

February 7, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|---------------------|------------|--------|------------|-------|
| | FY20E | FY21E | FY20E | FY21E |
| Rating | BUY | | BUY | |
| Target Price | 776 | | 832 | |
| Sales (Rs. m) | 7,313 | 8,131 | 7,104 | 7,907 |
| % Chng. | 2.9 | 2.8 | | |
| EBITDA (Rs. m) | 1,828 | 2,114 | 1,989 | 2,333 |
| % Chng. | (8.1) | (9.4) | | |
| EPS (Rs.) | 16.6 | 20.8 | 18.9 | 23.8 |
| % Chng. | (11.7) | (12.7) | | |

Key Financials

| | FY18 | FY19E | FY20E | FY21E |
|----------------|--------|-------|-------|-------|
| Sales (Rs. m) | 5,371 | 6,446 | 7,313 | 8,131 |
| EBITDA (Rs. m) | 1,166 | 1,389 | 1,828 | 2,114 |
| Margin (%) | 21.7 | 21.6 | 25.0 | 26.0 |
| PAT (Rs. m) | 352 | 513 | 794 | 989 |
| EPS (Rs.) | 7.4 | 10.8 | 16.6 | 20.8 |
| Gr. (%) | (35.5) | 45.8 | 54.8 | 24.7 |
| DPS (Rs.) | 1.0 | 1.0 | 1.0 | 1.5 |
| Yield (%) | 0.2 | 0.2 | 0.2 | 0.3 |
| RoE (%) | 4.0 | 5.5 | 7.9 | 9.0 |
| RoCE (%) | 5.4 | 7.1 | 10.4 | 12.1 |
| EV/Sales (x) | 4.7 | 3.9 | 3.2 | 2.7 |
| EV/EBITDA (x) | 21.8 | 17.9 | 12.9 | 10.5 |
| PE (x) | 74.3 | 51.0 | 32.9 | 26.4 |
| P/BV (x) | 3.0 | 2.8 | 2.6 | 2.4 |

Key Data

ENIL.BO | ENIL IN

| | |
|---------------------|-------------------|
| 52-W High / Low | Rs.765 / Rs.531 |
| Sensex / Nifty | 36,971 / 11,069 |
| Market Cap | Rs.26bn / \$ 366m |
| Shares Outstanding | 48m |
| 3M Avg. Daily Value | Rs.3.36m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 71.15 |
| Foreign | 8.79 |
| Domestic Institution | 13.03 |
| Public & Others | 7.03 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|--------|--------|
| Absolute | (11.2) | (26.0) | (21.3) |
| Relative | (13.9) | (24.6) | (27.5) |

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Non-FCT business drags margins

Key highlights

- Capacity utilization of top 8 & remaining 27 legacy stations stood at 124% and 89% respectively.
- Batch 1 stations reported revenues and EBITDA of Rs264mn and Rs51mn respectively. Batch 2 stations reported revenue of Rs21mn with an EBITDA loss of Rs10mn.
- Non-FCT business contributed 40% to the revenue. Non-FCT margin (excluding the international concert business) increased to 29.8%.

Entertainment Network India Ltd (ENIL's) topline increased 35.9% YoY to Rs2,009.0mn due to delayed festive impact (revenue deferment from 2QFY19), improving utilization and increasing share of non-FCT business (two international concerts were done during the quarter). However, EBITDA margins declined 400 bps YoY to 20.1% due to losses on batch 2 stations and international concerts. We increase our revenue estimates by 5%/3% for FY19E/FY20E given back ended revenue accretive nature of non-FCT business (share is rising) and improving utilization (legacy/batch1/batch 2 stations have seen increase in utilization to 97%/38%/12% in 3QFY19). However, we reduce our EBITDA estimates by 7%/8% for FY19E/FY20E given ENIL's renewed focus on non-FCT business (aim to increase the share to 40-45% over next 4-5 years) which is margin dilutive. We expect sales and PAT to grow at a CAGR of 15% and 41% over FY18-21E. We value the stock at 18.5x FY20 EBITDA of Rs1.8bn to arrive at per share value of Rs764 per share. Our DCF enabled per share value stands at Rs788 per share. We arrive at blended TP (50% weight to each methodology) of Rs776 (Rs832 earlier) per share. Maintain BUY.

