**Entertainment Network of India Limited (ENIL): Tuning in for gains**

**ENIL: A Brief Overview**

* ENIL is subsidiary of Times Infotainment Media Limited, the holding company promoted by Bennet Coleman & Company Limited – A flagship company of the Times of India group.
* ENIL is a leading FM radio broadcaster in the country with 32 operating stations spread across India with total listenership of more than 37 million. It operates the FM radio network with Radio Mirchi brand.
* ENIL is one of the oldest players in radio broadcasting business with its first station becoming operational as early as year 2000. It also has the distinction of being the only radio broadcasters to have consistently reported operating and net profit for last many years while all other players struggled to stay afloat.
* ENIL is an undisputable market leader with 33-35% revenue market share in spite of some of its peers having much larger foot print and operations in terms of number of stations. According to the last IRS radio listenership survey done Q4 2012, Radio Mirchi is way ahead of its competitors with weekly listenership base of 37.5 million, 50% more than the listenership of its nearest competitor.
* ENIL’s top line has grown at CAGR of 21% from 76 Crore in 2004-05 to 438 Crores in 2014-15 while its bottom line has grown at CAGR of 25%+ from net loss of 17.9 Crores in 2004-05 to net profit of 206 Crores in 2014-15.
* ENIL aspires to be a complete solution provider for the advertisers through multiple touch-points across various media. ENIL is slowly and steadily scaling up its non-radio businesses such as digital, activation and TV properties.

**Radio Industry Analysis:**

**Opportunity Size & Future Growth**

*Radio: Covered the distance and gathering momentum*

* As compared to other media segments, FM radio industry in India is still in its early years. Private FM radio industry started its journey from 2001 with award of frequency to private broadcasters under Phase-I licensing. Thus, the FM radio industry is barely 14 years old in the country while other media like print and TV have been in existence since many years.
* Indian FM radio industry has grown at significantly higher rate as compared to other media as is evident from the below table.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year**  | **2001** | **2005** | **2009** | **2013** | **% CAGR** |
| **Print** | 38.22 | 62.7 | 110.4 | 162.6 | **12.5%** |
| **TV Broadcasting** | 31.77 | 54.5 | 88 | 135.9 | **12.5%** |
| **Radio Broadcasting** | 1.98 | 3.2 | 8.3 | 14.6 | **18%** |
| **Out of Home** | 6.3 | 9 | 13.7 | 19.3 | **9.5%** |
| **Digital Advertising** | 0.75 | 1 | 8 | 30.1 | **36%** |
| **Total Ad Spend** | **79.02** | **130.4** | **228.4** | **362.5** | **13.5%** |

* In India, overall advertisement spending has increased at 13.5% CAGR from 2001 to 2013. However, it is apparent that the newer media segments like digital advertising and Radio have grown much faster due to increasing acceptability of the new mediums and much smaller base from which these segments have been operating.
* Radio broadcasting market has grown at 18% CAGR from 2001 to 2013 increasing the share of radio broadcasting market in overall advertising spend from 2.5% to 4%. The only media segment that has performed the radio is digital advertising.
* It is important to recognize that the larger piece of the advertising spend to radio was the result of growing reach and maturity of radio as media segment. From 2001 to 2013, following developments bring out the scale and maturity of radio as media segment
	+ Phase-I of FM radio licensing started in 1998/99 where 40 licenses were awarded and 21 of them started operations. Under Phase-II of licensing, in 2006-07,245 licenses were allocated to 38 broadcasters across 87 cities.
	+ Starting from a very small base in 2001, listenership of radio has reached 159 million in 2013 according to IRS Q3, 2013 study. More importantly,according to the IRS listenership data, the listenership is highly skewed in favour of the youth withmore than 75% of the listeners are younger than 40 years.

