

Entertainment Network Limited (ENTNET)

₹ 231

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY12E)	Changed from ₹ 8.7 to ₹ 9.1
EPS (FY13E)	Changed from ₹ 10.7 to ₹ 10.4
RATING	Unchanged

Challenging times...

Entertainment Network India Ltd (ENIL) reported its Q3FY12 numbers that were slightly below our expectations on the topline front but surprised positively on the bottomline front. The standalone topline stood at ₹ 75.6 crore against our expectation of ₹ 80.1 crore, de-growing 2.5% YoY on the back of a 0.8% decline in ad revenue. The consolidated topline for the company stood at ₹ 81.6 crore against our expectation of ₹ 76.8 crore. However, the company reported a substantial jump in EBITDA margins, which stood at 41.0% expanding 466 bps YoY on the back of significantly lower administrative expenses. The consolidated EBITDA margin stood at 40.6%. The company reported standalone PAT of ₹ 18.2 crore growing 45.8% YoY against the PAT of Q3FY11 adjusted for exceptional items. The consolidated profit stood at ₹ 18.4 crore.

Highlights of the quarter

The radio segment reported an ad revenue decline of 0.8% to ₹ 74.0 crore primarily due to the absence of high yielding customers who were replaced by low yielding ones. Blended capacity utilisation, however, saw an increase from 62% in Q3FY11 to ~69% in Q3FY12. Standalone EBITDA margins increased to 41.0% from 36.4% in Q3FY11 primarily due to lower administrative expenses that declined from ₹ 21.0 crore to ₹ 11.0 crore.

Valuation

We have valued the stock on an SOTP basis, evaluating the radio business on DCF and event business on EV/sales. Assuming revenue CAGR of 12.6% over FY11E-20E and terminal growth of 4%, thereon, we have arrived at a target price of ₹ 289/share for the radio business. We have valued the event business at 1.0x FY13 EV/sales to arrive at a valuation of ₹ 2/share and assigned a target price of ₹ 291. The stock is currently trading at ₹ 231. Our target price implies an upside potential of 26%. We continue to rate the stock as **BUY**.

Exhibit 1: Valuation Metrics

(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	75.6	80.1	77.5	69.2	9.3	-2.5
EBITDA	31.0	30.5	28.2	18.4	69.0	10.0
EBITDA Margin (%)	41.0	38.0	36.4	26.5	1449 bps	466 bps
Depreciation	8.2	8.1	8.4	8.1	1.0	-3.0
Interest	-0.7	0.0	-0.9	-0.5	NM	NM
Other Income	1.8	1.5	0.0	2.0	-8.0	4928.1
Reported PAT	18.2	16.7	24.9	9.0	101.7	-26.7
EPS (₹)	3.8	3.5	5.2	2.0	89.1	-26.7

Source: Company, ICICIdirect.com Research

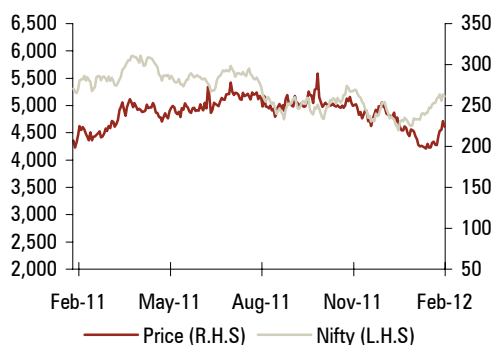
Rating matrix	
Rating	: Buy
Target	: ₹ 291
Target Period	: 12 months
Potential Upside	: 26%

Key Financials				
₹ Crore	FY10	FY11	FY12E	FY13E
Net Sales	422	454.2	286.0	324.5
EBITDA	43.7	92.2	85.2	102.4
Net Profit	(15.3)	17.2	43.4	49.6
EPS (₹)	(3.2)	3.6	9.1	10.4

Valuation summary				
	FY10	FY11	FY12E	FY13E
P/E	-	64.1	25.3	22.2
Target P/E	-	80.8	31.9	28.0
EV / EBITDA	32.4	13.8	13.1	10.6
P/BV	3.8	3.6	3.3	2.9
RoNW	(4.2)	4.5	10.2	10.4
RoCE	(2.0)	13.1	12.3	14.7

