Equity Research

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Music Broadcast Ltd.

Recommendation	Subscribe
Price Band	Rs.324 – Rs. 333
Bidding Date	6 March - 8 March
Book Running Lead Manager	ICICI Securities
Registrar	Karvy Computershare Pvt. Ltd.
Sector	Radio & Media Industry

Minimum Retail Application- Detail At Cut off Price	
Number of Shares	45
Minimum Application Money	14985
Discount to retail	No Discount
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY16	H1FY17
Total Income	232.3	136.8
EBITDA	78.6	45.5
PAT	42.5	29.7

Valuations	Lower Band	Upper Band
Market Cap (Rs in cr)	1848.6	1899.9
EPS*	9.9	10.0
P/E ratio*	33.6	33.4
EV/EBITDA (adj)*	18.7	19.3
Enterprise Value (Rs Cr)	1702.8	1754.2

*calculated on FY17E numbers

Post Issue Shareholding Pattern	
Promoters	71.40%
Institutions	12.85%
Bodies Corporates & Public	15.75%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	57.05
Issue Size (Rs in cr)	486-488
Face Value (Rs)	10

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BACKGROUND

Music broadcast ltd, subsidiary of Jagran Prakashan Ltd. (JPL) is the first private FM radio broadcaster in India. The company operates its radio stations under the brand "Radio City". The company operates 40 web radio stations and has a 'Planet Radio City' mobile app that plays various stations. The company currently has presence in 38 cities. The company is present in 12 out of the top 15 cities in India by population. The company's advertiser base increased from 4,118 advertisers in FY14 to 5,211 advertisers in FY16.

Objects and Details of the Issue

The public issue of Music Broadcast ltd consists of fresh issue of Rs 400 cr and offer for sale of equity shares of Rs 88 cr by the promoter group. The object of the issue is mainly to repay the debt and for general corporate purposes

- Redemption of Listed NCDs of Rs 200cr
- Early redemption of the JPL NCDs and repayment of Rs 98.2cr

Investment Rational:

a) Expansion on cards
b) Strong financials
c) Growth in the industry will lead to growth to the company
d) Diversification of the business

Valuation and Recommendation

Over FY12- FY16 the company sales has grown at a CAGR of 17.4% however Ebitda has grown at a CAGR of 31.9%. In FY12, the company has reported a loss of Rs 2.17cr, however from FY13-16 the company has continuously reported profits, indicating an improvement in the financials . In FY16, the company has reported profit of Rs 42.5cr. Ebitda to Cash flow from operations is consistently higher at around 85% indicating lower working capital requirement by the company. Going forward, expansion in different geographies, playing music as per audience preferences and attracting listeners, will help in attracting advertisers and in turn fuel in growth to the company. Company enjoys ROE of 39.6%. On the valuation front, at the given upper price band of issue of Rs 333, as per our estimates, Music Broadcast is offered at PE of 33.4x its FY17E EPS of Rs 10 and FY17E EV / Ebitda of 19.3x which is lower to its peer. **We recommend subscribing to the issue**.

Financial Snapshot	FY14	FY15	FY16	H1FY17
Revenues	154.2	200.8	232.3	136.9
EBIDTA	42.4	62.3	78.6	45.5
% margins	*27.5%*	*31.0%*	*33.8%*	*33.2%*
PAT	24.3	47.1	42.5	29.8
% margins	*15.8%*	*23.4%*	*18.3%*	*21.7%*

Source: RHP, Company data, NB Research

Business

Music broadcast ltd, subsidiary of Jagran Prakashan Ltd. (JPL) is the first private FM radio broadcaster in India. Music broadcast Ltd. operates its radio stations under the brand "Radio City". The company also operates online web radio "Planet Radio City", and has 40 web radio stations and the company also has a 'Planet Radio City' mobile app to access the web radio content on the go