**Key Drivers of Radio Industry’s Future Growth**

* Even though, radio industry has grown at brisk rate, it is likely that the industry is likely to grow at brisk rate due to the confluence of following 4 factors
* Even though there are many projections about the precise size of the radio industry in next few years to come, we would not like to base our estimate on any of those numbers per se.
* We prefer assigning a range based on the various possibilities on key assumptions playing out with central hypothesis being that in the long run, Indian market will move towards global averages in advertisement spending and share of radio as medium in advertising pie.
* Based on following range of possibilities on key assumptions
* India’s GDP in nominal terms in 2014 is USD 2 trillion
* In next 5 years, Indian GDP growing in the range of 6-8%;
* Advertising spending accounting for 0.5%-0.7% the total GDP
* Radio garnering 5% -7% share in the overall advertising spending

 **The size of the Indian radio industry may reach anywhere between INR 4000 Crore to 8600 Crore in 2019 amounting to 25-40% CAGR in next 5-8 years**

* Even though, none of the above numbers are sacrosanct, it is reasonably safe to infer that size of the Indian radio industry is going to grow significantly higher than its current size in next 5 years with growth for next five years at least equalling the historical growth rate of radio industry in last 5 years (18% CAGR)

**Competitive Landscape**

* In all there are 19 players in FM radio space other than All India radio. However, in terms of countrywide presence, there are only 4 major players which have pan-India presence, well spread out network and geographical & social reach
* Following table provides the overview of the key players in the markets along with the market share for each of the companies

|  |  |  |  |
| --- | --- | --- | --- |
| **All India** | **Metro Focus** | **Non-metro Focus** | **Niche Radio** |
| Radio Mirchi (33-35%) | Oye FM | My FM | Radio Tadka |
| Red FM (19-22%) | Radio One | Dhammal | Radio Mango |
| Big FM (17%) | Digital Radio | CCL Radio | Nine FM |
| Radio City (12%) | Fever | Radio Mantra | Radio Chocolate |
|  |  | Hello FM |  |
|  |  | Club FM |  |

* Thus, two aspects are clear from the above analysis
	+ Pan India FM radio broadcasting market is an oligopoly with 4 large players
	+ ENIL enjoys the dominant position in the industry with market share of 33-35% which is 50% more than that of its nearest competitor. It is also important to note than ENIL has been able to maintain this market share for many years now inspite of entry of many large players in the sector.

**Regulatory Framework**

* Telecom Regulatory Authority of India and Ministry of Information & Broadcasting are responsible for articulating and implementing the policy and regulations for the radio industry
* Indian radio industry ***is a partially regulated industry*** where following aspects comes under the purview of the regulations
	+ Availability of the and timing for making the frequency available to the market participants. MIB also decides the reserve price for auction of new frequencies and renewal of existing frequencies
	+ Maximum number of channels owned and operated by one entity in a city is capped at 40% of the total number of channels allowed in the respective market rounded down to a whole number subject to minimum three operators in the city. i.e. for the city of Ahmadabad, maximum number of channels allowed are 6, hence no one player shall be able to operate more than 2 channels in the city (40% of 6 channels comes to 2.4 which is rounded down to 2)
* Pricing of the advertisement rates and advertising time in a day/hour are not regulated and are determined through market forces
* In Phase-I & Phase-II, licenses were awarded for 10 years from the start of operations while in Phase-III, renewal of old licenses and award of new licenses will have tenure of 15 years

**Business Quality Analysis**

**Business Model: Key Characteristics**

*Where the money is coming from:*

Advertising rates per slot (10s) **X No** of slots in an hour **X**No of broadcasting hours in day

Revenue

**Radio: 75%**

**Investment Income: 5%**

**Non Radio: 20%**nue

*Where the money is getting spent:*

Variable Expense 7.5-8.5%

Revenue share with govt: 5-5.5%

Music Royalty: 2.5-3%

Manpower 20-22%

Fixed Expense 58.5-64%

Admin expense 17-18%

Marketing 20-22%

Production 1.5-2%

**Key Business Matrix**

Financing 0%

Non-cash expense: 8 -9%

Intangible assets: 5.5-6% (OTEF + Migration fee)

Tangible asset: 2.5- 3%

**Salient characteristics of the business model:**

* Company’s pre-dominant revenue stream comes from Advertisement. Total ad-revenue is a function of
	+ number of operational channels
	+ advertising rates
	+ number of ad slots in an hour and
	+ Number of operating hours in a day.