Stock data	
Market Capitalization (₹ Crore)	1,100.9
Total Debt (FY11) (₹ Crore)	0.0
Cash and Investments (FY11) (₹ Crore)	110.6
EV (₹ Crore)	990.3
52 week H/L	289 / 197
Equity capital	47.7
Face value	₹ 10
MF Holding (%)	0.9
FII Holding (%)	15.6

Price movement



Analyst's name

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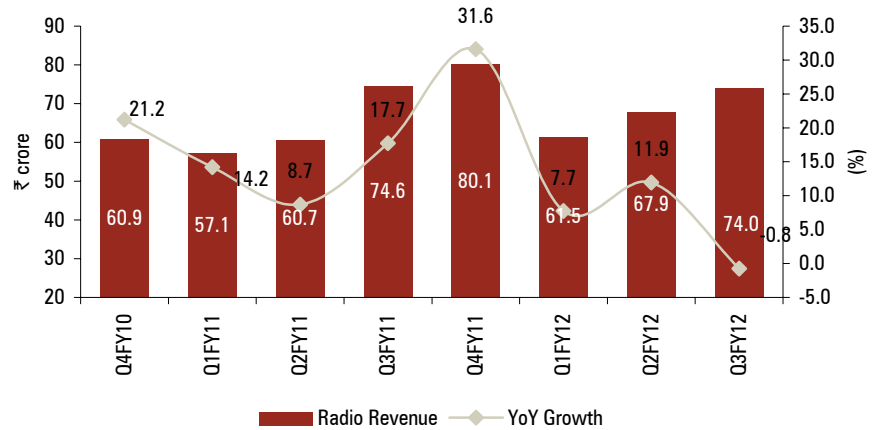
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Result analysis

Decline in ad revenue growth

The radio segment reported an ad revenue decline of 0.8% to ₹ 74.0 crore primarily due to a reduction in the effective price per slot as high spending sectors like telecom and auto shied away from advertising. Hence, they were replaced by sectors like realty and government, which usually pay less per ad. The management has indicated that on a client to client basis pricing has not gone down. The legacy stations witnessed an ad revenue growth of 0.9% to ₹ 52.7 crore while other stations reported a revenue of ₹ 21.3 crore.

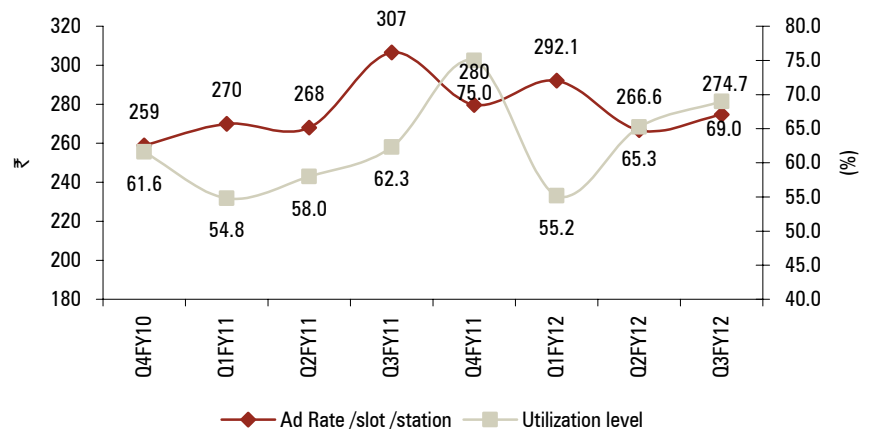
Exhibit 2: Radio revenue trend



Source: Company, ICICIdirect.com Research

Blended capacity utilisation stood at ~ 69% in Q3FY12, up from ~62% in Q3FY11. The utilisation level in legacy stations was higher at ~ 90% while that at smaller stations stood at ~ 62%. Average yield per slot per station declined by 10.4% YoY to ₹ 275 in Q3FY12 as compared to ₹ 307 in Q3FY11.