Improving utilization to aid growth: Inventory utilization for 35 phase 2, 17 batch 1 and 21 batch 2 stations increased to 97%, 38% and 12% respectively in 3QFY19. We expect the utilization levels to rise gradually to 85% (phase 2), 40% (batch 1) and 20% (batch 2) in FY20E. Rise in utilization and calibrated price hikes is likely to drive top-line at a CAGR of 15% over FY18-21E.

Margin expansion on the cards: Due to renewed focus on non-FCT business we expect EBITDA margins to decline 10 bps YoY to 21.6% in FY19E. However, we expect a sharp jump of 350 bps in FY20E to 25% given 1) improved profitability of batch 1 stations (EBITDA margin of 19.5% in 3QFY19 vis-à-vis 5.2% in 3QFY18) and 2) networking nature of 21 batch 2 stations (losses narrowed by Rs0.5mn)

Concall highlights: 1) Radio business grew by 25% YoY (legacy station revenue was up 21%) 2) ER increased by 1% 3) Entered into the US market (brand licensing arrangement; asset light model) 4) In 4QFY19, no international concerts are planned 5) Government contributed 14% to the revenue 6) TV Today acquisition is still pending, MIB to take call in 3-4 weeks 7) Batch 2 pending capex is Rs100-120mn.

Exhibit 1: Q3FY19 Result Overview (Rs m)

| Standalone (Rs mn) | Q3FY19 | Q3FY18 | YoY gr. | Q2FY19 | QoQ gr. |
|--------------------------------|--------------|--------------|--------------|--------------|---------------|
| Net Sales | 2,009 | 1,479 | 35.9% | 1,225 | 64.0% |
| Employee expenses | 359 | 261 | 37.6% | 327 | 9.8% |
| <i>As a % of sales</i> | <i>17.9%</i> | <i>17.7%</i> | | <i>26.7%</i> | |
| Programming & royalty expenses | 807 | 460 | 75.3% | 225 | 258.7% |
| <i>As a % of sales</i> | <i>40.2%</i> | <i>31.1%</i> | | <i>18.4%</i> | |
| License fees | 100 | 88 | 14.0% | 84 | 19.0% |
| <i>As a % of sales</i> | <i>5.0%</i> | <i>5.9%</i> | | <i>6.9%</i> | |
| Other expenses | 339 | 314 | 8.0% | 316 | 7.4% |
| <i>As a % of sales</i> | <i>16.9%</i> | <i>21.2%</i> | | <i>25.8%</i> | |
| Expenditure | 1,605 | 1,123 | 43.0% | 952 | 68.6% |
| EBITDA | 404 | 356 | 13.5% | 273 | 47.7% |
| <i>EBITDA Margin</i> | <i>20.1%</i> | <i>24.1%</i> | | <i>22.3%</i> | |
| Depreciation | 174 | 161 | 7.8% | 166 | 4.8% |
| EBIT | 230 | 195 | 18.2% | 108 | 113.6% |
| <i>EBIT Margin</i> | <i>11.5%</i> | <i>13.2%</i> | | <i>8.8%</i> | |
| Interest | 15 | 12 | 21.8% | 11 | 39.3% |
| Other income | 42 | 18 | 128.0% | 33 | 26.6% |
| PBT | 257 | 201 | 28.0% | 130 | 97.8% |
| Tax | 97 | 70 | 38.7% | 40 | 140.7% |
| Tax Rate | 37.8% | 34.9% | | 31.1% | |
| Other comprehensive income | (1.9) | 1.6 | NM | 0.3 | NM |
| PAT | 158 | 132 | 19.3% | 90 | 75.7% |
| <i>PAT Margin</i> | <i>7.8%</i> | <i>8.9%</i> | | <i>7.3%</i> | |
| EPS (Rs) | 3.4 | 2.7 | 22.3% | 1.9 | 78.0% |

Source: Company, PL

Exhibit 2: Revenue assumptions for 35 legacy stations

| Particulars | FY19E | FY20E | FY21E | FY22E | FY23E |
|---|----------------|----------------|----------------|----------------|----------------|
| Inventory available (mn sec) in slots - Each slot is for 10 sec | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 |
| Utilization level | 85% | 85% | 87% | 88% | 90% |
| Inventory sold (mn sec) in slots | 14.4 | 14.4 | 14.7 | 14.9 | 15.2 |
| YoY growth | 6.6% | 0.0% | 2.4% | 1.1% | 2.3% |
| Realization per slot per station (Rs) | 361 | 379 | 399 | 420 | 443 |
| YoY growth | 10.0% | 5.1% | 5.2% | 5.3% | 5.4% |
| Total revenues (Rs mn) | 5,196.5 | 5,461.5 | 5,880.7 | 6,263.6 | 6,751.9 |