Out of the four variables, two variables i.e. number of ad slots in an hours (typical range is from 12-18 minutes) and number of operating hours in a day (in the range from 16-20 hrs) have physical cap. Thus, once company reaches an optimal number on both these variables at existing stations, the incremental growth shall be driven by the other two variables

* Only 7-8% of the ENIL’s cost is strictly variable cost while the rest is fixed cost. Hence **there is huge operating leverage present in the business**. Thus, after the operations reach breakeven point, large portion of incremental revenue will flow to the bottom line.
* **Company, in a steady state operation, shall be able to achieve EBIDTA in the range of 32-36%**
* Company, from time to time, would need to pay large one-time fee for getting the new license/renewal of license for FM bandwidth that it intends to use. This onetime payment is then amortized as cost over the period of license period. **This peculiarity will require company to slowly accumulate and maintain decent amount of cash on the books for renewal of existing license or acquisition of new license**.
* The above trait also implies that since company would have paid the onetime fee upfront, the amortization of the license fee is a non-cash expense. **Thus, in most of the years, the cash flow may be much higher than the reported profit.**

**Financial Statement Analysis:**

**Profit & Loss (Stand-alone)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Sales | **230.73** | **275.60** | **301.43** | **338.39** | **384.81** | **438.48** |
| Expenses | 170.66 | 188.97 | 200.74 | 234.18 | 259.83 | 293.14 |
| Operating Profit | **60.07** | **86.63** | **100.69** | **104.21** | **124.98** | **145.34** |
| Other Income | 2.71 | 5.11 | 11.52 | 16.97 | 22.36 | 32.18 |
| EBIDT | **62.78** | **91.74** | **112.21** | **121.18** | **147.34** | **177.52** |
| Depreciation | 36.98 | 33.60 | 32.46 | 31.72 | 31.81 | 32.87 |
| EBIT | **25.80** | **58.14** | **79.75** | **89.46** | **115.53** | **144.65** |
| Interest | 7.23 | 1.12 | - | 0.02 | 0.03 | 0.03 |
| Profit before tax | **18.58** | **57.02** | **79.75** | **89.44** | **115.50** | **144.62** |
| Net profit | **17.87** | **52.21** | **56.51** | **67.67** | **83.45** | **105.98** |

* We have decided to carry out the historical financial analysis for standalone basis as the company has sold of the businesses held in subsidiary (out of home solutions) which had a very different business and financial characteristic than the radio business. Hence, we believe that the stand alone numbers, which includes only radio business, shall be true representative of ENIL’s business and economic characteristics.
* In last 5 years, company’s top line has grown at 14% CAGR from 231 Crores in 2009-10 to 438 Crores in 2014-15. In year 2004-05, company had top line of 75 Crores. Thus, over last 10 years, company’s top line has grown at CAGR of 18%.
* Company’s net profit has grown 37.5% CAGR in last 5 years from 17.9 Crores in 2009-10 to 105.98 crores in 2013-14. Over last 10 years, ENIL’s net profit has grown CAGR 25%.
* In last 5 years, company’s bottom line growth has outpaced the top line growth significantly due to expansion in margins. ENIL’s EBIDTA margins have expanded by more than 1000 basis points in last 5 years from 27% in 2009-10 to 37% in 2014-15.