Exhibit 3: Capacity utilisation and yield trends



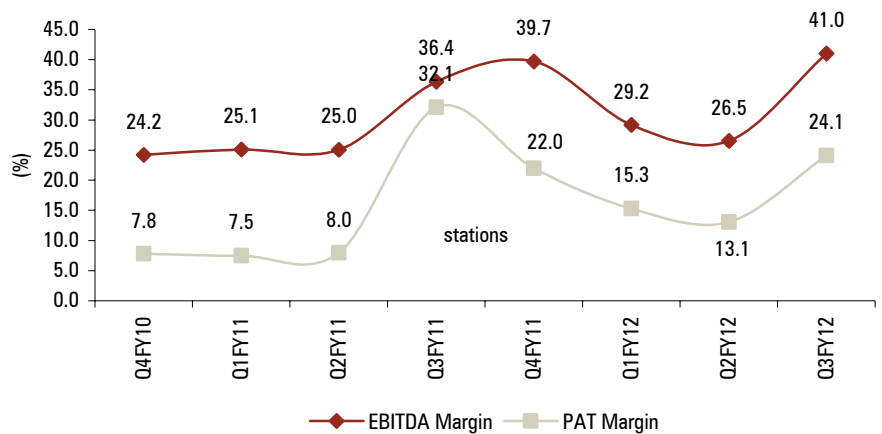
Source: Company, ICICIdirect.com Research

EBITDA and PAT margins...

Standalone EBITDA margins increased to 41.0% from 36.4% in Q3FY11 primarily due to lower administrative expenses, which declined from ₹ 21.0 crore to ₹ 11.0 crore. The marketing costs, however, were higher at ₹ 8.7 crore from ₹ 6.9 crore in Q3FY11 owing to Mirchi properties.

The standalone PAT margin was at 24.1% as compared to 32.1% in Q2FY11. The PAT in Q3FY11 included an exception income of ₹ 12.4 crore on account of profit from sale of the subsidiary Times Innovative Media Ltd. Adjusting for that, the PAT margin for Q3FY11 stood at 16.1% which corresponds to an expansion of 797 bps in Q3FY12.

Exhibit 4: Standalone EBITDA & PAT margin trend



Source: Company, ICICIdirect.com Research

Outlook

The company witnessed de-growth in ad revenues. The management attributed it to the slowing economy where higher yielding customers have shied away from advertising particularly in the off festive month of November. According to the management, ad revenues were better in October and December 2011.

With inflation seemingly under control and the RBI cutting the CRR and hinting at decreasing interest rates in the future, the economy is expected to be on the fast growth track again, thus increasing the ad spends of corporates. With ENIL offering integrated packages through the radio and event business, we expect the ad growth for ENIL to be back on track by Q1FY13.

The Phase III auctions for radio waves are expected to happen by April or May 2012. The policies as indicated by the government seem to be very favourable for ENIL as a player will be allowed to hold 40% of the total available frequencies in a market as compared to only one currently. With a cash balance of ₹ 173.8 crore, the company is in a very good position to participate in Phase III radio auctions, which would aid volume growth, going forward.

Exhibit 5: Key assumptions

	Unit	FY10	FY11	FY12E	FY13E
Legacy Stations* (8)					
Utilisation	%	73.0	80.3	82.3	85.3
Rate / slot / station	₹	488	520	589	647
New Stations (24)					
Utilisation	%	44.7	56.7	59.3	62.3
Rate / slot / station	₹	128	117	121	133

Source: Company, ICICIdirect.com Research

* FY10 and FY11 had 10 stations classified as Legacy

Valuation

SOTP based valuation of ₹ 291/share

We have valued the stock on an SOTP basis, evaluating the radio business on DCF and event business on EV/sales.

Assuming revenue CAGR of 12.8% over FY11E-20E and terminal growth of 4%, thereon, we have arrived at a target price of ₹ 289/share for the radio business. We have valued the event business at 1.0x FY13 EV/sales to arrive at a valuation of ₹ 2/share.

Our SOTP target price of ₹ 291 discounts the FY13E EPS of ₹ 10.4 by 28.0x. The stock is currently trading at ₹ 231. Our target price implies an upside potential of 26%. We continue to rate the stock as **BUY**.