Jagran Prakashan had entered the radio segment with the acquisition of Music Broadcast Pvt Ltd in Dec 2014 from private equity firm, India Value Fund Advisors, and Star Group, which is part of the Rupert Murdoch-controlled 21st Century Fox .In 2016, the radio business of Shri Puran Multimedia Limited (SPML), operated by Jagran's promoter group was demerged and subsequently transferred to Music broadcast named "Radio Mantra". Music Broadcast has grown its presence from 4 cities in 2001 to 37 cities as on Feb 2017. The company recently added 1 more radio station in Bikaner taking the total reach to 38 cities. The company is present in 12 out of the top 15 cities in India by population. As per the AZ Research in 23 markets, in which the company operates, the company radio stations reached out to over 49.60 million listeners in 23 cities

The company operates 30 radio stations through its 'Radio City' brand, 8 radio stations through its 'Radio Mantra' and 2 sales alliances with ITM Software & Entertainment Private Limited which operates 'Suno Lemon' in Gwalior and Ananda Offset Private Limited which operates 'Friends FM' in Kolkata. 1 New Radio City Stations namely Patna is to be operationalise by March / April 2017. The company networks its radio stations located at different cities and operate it from a single hub for example the company has networked its stations located at Sangli, Nanded, Jalgaon, Sholapur and Akola in Maharashtra and operate it from a single hub at Ahmednagar

The company derives revenue mainly from radio air time sales. The radio air time sales are categorised into fixed commercial time ("FCT") and non-fixed commercial time ("Non-FCT"). In FY16, national clients contributed around 55% to the revenue & local clients contributed 45% to the total. The key sectors which advertise on the company's radio stations are Government/PSU, media, consumer products, e-commerce, real estate and finance.

Investment Rationale

Expansion on cards

Music Broadcast acquired 11 additional radio stations i.e. the New Radio City Stations, in different cities, of which 1 station namely Patna is likely to start its operations by March / April 2017.The new radio city stations are likely to start contributing to the revenue from FY18E. The company normally takes 18-24 months from the new stations to break even.

Other than this, 28 radio stations which were under phase 2 policy have been migrated to phase 3 policy (includes Radio Mantra) which includes one time migration fee. In Phase III, license will be for 15 years as against 10 years in Phase II. An operator in Phase III regime may own upto 40% of channels in the same city subject to 3 different operators in the city, whereas earlier policy provided for only 1 channel per operator per city. New regime also gives an operator facility to network its own channels within the country. Expansion in different geographies will help the company to increase its listenership base which in turn will help the company to increase its advertisements.

Strong financials

Over FY12- FY16 the company sales has grown at a CAGR of 17.4% however Ebitda margins has grown at a CAGR of 31.9%. Ebitda to Cash flow from operations is around 85% indicating lower working capital requirement by the company. Company is generating positive FCFF consistently baring FY16 , wherein, the company has incurred a capex of Rs 286 cr majorly in acquiring the radio stations & migration of the radio stations from phase 2 to phase 3 which is likely to start generating revenue in FY18E. ROCE of the company have improved to 16.9% in FY16 and ROE stands at 39.6% in FY16. ROE of past years is not comparable as the company had accumulated losses of the past. Higher growth in sales with similar margins will lead to higher cash flow from operations and also improve the ROE and ROCE of the company.

Particulars	FY12	FY13	FY14	FY15	FY16
Sales	122.2	138.1	154.2	200.8	232.3
Ebitda	26.0	33.9	42.4	62.3	78.6
Margin	21.3%	24.5%	27.5%	31.0%	33.8%
CFO	20.94	34.26	36.41	65.02	66.28
Capex	-2.07	-2.51	-3.83	-2.74	-286.11
FCFF	18.87	31.76	32.58	62.28	-219.84
Ebitda /CFO	81%	101%	86%	104%	84%
ROE	8.1%	-84.8%	229.0%	81.7%	39.6%
ROCE	4.1%	15.7%	26.4%	15.6%	16.9%

Source: Company data, NB Research

Growth in the industry will lead to growth to the company

The radio industry has grown at a steady CAGR of 14.5% between the CY 2011 and 2015. From FY12-FY16 the company has grown at a CAGR of 17.4%, indicating a higher growth than the industry. Advertising volume for the overall industry has grown at CAGR of 10.4% in FY11-16 whereas Radio City advertising volume has grown at CAGR of 12.5% in FY11-16.The Company's advertiser base increased from 4,118 advertisers in FY14 to 5,211 advertisers in FY16

Going forward, the radio industry is expected to grow at a CAGR of 16.6% between the CY 2016 and 2020. We expect diversification in different geographies with playing music as per audience preferences and attracting listeners will help the company to capture the rising opportunity from the industry.