Source: Company, PL

Exhibit 3: Revenue assumptions of 17 batch 1 stations

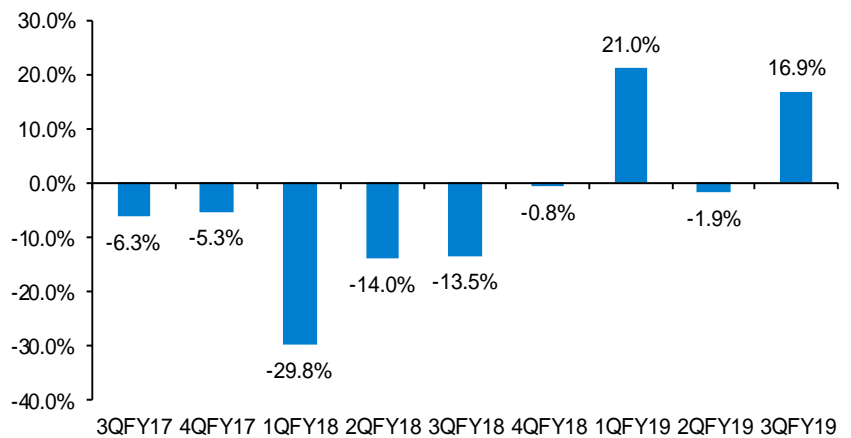
| Particulars | FY19E | FY20E | FY21E | FY22E | FY23E |
|---|----------------|----------------|----------------|----------------|----------------|
| Inventory available (mn sec) in slots - Each slot is for 10 sec | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |
| Utilization level | 38% | 40% | 45% | 50% | 60% |
| Inventory sold (mn sec) in slots | 3.1 | 3.3 | 3.7 | 4.1 | 4.9 |
| YoY growth | 61.5% | 5.3% | 12.5% | 11.1% | 20.0% |
| Realization per slot per station (Rs) | 356 | 369 | 384 | 400 | 418 |
| YoY growth | 3.5% | 3.7% | 4.0% | 4.2% | 4.5% |
| Total revenues (Rs mn) | 1,112.4 | 1,214.2 | 1,420.7 | 1,644.8 | 2,062.6 |

Source: Company, PL

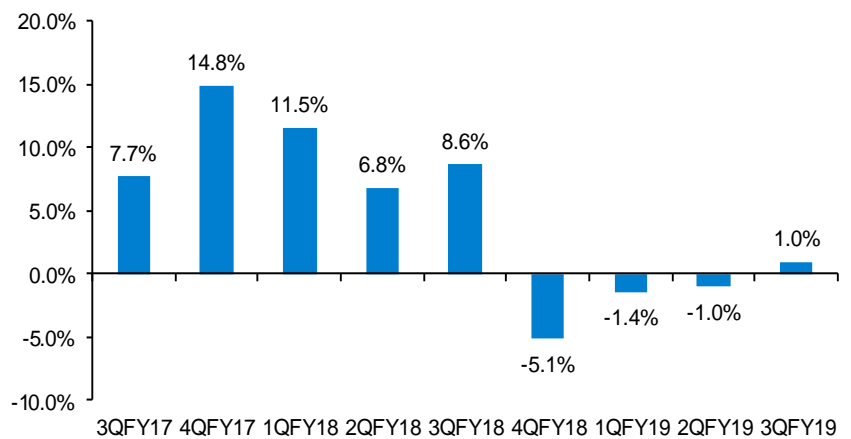
Exhibit 4: Revenue assumptions for 21 batch 2 stations

| Particulars | FY19E | FY20E | FY21E | FY22E | FY23E |
|---|-------------|--------------|--------------|--------------|--------------|
| Inventory available (mn sec) in slots - Each slot is for 10 sec | 7.6 | 10.2 | 10.2 | 10.2 | 10.2 |
| Utilization level | 8% | 20% | 30% | 40% | 55% |
| Inventory sold (mn sec) in slots | 0.6 | 2.0 | 3.0 | 4.1 | 5.6 |
| YoY growth | NA | 233.3% | 50.0% | 33.3% | 37.5% |
| Realization per slot per station | 120.0 | 125.4 | 130.7 | 135.9 | 141.1 |
| YoY growth | NA | 4.5% | 4.2% | 4.0% | 3.8% |
| Total revenues | 73.2 | 254.9 | 398.4 | 552.5 | 788.5 |