Exhibit 6: DCF assumptions

₹ in Crore	
WACC	12.8%
Revenue CAGR over FY11-20E	12.8%
Present Value of Cash Flow till FY20E	623.1
Terminal Growth	4.0%
Present Value of terminal cash flow	731.0
Total present value of the firm	1,354.1
Less: Current Debt	0.0
Total present value of the Equity (excluding current cash)	1,354.1
Number of Equity Shares outstanding	4.77
Per Share Value (excluding current cash)	284.1
Add Current Cash Per Share	4.9
DCF - Target price (₹)	288.9

Source: Company, ICICIdirect.com Research

Exhibit 7: Event business

Particular	Unit	Amount
FY13 Sales	₹ Crore	10.2
EV/Sales multiple	x	1.0
Target EV	₹ Crore	10.2
Less: Net Debt	₹ Crore	-
Target Market Cap	₹ Crore	10.2
Number of Equity Shares	Crore	4.8
Per Share Value	₹	2.1

Source: Company, ICICIdirect.com Research

Exhibit 8: Valuation table

	Sales (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	422.0		-3.2		NA	NA	-4.2	-2.0
FY11	454.2	7.6	3.6	NA	NA	10.7	4.5	13.1
FY12E	286.0	-37.0	9.1	NA	25.3	9.8	10.2	12.3
FY13E	324.5	13.5	10.4	14.3	22.2	7.8	10.4	14.7

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	422.0	454.2	286.0	324.5
Growth (%)	-1.0	7.6	-37.0	13.5
Production Cost	56.7	51.7	21.8	24.3
License Fee	131.5	107.6	14.2	16.0
Administrative Expenses	122.1	127.8	93.9	110.5
Employee Expenses	68.0	74.9	71.0	71.3
Total Operating Expenditure	378.3	361.9	200.8	222.1
EBITDA	43.7	92.2	85.2	102.4
Growth (%)	NM	111.2	-7.6	20.1
Depreciation	52.6	42.3	32.8	32.3
Interest	12.1	2.2	-2.4	0.0
Other Income	1.5	11.0	7.2	4.0
Exceptional Items	-	17.8	-	-
PBT	-19.5	40.9	62.0	74.1
MI/PAT from associates	(6.5)	0.6	-	-
Total Tax	2.3	23.2	18.6	24.5
PAT	-15.3	17.2	43.4	49.6
Growth (%)	NM	NM	152.9	14.3
EPS (₹)	-3.2	3.6	9.1	10.4

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	47.7	47.7	47.7	47.7
Reserve and Surplus	317.6	334.7	378.1	427.8
Total Shareholders funds	365.2	382.4	425.7	475.5
Total Debt	57.4	0.0	0.0	0.0
Others	13.4	8.9	8.9	8.9
Total Liabilities	436.1	391.2	434.6	484.3
Assets				
Gross Block	450.1	368.3	369.5	379.5
Less: Acc Depreciation	182.2	188.0	220.8	253.1
Net Block	267.8	180.3	148.6	126.4
Capital WIP	3.9	1.1	10.0	10.0
Total Fixed Assets	271.7	181.5	158.6	136.4
Investments	1.7	87.3	87.3	87.3
Deferred Tax Assets	6.9	0.0	0.0	0.0
Loans and Advances	99.2	65.9	38.1	79.9
Debtors	140.6	113.2	54.8	62.2
Cash	28.2	23.3	180.3	214.4
Total Current Assets	268.1	202.3	273.2	356.6
Creditors	108.6	76.5	78.4	88.9
Provisions	3.6	3.5	6.3	7.1
Total Current Liabilities	112.3	79.9	84.6	96.0
Net Current Assets	155.8	122.4	188.6	260.6
Application of Funds	436.1	391.2	434.6	484.3