**Balance Sheet:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Mar-10 | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 |
| Equity Share Capital | 47.67 | 47.67 | 47.67 | 47.67 | 47.67 | 47.67 |
| Reserves | 283.82 | 336.03 | 392.54 | 454.63 | 532.50 | 674.66 |
| Secured Loans | 10.00 | - | - | - | - | - |
| Unsecured Loans | 23.43 | - | - | - | - | - |
| Net Block | 211.79 | 180.02 | 149.73 | 120.35 | 91.49 | 53.49 |
| CWIP | 1.11 | 1.15 | 0.09 | - | 0.11 |  |
| Investments | 40.03 | 93.10 | 185.03 | 317.83 | 434.42 | 549 |
| Working Capital | 112.00 | 109.44 | 105.35 | 64.13 | 54.16 | 52.34 |

* Company has maintained a very healthy balance sheet throughout last 5 years. Company had marginal leverage in 2009-10, however since 2010-11, company has zero debt. In last 10 years, in only 4 years, company had debt on its balance sheet.
* Company has consistently increased its investment (mostly parked in liquid mutual funds) from 40 Crores in 2009-10 to 549 Crores in 2014-15. This clearly suggests that there is significant free cash flow in the business. Company has been parking the cash in liquid investment, quite aligned with the peculiar business requirement of making large one-time payment for renewal of license and acquiring new licenses.
* Another interesting aspect of the business is that company’s net block has been declining over last 5 years. This trait is again attributable to the business model of company where it pays large one-time fee for acquiring and renewing licenses and then amortizes the one time payment over the licensing period (typically 10 years)
* Working capital management reflects effectiveness of the management in running the operations. ENIL’s working capital requirement has consistently declined from 48% of revenue in 2009-10 to 14% of revenue in 2013-14. This indicates that company has significantly improved operational efficiency. Reduced working capital requirement also leads to higher asset turns and increased returns.

**Cash Flow Statement**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mar-10 | Mar-11 | Mar-12 | Mar-13 | Mar-14 |
| Cash from Operations | 94.89 | 51.62 | 112.91 | 86.16 | 103.68 |
| Cash from Investing Activity | 1.57 | -18.08 | -84.19 | -118.24 | -96.54 |
| Cash from Financing Activity | -83.86 | -34.55 | - | -0.02 | -5.61 |
| Net Cash Flow | **12.60** | **-1.01** | **28.72** | **-32.09** | **1.53** |
| Cash & Eq. at the end of year | **24.25** | **23.24** | **44.33** | **12.24** | **13.76** |

* Company has generated positive cash flow from its operations in all of the last 5 years.

**Key Ratio Analysis**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| EBIDTA Margin(%) | **27.17** | **32.64** | **35.86** | **34.13** | **36.19** | **37.69** |
| Net Profit Margin(%) | 7.66 | 18.60 | 18.05 | 19.04 | 20.5 | 22.51 |
| Return on Invested Capital | **5.5** | **17.99** | **22.16** | **36.7** | **57.29** | **100%** |
| WCap/Sales | 0.48 | 0.40 | 0.35 | 0.19 | 0.14 | 0.12 |
| Asset Turnover | 0.71 | 0.95 | 1.18 | 1.83 | 2.64 | 4.14 |
| Debt to Equity | **0.1** | **-** | **-** | **-** | **-** | **-** |
| Cash flow from operations/Net profit | 5.31 | 0.99 | 2 | 1.27 | 1.24 | NA |

