies, such as LED displays, and the growth of infrastructure, such as an increase in the number of malls, we expect new avenues and space to be provided. We also think pricing will improve over the next few years.

Key competitors

The OOH industry in India is fragmented with many players, and is operated by several local players that are small and unorganized. In addition to Times OOH, some of the other key organised players in the industry are Clear Channel, Selvel, Vantage, Pioneer, Portland, and Lakshya.

We believe that as commercialisation and scaling-up take place in the industry, consolidation activities could gather steam. Larger players stand a better chance of being able to purchase or lease advertising properties, while smaller players' reach to ground-level advertisers could aid potential acquirers' entry into untapped markets.

Characteristics of OOH
The following are the key characteristics of the OOH industry:

1) ***High degree of fragmentation –*** The OOH industry is highly fragmented. It is operated by several small and disorganized local players, each owning or having lease rights for a few properties. The fragmented nature of ownership makes OOH a difficult medium for advertisers to deal with.

2) ***Limited to Metros and large towns –*** OOH is common mainly in Metros and large towns as it needs a large critical mass of target audience. However, we believe that as rural marketing picks up in India, we should see an increasing use of OOH as a medium for advertising in small towns and rural areas.

3) ***Medium with an impact –*** As OOH makes use of visuals, it is an effective medium for advertising, and mainly targets people in cars or on the street. In addition, with new display techniques, it allows for better execution than any other medium, in our view.

Events and Promotion Business

Over the years, the events business in India has grown into a Rs27 billion industry, mainly involving managing live entertainment events such as musical shows, trade shows, conferences, corporate events, excellence awards, seminars etc. The business primarily uses digital technologies and innovative methods to help make organising events professional and effective.

We think the events business offers strong potential. It is increasingly becoming a part of large corporates and advertisers' marketing plans. Marketing, mainly via live entertainment events, etc, is increasingly becoming a key ingredient of marketers' sales promotion spend.

Issues

Key issues of the events industry are as follows:

1) ***Taxes –*** Events management business is categorized by a high level of taxes that vary across India's states. The events business also suffers from multiplicity of taxes, such as an entertainment tax, sponsorship taxes, a service tax for services secured from ancillary companies supporting the event.

2) ***Infrastructure, a concern –*** India lacks infrastructure for big ticket events that require huge capacity

3) ***Procedural issues –*** One of the impediments to the events business achieving its full potential are significant procedural delays due to the multiplicity of licenses and required permissions, which vary from state to state making the task of organizing events very difficult

4) ***Unorganized nature –*** The events business is plagued by the fragmented and disorganized nature of most event management companies. However, with some big companies getting into this space, we believe this will slowly be addressed

Key players

The key players in the events management business are: 360^{o} Entertainment (brand owned by ENIL's 100% subsidiary, TIMPL), Wizcraft International Entertainment Pvt Ltd, Encompass Events Pvt Ltd, Percept D'Mark, Showtime Events Pvt Ltd and certain other fragmented local companies.

Outlook

We think the industry has good growth potential.

1) ***Increase in advertising budget –*** We believe that, since this medium gives the customer direct exposure to the advertiser's product, and provides grounds for interaction between the two, it can provide high conversion and recall value. We therefore feel that advertising budgets dedicated to experiential marketing are likely to increase significantly.

2) ***Rise in presence of organized sector –*** We feel that as the size and scale of events increases, the presence of the organized sector comprising big media players should rise, and their share in the total pie should increase vis-à-vis the unorganized sector

3) ***Co-owners of brands –*** As we see more events offering more complete services to advertisers, event managers will likely start to become co-owners of the brands or properties that they are able to market over many years, such as housing fairs, trade fairs, etc.

4) ***Rationalization of taxes –*** We think that, in the coming years, the government will reduce and rationalize the number of taxes, and possibly introduce a uniform tax structure across the country for events. This would provide a big fillip for the sector, in our view.

5) ***Procedural simplification –*** We believe there will be a reduction in the number of permissions required to put on an event. We may see a single window for all approvals over the coming 2-3 years.

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Industry Coverage:India Media

Company (Ticker)	Rating (as of)	Price (11/16/2006)
Vipul Prasad		
Entertainment Network (India) Limited (ENIL.BO)	O-V (11/17/2006)	Rs220.60
New Delhi Television Limited (NDTV) (NDTV.BO)	E (04/13/2006)	Rs241.55
Zee Telefilms Ltd. (ZEE.BO)	E (09/18/2006)	Rs333.05

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