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	-15.3	17.2	43.4	49.6
Add: Depreciation	52.6	42.3	32.8	32.3
(Inc)/dec in Current Assets	54.8	60.8	86.1	-49.2
Inc/(dec) in CL and Provisions	22.2	-32.3	4.7	11.4
CF from operating activities	114.3	87.9	167.0	44.1
(Inc)/dec in Investments	-8.1	-99.1	0.0	0.0
(Inc)/dec in Fixed Assets	-6.1	48.0	-10.0	-10.0
Others	2.3	15.8	0.0	0.0
CF from investing activities	-11.8	-35.3	-10.0	-10.0
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	-90.6	-57.4	0.0	0.0
One time Adjustment in P&L App	0.0	160.5	0.0	0.0
Securities Premium Account	0.0	-160.3	0.0	0.0
Inc/(dec) in Capital Reserve	0.0	-0.2	0.0	0.0
CF from financing activities	-90.6	-57.4	0.0	0.0
Net Cash flow	11.8	-4.8	157.0	34.1
Opening Cash	7.0	28.1	23.3	180.3
Closing Cash	28.1	23.3	180.3	214.4

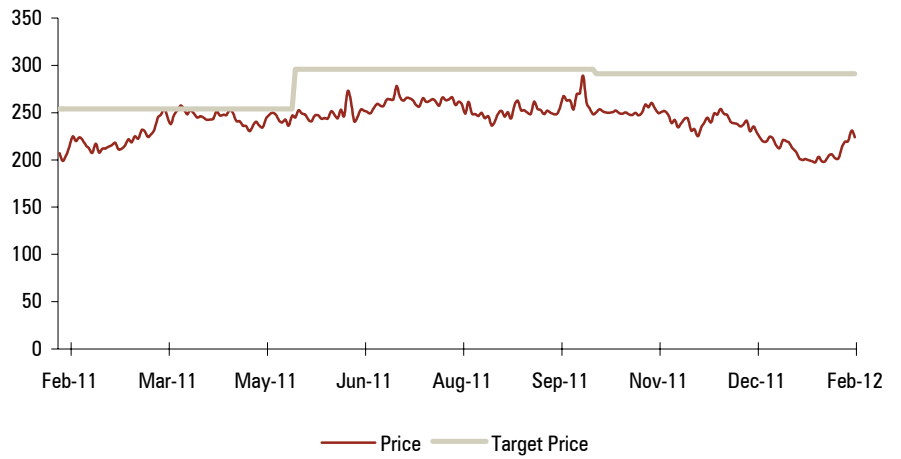
Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	-3.2	3.6	9.1	10.4
Cash EPS	7.8	12.5	16.0	17.2
BV	76.6	80.2	89.3	99.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	5.9	4.9	37.8	45.0
Operating Ratios (%)				
EBITDA Margin	10.3	20.3	29.8	31.6
PBT / Total Operating income	-4.6	9.0	21.7	22.8
PAT Margin	-3.6	3.8	15.2	15.3
Inventory days	0.0	0.0	0.0	0.0
Debtor days	121.6	90.9	70.0	70.0
Creditor days	93.9	61.5	100.0	100.0
Return Ratios (%)				
RoE	-4.2	4.5	10.2	10.4
RoCE	-2.0	13.1	12.3	14.7
RoIC	-2.5	5.9	14.4	17.4
Valuation Ratios (x)				
P/E	0.0	64.1	25.3	22.2
EV / EBITDA	25.8	10.7	9.8	7.8
EV / Net Sales	2.7	2.2	2.9	2.5
Market Cap / Sales	2.6	2.4	3.8	3.4
Price to Book Value	3.0	2.9	2.6	2.3
Solvency Ratios				
Debt/EBITDA	1.3	0.0	0.0	0.0
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	2.4	2.5	3.2	3.7
Quick Ratio	2.1	2.2	1.1	1.5

Source: Company, ICICIdirect.com Research

Exhibit 9: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q4FY11 Preview	249	254	HOLD
25-May-11	Q4FY11 Result Update	247	296	BUY
5-Jul-11	Q1FY12 Result Preview	264	296	BUY
26-Jul-11	Q1FY12 Result Update	257	296	BUY
5-Oct-11	Q2FY12 Result Preview	248	291	BUY
3-Nov-11	Q2FY12 Result Update	254	291	BUY
6-Jan-12	Q3FY12 Result Preview	209	291	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Hold: Up to +/-10%;
Sell: -10% or more;

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