* Company has consistently improved its margin over last 5 years. There is more than 1000 basis point improvement in EBIDTA margin and NPM have improved by more than 1500 basis point. The main reason for improvement in margin is operating leverage playing out as the capacity utilization improved in Phase-I stations and the operations of Phase-II stations stabilized at optimum level.
* It is important to recognize that for ENIL, ROIC is a much better measure return profile of the business and not ROE or ROCE. The primary reason lies in the inherent business model where Company retains and accumulates cash generated from it to be utilized for acquiring more frequencies in the next round of auction. Thus, ROE and ROCE during this capital accumulation phase, will look artificially subdued. However, ROIC, over a long duration will give a more realistic view of the business.
* However, it is important to recognize that, from time to time, as company deploys additional cash for acquiring new frequencies and renewing existing frequencies, the return ratio will dip for the time being (as the money spent will increased the fixed asset-e.g. period from 2007-10) till the depreciation will reduce the gross block and income will start flowing from new stations. **We believe that looking at the business model of ENIL (and other radio companies), IRR is the right matrix to evaluate the company’s capital deployment efficiency**
* As mentioned before, due to inherent nature of business, company typically generates significantly higher cash flow than reported net profits as evident from the CFO/Net profit numbers. Hence, we shall focus more on the cash flow numbers than reported profits while valuing the company.
* Company has significantly reduced its working capital requirement over last 5 years and working capital/sales ratio has declined significantly from 0.48 to 0.12. On the other hand, the asset turnover has increased from 0.78 to 4.12 due to decline in fixed assets and working capital needs.

**Future Growth:**

*Key Growth Drivers:*

**Phase-III Auction:** Currently, there are 245 operating FM channels present across 88 cities spread through the country. At present, FM channels are mainly present in larger cities with very limited presence in smaller towns. Since 2005-06, there has been no new channel awarded and hence, the volume growth and reach of the industry has stagnated. Under Phase-III, GoI is planning to issue FM channel license in additional 227 cities and total number of channels is going to increase to 839, which is more than 200% increase from current level. Higher number of channels will improve the inventory for the ENIL and thus aid volume growth. On the other hand, increased reach will lead to higher realization for the company as national advertisers will be able to pay more for addressing the larger audience base. Thus, Phase-III expansion, in medium term will drive both volume and value growth.

In the first batch of phase-III auction, ENIL has won frequencies in to 7 new cities and 10 new frequencies in existing market. This combined with its acquisition of TV Today’s radio business, it has acquired 4 frequencies in new markets and may acquire 3 additional frequencies in Delhi/Mumbai/Kolkata if the MIB approves the transfer of frequency. In all, it’s number of channels have increased from 33 to 52 and may go to 55 if the Delhi/Mumbai/Kolkata frequency transfer is approved by MIB.

**Improved Realization:** Even though ENIL enjoys significant lead in terms of listenership over its peers in number of cities that it operates in, it has not increased the advertising rates for last many years due to sluggish economy, idling inventory and lack of awareness about radio’s attractiveness as advertising medium. Typically, for a 10 second slot across network, the realization for ENIL is 10,000 while the same is 100,000 for a TV chanel (General Enterntainment). Thus, there exist a vast difference in advertising rates, which even if adjusted for the lack of visual impact (present in TV advertisement), may provide good room for radio players to increase the pricing.

Now, as the sentiments are improving in the economy with revival is in sight and inventory levels getting utilized more than 100%, company has initiated the price hike from December 2014 across most of its markets. Thus, this will be another kicker for growth in medium to long term. **In the Q2, FY 16, management indicated that the pricing has increased by 7.5% YOY and management intends to continue focus on increasing pricing.**

**Activation & Event Business:** In addition to the radio business, ENIL has also successfully experimented and scaled up non-radio business which caters to events and activation by leveraging the brand and reach of the radio business. We believe that this business is still taking baby steps, however with increasing reach of the network, ENIL’s creative and marketing teams’ ability to create value proposition for advertisers and demonstrated track record of activation/events to generate decent return for advertisers, in the long run, this can provide fillip to the overall growth of the company

**Monetizing Digital Presence & Other Opportunities:**

ENIL was the early adopter in radio industry in going digital. It has launched highest number of channels (currently stands at 13) in association with gaana.com. Management has indicated that they have started monetizing this digital properties and though the current contribution from digital is miniscule it is likely to go up significantly.

ENIL is also looking at other innovative opportunities like running airport radio at the large terminals. It recently entered into agreement with Delhi International Airport Limited (DIAL) to start providing airport radio services at T3. Though, at the moment, it is still at early stage, such unique opportunities can be monetized and provide fillip to the base business.