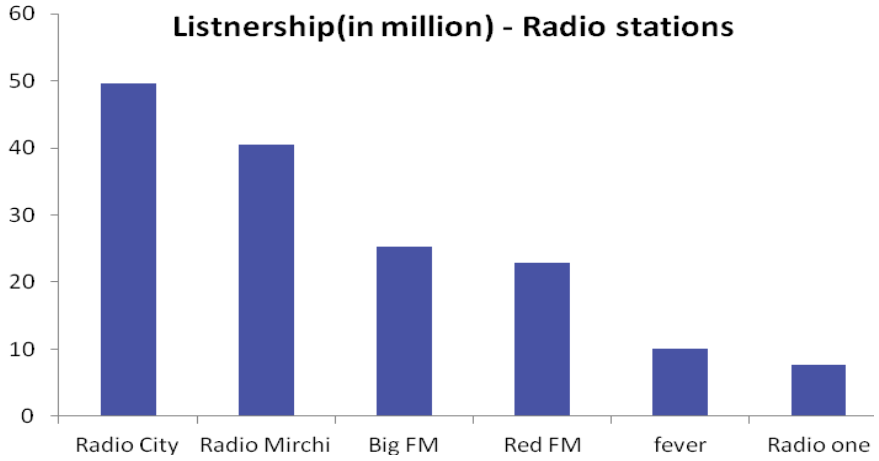
Diversification of the business

The company is diversifying its business and is transforming itself from a pure play radio company to an audio entertainment company. Diversifying the business will help the company to reach to the target customer through different modes. The company has forayed into web radio, which broadcasts music and other shows through internet, at any time and in any jurisdiction. The company operates 40 web radio stations through Planet Radio City in 8 languages. The web radio stations offer 24 hours of internet radio along with few live RJ hosted shows Other than this, the company also has a 'Planet Radio City' mobile app that plays various stations such as 'Radio City Freedom', 'Radio City Electronica', 'Radio City Metal' and 'Radio City Smaran', in various languages, on mobile and other smart devices. The company is also developing programmes beyond the radio broadcast. The company has created popular events such as 'Gig City' – which is multi city radio concert series, 'Radio City Super Singer' – which is a singer talent hunt and 'Radio City Freedom Awards' – which is platform to recognise and reward independent music across genres and languages.

Industry

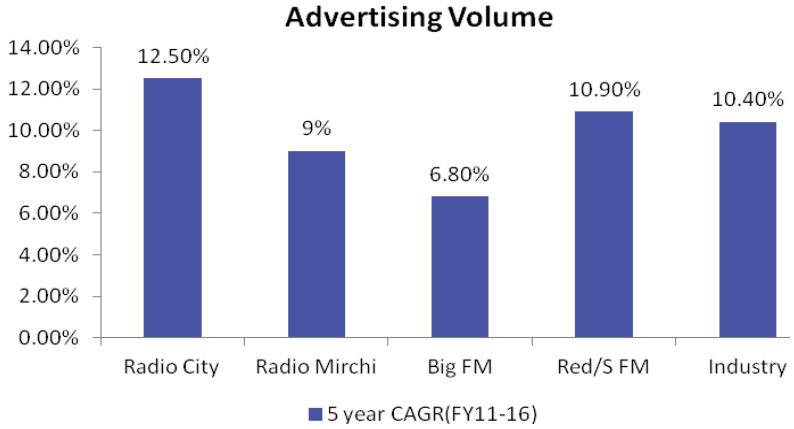
The Indian media and entertainment industry consists of television, print media, films, radio, music, OOH, animation and VFX, gaming and digital advertising. As per KPMG-FICCI Report, media industry has grown at a CAGR of 12.2 % between 2010 and 2015 and is expected to grow at a CAGR of 14.5% from 2016-20E. Of this the radio industry has grown at a CAGR of 14.5% between 2010 and 2015 and is expected to grow at a CAGR of 16.6% from 2016-20E.The radio industry which comprises of 1.7% in 2015 to the total industry is expected to increase to 3.7% by 2020.Growth in the radio industry has been driven by both volume enhancements in tier-II and tier-III cities and an overall increase in advertisement rates. Internet penetration in India has also increased substantially, as a result of the growth in the smartphone user base and availability of high speed internet. The potential growth opportunity for internet radio is significant