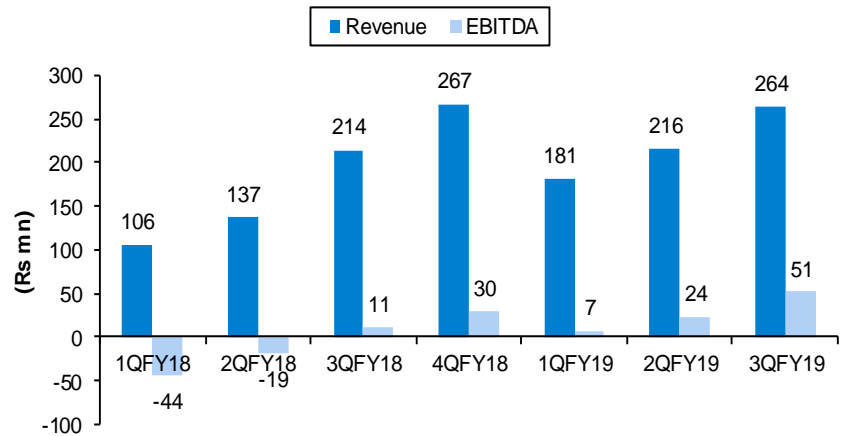
Source: Company, PL

Exhibit 5: Volume growth trend of 35 legacy stations


Source: Company, PL

Exhibit 6: Gross ER growth trend of 35 legacy stations


Source: Company, PL

Exhibit 7: Revenue & EBITDA trend of batch 1 stations


Source: Company, PL

Exhibit 8: Weighted average valuation table

| Particulars (Rs) | Weight assigned | Target price | Weighted average target price |
|--------------------------------------|-----------------|--------------|-------------------------------|
| EV/EBITDA approach | 50% | 764 | 382 |
| DCF approach | 50% | 788 | 394 |
| Weighted average target price | | | 776 |

Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net Revenues | 5,371 | 6,446 | 7,313 | 8,131 |
| YoY gr. (%) | (3.4) | 20.0 | 13.5 | 11.2 |
| Cost of Goods Sold | - | - | - | - |
| Gross Profit | - | - | - | - |
| Margin (%) | - | - | - | - |
| Employee Cost | 1,185 | 1,386 | 1,572 | 1,707 |
| Other Expenses | 1,926 | 2,175 | 2,377 | 2,602 |
| EBITDA | 1,166 | 1,389 | 1,828 | 2,114 |
| YoY gr. (%) | (7.4) | 19.1 | 31.6 | 15.6 |
| Margin (%) | 21.7 | 21.6 | 25.0 | 26.0 |
| Depreciation and Amortization | 635 | 673 | 728 | 737 |
| EBIT | 532 | 716 | 1,100 | 1,377 |
| Margin (%) | 9.9 | 11.1 | 15.0 | 16.9 |
| Net Interest | 47 | 50 | 44 | 41 |
| Other Income | 88 | 135 | 146 | 163 |
| Profit Before Tax | 615 | 801 | 1,202 | 1,499 |
| Margin (%) | 11.4 | 12.4 | 16.4 | 18.4 |
| Total Tax | 263 | 288 | 409 | 510 |
| Effective tax rate (%) | 42.8 | 36.0 | 34.0 | 34.0 |
| Profit after tax | 352 | 513 | 794 | 989 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 352 | 513 | 794 | 989 |
| YoY gr. (%) | (35.5) | 45.8 | 54.8 | 24.7 |
| Margin (%) | 6.5 | 8.0 | 10.9 | 12.2 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 352 | 513 | 794 | 989 |
| YoY gr. (%) | (35.5) | 45.8 | 54.8 | 24.7 |
| Margin (%) | 6.5 | 8.0 | 10.9 | 12.2 |
| Other Comprehensive Income | 2 | (2) | - | - |
| Total Comprehensive Income | 353 | 511 | 794 | 989 |
| Equity Shares O/s (m) | 48 | 48 | 48 | 48 |
| EPS (Rs) | 7.4 | 10.8 | 16.6 | 20.8 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY18 | FY19E | FY20E | FY21E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 8,246 | 9,193 | 9,325 | 9,471 |
| Tangibles | 950 | 1,241 | 1,350 | 1,472 |
| Intangibles | 7,295 | 7,953 | 7,975 | 7,999 |
| Acc: Dep / Amortization | 1,507 | 2,180 | 2,909 | 3,646 |
| Tangibles | 364 | 531 | 705 | 888 |
| Intangibles | 1,143 | 1,650 | 2,204 | 2,758 |
| Net fixed assets | 6,738 | 7,013 | 6,416 | 5,826 |
| Tangibles | 586 | 710 | 645 | 584 |
| Intangibles | 6,152 | 6,303 | 5,771 | 5,241 |
| Capital Work In Progress | 626 | - | - | - |
| Goodwill | 5 | 5 | 5 | 5 |
| Non-Current Investments | 293 | 328 | 326 | 347 |
| Net Deferred tax assets | (246) | (80) | (96) | (112) |
| Other Non-Current Assets | 221 | 238 | 234 | 252 |
| Current Assets | | | | |
| Investments | 1,553 | 1,772 | 1,772 | 1,772 |
| Inventories | - | - | - | - |
| Trade receivables | 1,702 | 1,943 | 2,104 | 2,317 |
| Cash & Bank Balance | 180 | 292 | 1,375 | 2,663 |
| Other Current Assets | 211 | 226 | 241 | 260 |
| Total Assets | 11,552 | 11,840 | 12,497 | 13,465 |
| Equity | | | | |
| Equity Share Capital | 477 | 477 | 477 | 477 |
| Other Equity | 8,366 | 8,829 | 9,575 | 10,493 |
| Total Network | 8,843 | 9,306 | 10,052 | 10,970 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | - | - | - | - |
| Other non current liabilities | 92 | 105 | 118 | 126 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 1,040 | 790 | 540 | 405 |
| Trade payables | 1,049 | 1,247 | 1,352 | 1,484 |
| Other current liabilities | 284 | 312 | 339 | 368 |
| Total Equity & Liabilities | 11,552 | 11,840 | 12,497 | 13,465 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY18 | FY19E | FY20E | FY21E |
|--------------------------------------|--------------|--------------|--------------|--------------|
| PBT | 615 | 801 | 1,202 | 1,499 |
| Add. Depreciation | 635 | 673 | 728 | 737 |
| Add. Interest | 47 | 50 | 44 | 41 |
| Less Financial Other Income | 88 | 135 | 146 | 163 |
| Add. Other | (117) | (149) | 31 | 27 |
| Op. profit before WC changes | 1,180 | 1,376 | 2,006 | 2,303 |
| Net Changes-WC | (52) | (51) | (43) | (92) |
| Direct tax | (150) | (288) | (409) | (510) |
| Net cash from Op. activities | 977 | 1,036 | 1,555 | 1,702 |
| Capital expenditures | (255) | (948) | (132) | (146) |
| Interest / Dividend Income | - | - | - | - |
| Others | (396) | 407 | - | - |
| Net Cash from Inv. activities | (651) | (541) | (132) | (146) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | - | (250) | (250) | (135) |
| Dividend paid | (57) | (48) | (48) | (72) |
| Interest paid | (1) | (50) | (44) | (41) |
| Others | (274) | (35) | 2 | (20) |
| Net cash from Fin. activities | (333) | (383) | (340) | (268) |
| Net change in cash | (6) | 112 | 1,083 | 1,288 |
| Free Cash Flow | 617 | 780 | 1,278 | 1,428 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY18 | FY19E | FY20E | FY21E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 7.4 | 10.8 | 16.6 | 20.8 |
| CEPS | 20.7 | 24.9 | 31.9 | 36.2 |
| BVPS | 185.5 | 195.2 | 210.9 | 230.1 |
| FCF | 12.9 | 16.4 | 26.8 | 30.0 |
| DPS | 1.0 | 1.0 | 1.0 | 1.5 |
| Return Ratio(%) | | | | |
| RoCE | 5.4 | 7.1 | 10.4 | 12.1 |
| ROIC | 10.1 | 11.7 | 14.6 | 15.7 |
| RoE | 4.0 | 5.5 | 7.9 | 9.0 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.1) | (0.1) | (0.3) | (0.4) |
| Net Working Capital (Days) | 44 | 39 | 38 | 37 |
| Valuation(x) | | | | |
| PER | 74.3 | 51.0 | 32.9 | 26.4 |
| P/B | 3.0 | 2.8 | 2.6 | 2.4 |
| P/CEPS | 26.5 | 22.0 | 17.2 | 15.1 |
| EV/EBITDA | 21.8 | 17.9 | 12.9 | 10.5 |
| EV/Sales | 4.7 | 3.9 | 3.2 | 2.7 |
| Dividend Yield (%) | 0.2 | 0.2 | 0.2 | 0.3 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