*Predictability & Key Variables*

**Predictability of Growth:**

* For last 3 years, ENIL has consistently improved its inventory utilization from 89% level to 105% level in a very challenging market. According to management, company can easily go up to 130% capacity utilization. Hence, there exist room for increase in volume going forward at existing stations. Thus, with slightly improved business environment and ENIL affecting first price hike, there is decent predictability of growth from existing stations in near to medium term.
* With Phase-III auctions finally taking place, increasing acceptability of the radio as advertising medium, undisputed sector leadership and the pedigree of Bennet Coleman & Co will ensure that the new stations that will be won by the company will be able to achieve 50% -60% utilization in next three years (In Phase-II, where ENIL was not as strong a position as it is today, in 2 years post start of operations, almost all stations had achieved 50-60% level of utilization). Based on the wins of Batch-1 of Phase-III other 21 channels, with average realization of Rs.300/10 second slot/station (which is much below it’s existing rates in most of the markets 350-400), new channels can add other 200 odd crores to the topline in next 3 years.

**Key Variables:**

* Price paid for acquiring new channels in Phase III: This is the single most important variable to closely monitor as overpaying for a frequency will lower the return for the capital employed by the company. In the past, number of radio operators have lost significant amount of money, due to irrational prices they paid for acquiring channels. Hence, this variable shall be carefully monitored
* Average realization: ENIL’s average realization has been stagnant and company has not increased its advertising rates for few years now. However, in December 2014, company took 4-5% price hike. If company is able to affect this price hike without impacting the volume, and do so periodically, it will be a big fillip to the company as it may lead to better margins for the company going forward.

**Qualitative Characteristics**

**Sector Leadership**

As mentioned above, on pan- India basis, there are only 4 players in the Industry. ENIL is the undisputed market leader both in terms of revenue share and listenership. According to the last available data and management commentary, company enjoys around 35% revenue market share on revenue basis with 38 million listeners spread across the country.

More importantly, company has maintained its revenue market share despite increasing competitive intensity and entry of large players in its existing market post Phase-II auctions.

To put the listenership number in better perspective, it is estimates that the listenership base of ENIL is 50% higher than that of its nearest competitor. Thus, ENIL commands significant lead over its competitors on this account.

**Competitive Advantage:**

*Strength*

Company enjoys reasonably strong competitive advantage due to combination of

* Strong brand of “Radio Mirchi”
* Pan-India presence with presence across all A and A+ category cities
* Pedigree of Bennet Collemn& Co which provides a distinct advantage for sourcing the advertisement and cross selling to existing client of the group

 In addition to above, another significant advantage for the company isits profitable operations during the testing times in last decade when most of its peers lost money heavily. This has provided company with very strong balance sheet and a war chest enabling it to take maximum advantage of upcoming auctions and carve out future growth path. Ability of financial resources may be a constraint for some of the existing players during the Phase-III auctions.

*Sustainability*

We believe that combination of “brand” and “reach” has created a competitive advantage which is sustainable at least in medium term.

Management has clearly identified the strategic importance of brand has invested significant sums of money in brand building consistently over last few years.

We believe that the strong brand of “Radio Mirchi”, management’s focused and sustained efforts to build the brand, its leadership and presence in most of the metros/category A cities and increase in its reach post Phase-III expansion will not only ensure the sustainability of its competitive advantage but also strengthen it further.

**Quantification of Competitive Advantage**

I strongly believe that mere mention of “competitive advantage” or “moat” may be misleading and may tempt investors to rationalize some very mediocre aspects as competitive advantage. Thus, we look for the competitive advantage translating into/reflected in numbers in at least one of the following ways for company to benefit from it.