As per the research conducted by AZ Research in 23 markets in which the company operates, Music Broad cast has the highest listeners



Source: RHP, NB research

The chart below represents the growth in advertising volume for different radio stations as well as the radio industry as a whole for the given period:



Source: RHP, NB research

Risk

- Advertisement being the main source of revenue any shift in the advertisement volume from radio media to other media (print, digital , TV etc) will impact the revenue of the company
- Expansion in New Radio City Stations acquired under the Phase III Policy show slow growth
- Being a highly competetitive industry ,listeners shifting to other radio channels or other song portal may impact the financials of the company
- The company is dependent on 3rd party for the content any change in policies by them will impact the company

Valuation and Recommendation

Looking upon the size and the business of the company we have compared Music Broadcast ltd with Entertainment Network India Ltd. Having similar kind of business the comparison is in terms of competition.

Peer Comparison

(Rs. In Cr)	Sales	EBITDA	Margins	PAT	EPS	P/E	EV/EBITDA
Entertainment network	554.7	140.6	25.34%	67.4	13.9	59.7	28.4
Music broad cast	276.5	91.3	33.00%	56.9	10.0	33.4	19.3

Source: Bloomberg, Nirmal Bang Research, FY17E

Over, FY12- FY16 the company sales has grown at a CAGR of 17.4% however Ebitda has grown at a CAGR of 31.9%.In FY12, the company has reported a loss of Rs2.17cr , however from FY13-16 the company has continuously reported profit , indicating an improvement in the financials . In FY16, the company has reported profit of Rs 42.5cr. Ebitda to Cash flow from operations is consistently higher at around 85% indicating lower working capital requirement by the company. Going forward, expansion in different geographies, playing music as per audience preferences and attracting listeners, will help in attracting advertisers and in turn fuel in growth to the company. Company enjoys ROE of 39.6%. On the valuation front, at the given upper price band of issue of Rs 333, as per our estimates, Music Broadcast is offered at PE of 33.4x its FY17E EPS of Rs 10 and FY17E EV / Ebitda of 19.3x which is lower to its peer. **We recommend subscribing to the issue**.