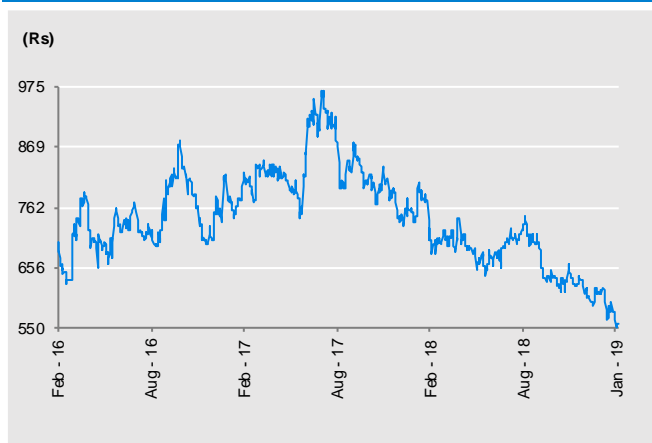
| Y/e Mar | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 1,594 | 1,216 | 1,225 | 2,009 |
| YoY gr. (%) | (3.5) | 16.4 | (2.2) | 35.9 |
| Raw Material Expenses | - | - | - | - |
| Gross Profit | - | - | - | - |
| Margin (%) | - | - | - | - |
| EBITDA | 354 | 284 | 273 | 404 |
| YoY gr. (%) | 0.6 | 65.0 | (3.9) | 13.5 |
| Margin (%) | 22.2 | 23.3 | 22.3 | 20.1 |
| Depreciation / Depletion | 158 | 152 | 166 | 174 |
| EBIT | 196 | 132 | 108 | 230 |
| Margin (%) | 12.3 | 10.8 | 8.8 | 11.5 |
| Net Interest | 10 | 9 | 11 | 15 |
| Other Income | 27 | 28 | 33 | 42 |
| Profit before Tax | 213 | 150 | 130 | 257 |
| Margin (%) | 13.3 | 12.3 | 10.6 | 12.8 |
| Total Tax | 96 | 58 | 40 | 97 |
| Effective tax rate (%) | 45.0 | 38.5 | 31.1 | 37.8 |
| Profit after Tax | 117 | 92 | 89 | 160 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 117 | 92 | 89 | 160 |
| YoY gr. (%) | (15.2) | 107.3 | 50.2 | 22.2 |
| Margin (%) | 7.3 | 7.6 | 7.3 | 7.9 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 117 | 92 | 89 | 160 |
| YoY gr. (%) | (15.2) | 107.3 | 50.2 | 22.2 |
| Margin (%) | 7.3 | 7.6 | 7.3 | 7.9 |
| Other Comprehensive Income | 1 | - | - | (2) |
| Total Comprehensive Income | 118 | 92 | 90 | 158 |
| Avg. Shares O/s (m) | 48 | 48 | 48 | 48 |
| EPS (Rs) | 2.5 | 1.9 | 1.9 | 3.3 |

Source: Company Data, PL Research



Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 4-May-18 | NR | - | 664 |
| 2 | 11-Sep-18 | BUY | 843 | 645 |
| 3 | 5-Oct-18 | BUY | 843 | 640 |
| 4 | 5-Nov-18 | BUY | 836 | 635 |
| 5 | 7-Jan-19 | BUY | 832 | 620 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|-------------------------------|--------|---------|------------------|
| 1 | Dish TV India | NR | - | 74 |
| 2 | Entertainment Network (India) | BUY | 832 | 620 |
| 3 | Music Broadcast | BUY | 405 | 288 |
| 4 | Navneet Education | BUY | 157 | 106 |
| 5 | S Chand and Company | BUY | 400 | 214 |
| 6 | Zee Media Corporation | BUY | 38 | 22 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |



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