* Pricing power (ability to command higher prices as compared to peers)
* High Entry barriers (high market share for a long time)
* Cost leadership (ability to be lowest cost producer without impacting margin for long time)

*Pricing Power:*

ENIL is enjoying significant pricing power as compared to its peers. In fact, a close analysis at advertising rates data (compiled from publicly available sources as attached in separate Excel file) suggest following

* In 21 out of 32 cities that it operates in, ENIL commands more than 20% higher price than its nearest competitors.
* In 15 out of 32 cities, ENIL commands more than 50% price premium over its competitors
* In only 6 cities out of 32 cities, ENIL’s pricing is at discount to its nearest competitor

**Management Quality**

**Capital Allocation:**

Positives:

* Management is very focused on deploying the capital efficiently and this point has been reiterated by the management time and again during its conference call commentary.

One of the events that may lead to sub optimal use of capital is

Over paying during the auction to acquire new frequency to achieve higher growth: Management is extremely cautious in this regard and has consistently maintained that they will not pay “irrational price” for new frequency just to ensure growth. Management has indicated number of times that company’s **focus is on becoming the most profitable network and not on becoming the biggest network**. In fact, one of the important reasons for ENIL remaining profitable while other players incurred significant losses during last many years, was that ENIL refrained from overpaying for acquiring new frequencies during Phase-I & Phase-II.

* Company has consistently maintained that it will retain the cash with it to ensure the sufficient war chest for bidding in Phase-III. This is appropriate considering high return generated on the capital employed by the company.
* Management has also indicated that after accounting for the capital needed for Phase-III bidding and expansion, surplus cash will be distributed liberally to the shareholders as dividend.

Negatives:

* In the past, company had invested money into non-radio media businesses such as outdoor media and made loss during the slow down. However, realizing that it was a very asset heavy business, management sold the business off.

**Corporate Governance**

* Company has been run by professionals and there seems to be no interference of the promoters in the day to day running of the operations.
* Company’s annual reports are fairly good and provide a good overview of the business.
* Company conducts regular conference calls and management makes all effort to provide satisfactory answer to investors’ queries
* Accounting policy are prudent and disclosure norms are adequate

**Valuation**

Currently company has market capitalization of 3200 Crores. In FY 15, company made net profit of 105 odd crores and cash flow of 95 Crores. Thus, company is trading at 31 times TTM basis. Following is our base case scenario for the company

Base case scenario:

First 5 years: Phase-III stabilization: 18% top line growth with 28-30% EBIDTA margin

5-10 years: Phase-III growth phase: 20-22% top line growth rate with 33-35% margin

10-15 years: Phase-III maturity: 10-12% top line growth rate with 37-40% margin

Based on this assumptions, estimated cash flow is around 900 crores in 10 years from now.

**PE multiple of 20:**

Estimated market cap: 18000 Crores; Estimated investment return: 18.5% + dividend yield

**PE multiple of 25 (no change in current PE multiple):**

Estimated market cap: 22500 Crores; Estimated investment return: 21.5% + dividend yield

**PE multiple of 30:**

Estimated market cap: 27000 Crores; Estimated investment return: 24% + dividend yield

**Key Risks:**

1. Unsuccessful in acquiring new frequency in Phase-III: If ENIL, due to its principle of not bidding irrationally may lose out on acquiring new frequency as expected, which will hamper the future growth in top line and subsequent improvement in margins in later years.

*Probability: Medium; Impact: Medium*

1. Overpaying for New frequencies: If ENIL decides to bid aggressively to acquire new frequency at very high price, the viability of newly acquired frequency may not be there thus impacting the profitability of the company

*Probability: Low;Impact: Medium*

1. Inability to monetize new frequencies adequately: This is one of the biggest risk. If company bids aggressively and pays large sum of money to acquire frequency but is not able to execute the roll out well and is not able to ramp up the utilization as planned

*Probability: Low; Impact: High*

1. Unrelated diversification: As done in the past(Outdoor media), if the management decides to diversify into related activity in media sector and is not able to pull it off successfully, it may prove to be a drag on the profitability and may stretch the balance sheet resulting into company commanding lower multiples than the fair value multiples assumed today

*Probability: Low; Impact: Medium*