Financials

Profit & Loss (Rs cr)	FY12	FY13	FY14	FY15	FY16	H1FY17
Net Sales	**122.2**	**138.1**	**154.2**	**200.8**	**232.3**	**136.89**
YoY Growth (%)		13.0%	11.7%	30.3%	15.7%	
Lisence fees	6.8	7.5	8.2	9.5	17.2	9.4
Employee Cost	29.8	34.6	36.3	43.0	51.6	32.4
Operating expenses	59.6	62.1	67.3	86.0	84.9	49.6
Total Expenditure	**96.2**	**104.2**	**111.8**	**138.5**	**153.7**	**91.4**
EBIDTA	**26.0**	**33.9**	**42.4**	**62.3**	**78.6**	**45.5**
EBIDTA Margins (%)	21.3%	24.5%	27.5%	31.0%	33.8%	33.2%
Interest	6.8	4.8	5.7	6.2	19.0	8.1
Depreciation	23.5	19.9	15.5	15.7	16.7	9.0
Other Income	2.6	2.4	3.1	6.7	13.2	1.3
Profit Before Tax	**(1.7)**	**11.6**	**24.3**	**47.1**	**56.1**	**29.8**
Extraordinary	(0.5)				(13.6)	
PBT After Exception	(2.2)	11.6	24.3	47.1	42.5	29.8
Current Tax				3.7	9.9	5.9
MAT Credit				(3.7)	(9.9)	(5.9)
Deferred Tax credit/(charge)						
PAT	**(2.17)**	**11.62**	**24.33**	**47.06**	**42.51**	**29.76**
Minority interest						
PAT	**(2.17)**	**11.62**	**24.33**	**47.06**	**42.51**	**29.76**
PAT Margins (%)	-1.8%	8.4%	15.8%	23.4%	18.3%	21.7%
EPS Rs. (Post Issue)	(0.4)	2.0	4.3	8.2	7.5	5.2
P/E - @ Rs 333*	(875.5)	163.5	78.1	40.4	44.7	31.9
EV/Sales*	16.6	14.5	12.8	10.6	9.1	6.4
EV/EBIDTA*	78.0	58.9	46.5	34.2	27.0	19.3
ROCE %*	4.1%	15.7%	26.4%	15.6%	16.9%	19.4%
ROE %*	8.1%	-84.8%	229.0%	81.7%	39.6%	42.5%

* Calculated on H1FY17 annualised numbers

Source: RHP, Company data, Nirmal Bang Research

Balance sheet	FY12	FY13	FY14	FY15	FY16	H1FY17
Equity & Liabilities						
Equity share capital	38.9	38.9	38.9	38.9	38.9	41.9
Share capital suspense account					3.1	3.1
Reserves Total	(65.6)	(52.6)	(28.3)	18.7	65.4	95.1
Total Shareholders Funds	**(26.7)**	**(13.7)**	**10.6**	**57.6**	**107.4**	**140.2**
Long term borrowing	139.3	118.0	103.2	284.8	232.7	232.7
Long term provisions	1.3	1.6	1.8	2.9	4.1	4.65
Total Non-current Liabilities	**140.6**	**119.6**	**105.0**	**287.7**	**236.9**	**237.4**
Short term borrowings					23.0	17.5
Trade payable	28.6	29.2	23.1	33.9	39.3	50.5
Other Current Liabilities	37.7	34.9	30.5	17.8	77.6	80.8
Short term provisions	0.6	0.7	0.8	0.7	1.2	1.4
Total Current Liabilities	**66.9**	**64.9**	**54.4**	**52.4**	**141.0**	**150.3**
Total Equity & Liabilities	**180.8**	**170.8**	**170.0**	**397.7**	**485.3**	**527.8**
Assets						
Fixed Assets	60.9	43.5	31.9	19.0	296.0	290.6
- Tangible assets	10.6	5.9	7.4	7.1	8.2	7.5
- Intangible assets	48.4	36.3	24.2	11.6	222.2	214.0
- Capital work in progress	1.9	1.3	0.3	0.3	65.7	69.1
Non Current investments	0.0	0.0	0.0	0.0	0.0	0.0
Long term Loans & Advances	24.7	25.0	23.5	22.4	48.6	63.4
Other non current asset	12.0	8.3	4.6	9.7	4.2	3.6
Tota Non-current Assets	**97.6**	**76.8**	**60.1**	**51.2**	**348.8**	**357.6**
Current investments					14.2	16.5
Trade receivables	62.4	64.5	62.8	77.2	95.0	114.2
Cash & Bank balance	12.3	22.0	33.9	54.3	15.8	29.5
Short term Loans & advances	7.3	7.0	12.0	211.6	11.4	9.6
Other current asset	1.2	0.5	1.1	3.4	0.1	0.4
Total Current Assets	**83.2**	**93.9**	**109.9**	**346.6**	**136.4**	**170.2**
Total Assets	**180.8**	**170.8**	**170.0**	**397.7**	**485.3**	**527.8**

Source: RHP, Company data, Nirmal Bang Research

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