

**ENIL****Rs214**  
**UNDERPERFORMER**

## RESULT NOTE

Mkt Cap: Rs10.2bn; US\$226m

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**Result:** Q3FY11

**Comment:** Phase III – key monitorable!

## Key valuation metrics

Year end Mar 31	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY08	4,135	75.9	(173)	(3.6)	NA	37.4	NA
FY09	4,263	3.1	(602)	(12.6)	NA	(111.7)	NA
FY10	4,220	(1.0)	(153)	(3.2)	NA	23.9	NA
FY11E	4,480	6.0	62	1.3	NA	11.4	163.0
FY12E	3,473	(22)	495	10.4	693	9.5	20.6

## Key highlights of Q3FY11 results and post result conference call

- ENIL has reported its Q3FY11 results. Standalone revenues have grown by 22% at Rs775m (estimates of Rs743m), EBITDA of Rs282m (estimates of Rs250m) and operational PAT grew by 16.5% at Rs129m (estimates of Rs147m).
- The sale of the OOH business to BCCL was completed in December 2010 and hence financials from the OOH business are included in the consolidated results of Q3FY11. Also, reported PAT of standalone financials include extraordinary income of Rs120m (post tax) on account of this sale.
- Consolidated revenues stood at Rs1.46bn, EBITDA of Rs363m and operational PAT of Rs127m. Sale of the OOH business resulted in an exceptional loss of Rs180m for the consolidated operations (carrying value higher in consolidated books on account of purchase of stake by Lehman and Goldman at an entity value of ~Rs10bn). Thus, consolidated operations reported a net loss of Rs52m.
- With regards the radio business, the 10 legacy stations have contributed Rs560m in revenues (72% of radio revenues) with occupancies at over 80-85%. EBITDA for legacy stations stood at Rs218m for the quarter. With respect to new stations, occupancies stood at 54%.
- During the quarter ENIL had an average yield of Rs10,000 per 10 second slot across the network, which is 15% up on a QoQ basis. ENIL has taken price hikes in the range of 5-20% in August 2010, the full impact of which is being seen from this quarter onwards.
- With respect to the private treaty deals which ENIL enters into, during the quarter income to the tune of Rs45m and provisions to the tune of Rs36.9m has been made during the quarter. ENIL would write back the amount with respect to the private treaty deals as and when BCCL realizes the amount from its investments. ENIL is expected to account for ~4% of its radio revenues towards private treaty deals.
- In August 2010, the Copyright Board resolved the long pending music royalty issue. Payment of music royalty by radio operators to music companies has been changed from a fixed fee agreement to a revenue sharing agreement. The effective cost is now estimated to be at 2% of net revenues against the earlier implied cost of 7% of revenues.

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- With the new music royalty agreement being implemented from 25<sup>th</sup> August 2010, ENIL has witnessed savings of 410bp on production expenses in Q3FY11. However, T-Series is contending the new music royalty policy. The Delhi HC has put a stay on the matter and hence agreement with T-Series still stands on the earlier fixed fee basis (T-Series contributes 18% to ENIL's operations).
- Employee cost of Rs141m during the quarter includes a bonus provision of Rs25m.
- Owing to the strong revenue traction, EBITDA margins of the radio business have expanded by 318bp at 36.4%.
- During the quarter, tax expenses have been higher than expected at Rs78m on the back of deferred tax provisioning.
- Event management business (360<sup>o</sup> experience) has reported revenues of Rs74m and operational loss of Rs9m.
- With respect to the OOH business, revenues stood at Rs613m and the segment reported an operational profit of Rs90m during the quarter.
- Net cash for ENIL as on 31<sup>st</sup> December 2010 stood at Rs940m.
- During the quarter, the government has approved the e-auction methodology (similar to Telecom) for the Phase III licensing policy. Also, the government has approved the extension of the license period from the current 10yrs to 15yrs for Phase III licenses. The Cabinet approval for the final go ahead of the Phase III policy bidding is awaited, post which the bidding is expected to start within six months. With Phase III poised to bring material changes in the industry dynamics (multiple frequencies, consolidation, etc), the bidding process remains a key monitorable.

**With recovery in the ad spends driving revenue growth and rationalization of cost structures (music royalty expense savings) driving operating leverage in the business, ENIL's radio business is back on growth track. However, our entire positive bias over ENIL's city centric business model gets defeated with the recent hive off of Times OOH to the promoter group company. While the divestment of the OOH business would mitigate the balance sheet risk on ENIL's books, it restricts the scalability of ENIL's business to radio and events operations. ENIL, with Rs940m of cash on books post the transaction, has only Phase III radio licensing as an available avenue for capital deployment. While Phase III licensing promises changes in the industry dynamics (multiple frequencies, consolidation, etc), the bidding process (with regards price to be paid to acquire licenses) remains to be a critical monitorable. As we see limited scalability in the radio operations (industry wide profit expectations of not more than Rs1.5bn), we do not see merit in the pure play radio operations getting valued at 9x FY12E EV/ EBITDA and hence maintain our Underperformer call.**

#### Quarterly results

(Rs m)	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
<b>Net Sales</b>	<b>1,168</b>	<b>1,200</b>	<b>4,220</b>	<b>1,146</b>	<b>1,099.8</b>	<b>1,458.4</b>	<b>4,480</b>	<b>3,473</b>
%yoy growth	5.8	20.5	(1.0)	(73.1)	26.3	48.2	6.2	(22.5)
Expenditure	992	861	3,783	1,003	951.9	1,095.6	3,637	2,558
<b>EBITDA</b>	<b>176</b>	<b>339</b>	<b>437</b>	<b>144</b>	<b>147.9</b>	<b>362.9</b>	<b>843</b>	<b>915</b>
Margin (%)	15.1	28.2	10.4	12.5	13.4	24.9	18.8	26.3
Other Income	1	7	15	6	0.7	10.3	27	42
Interest	30	28	121	9	4.4	11.7	26	16
Depreciation	138	118	526	113	111.0	114.4	428	322
Adjusted PBT	9	198	(194)	27	33.2	247.1	417	619
Tax	(0)	28	23	22	29.9	99.8	168	124
Minority Interest	(16)	17	(65)	(6)	(7.3)	20.3	7	-
<b>PAT</b>	<b>25</b>	<b>154</b>	<b>(153)</b>	<b>11</b>	<b>10.6</b>	<b>127.0</b>	<b>241</b>	<b>495</b>

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