



“Music Broadcast Limited  
Q2 FY2020 Earnings Conference Call”

November 11, 2019



**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Music Broadcast Limited Q2 FY2020 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Apurva Purohit, Director of Music Broadcast Limited. Thank you and over to you Madam!

**Apurva Purohit:** Thank you. Good afternoon everyone. I welcome you all to the earnings conference call for quarter and half year ended September 30, 2019. Along with me, I have Mr. R. K. Agarwal, Group CFO, Ms. Sangeetha, and Mr. Jimmy from our IR team and Payal from SGA. As you all are aware, from all the business results so far a weak economy has continued to impact the environment for consumption and thus for advertising. While the government may have provided some stimulus through policy initiative targeted at a few sectors, however the need of the hour we believe is to focus on improving overall sentiments and in creating demand in the near term, which will bring back advertising spends to the industry sooner.

Let me however straight away jump to our results, which would have surprised and even shocked many of you. The numbers have been equally a jolt for us too because of two specific reasons. While corporate expectedly remained cautious in terms of advertising, the big surprise in this quarter was that the government did not recommence its advertising as was expected after the elections got over in Q1. This resulted in a huge degrowth for the industry, which has around 15% of its revenue contribution coming from the government. The second reason was that the start of the festive season did not reignite demand and we especially were hard hit as a couple of our large festive initiatives, which we had done last year did not get traction from our key advertisers, who we expected would commence to spend in the latter half of September. This resulted in a degrowth contributed as follows: 9% from the government, 8% from these key events and 5% from pure play radio. However, MBL gained the market share which we had lost in Q1 on the back of growth in local market and we continued to deliver 30 plus margins based on running a tight ship. We strongly believe that in tough times like these, a leader needs to take initiative for both the



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industry which is still in its early growth phase as well as concentrate on its core business and emphasis on strengthening it rather than defocus on non-core avenue.

Thus I would like to share a few initiatives that we have been aggressively pushing in the market. Firstly, we have utilized the expertise of Audacity a creative solutions wing even further to increase engagement with advertisers and local markets too. The idea of having deeper engagement with national as well as local advertisers by evangelizing the medium which we believe is still underutilized is an opportunity we clearly see to grow the overall radio pie. We have seen 20% YTD growth in revenues through these ideation initiatives, which are now at 22% of the overall revenue mix. Additionally, we have started gaining traction into a 360 degree selling solution we put in place in the middle of Q2, the non-radio advertisers are being targeted by specifically giving them solutions from the Jagran bouquet including on-ground activation, digital and print along with radio by showcasing the power of multimedia opportunity. The radio industry added 2500 new advertisers in this quarter in the 15 AirCheck markets which are monitored and the number we believe will be far larger than the non AirCheck markets. We believe that these local advertisers do not have many media options apart from radio and with us focusing on evangelizing the medium through various power of radio workshop across markets, we clearly see this is as an opportunity to grow the overall radio pie.

This initiative helped us improve our market share in local market by 2%. Looking at improving efficiency within the organization, we put in place several cost measures which have helped save approximately Rs. 12 Crores in H1. Some of which were employee cost rationalization, optimized royalty contracts and station level cost control, which are ongoing in nature. Our focus in these tough times in keeping with the group philosophy of prudence was to keep a very tight control on credit terms. This helped us reduce non-government outstanding from 120 days to 107 days, an improvement of 13 days. We believe it is important to look at the business at a holistic level rather than quarter wise and all previous trends suggests that immediately after a slowdown, the medium which is still in its nascency bounces back with a higher CAGR as happened in 2010 that immediately after a degrowth of 7% that was shown by Radio City for the next five years, on an organic like-to-like basis RadioCity grew by 18% CAGR.

Lastly, on the acquisition of RBNL as appraised last time, we have signed the binding agreements and have submitted the documents to MIB for their approval, which we expect to receive before the end of financial year. With this we will now open the floor for question and answers.

**Moderator:** Thank you Madam. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vikram Kotak from Crest Capital Investments. Please go ahead.

**Vikram Kotak:** Hi. Thank you for taking my question. Apurva, I have a question for you. You mentioned that it is a quite a kind of sluggish trend in the business both from the government and private and the small enterprises, but also you mentioned that you kind of came back very resiliently and actually grown very fast. Do you see any kind of change in the trend compared to last six months, are you seeing some kind of traction coming back like what we have seen in the auto and consumer durable, is there some change or the trend is happening, but you see at your level that you can see this kind of turnaround which you are envisaging in the next six months or so?

**Apurva Purohit:** Let me just breakup the answer in two parts, one is the immediate herein now and one is the slightly longer term trend that I referred to in my opening speech. As far as the immediate herein now is concerned what we have seen certainly seen is some early green shoots at a local level where as I mentioned already that while national degrew, government of course did not spend at all, local has shown some kind of growth approximately around 5% across all markets. That is an obvious thing because you know local advertisers have a very few opportunities apart from radio to spend on and they believe and they also get sales traction through advertising on radio. So clearly we are seeing green shoots there. The other early green shoots we saw were in the auto segment and in e-commerce, which showed a growth starting actually September onwards as the festive season started and I think one of the big case studies that we are building and talking to the other advertisers is that the categories that kept spending on advertising likely auto-and e-commerce have actually done better in their own revenues. Therefore there is a strong case for advertising so that is the immediate bit right now. We are unfortunately not expecting the central government will open its purse strings very fast though there is constant conversation going on with them. State governments have started spending which is another positive sign so that is really what in the immediate herein now the picture looks like. However, the point that I was striving was a slightly longer term point which is at an annual yearly trends forecast kind of bit and I was saying that if radio has shown this kind of a trend earlier where there is a sharp drop which stays for the entire year and then in the next few years it comes back with double the growth level than the drop has been on a like to like basis. I am not even talking of expansion, etc.

**Vikram Kotak:** To summarize what you said is you are saying that this year may be some traction coming back, but necessarily the full traction, but this is looking like a bottom year kind of for you and you will see some kind of growth coming from next year right?

- Apurva Purohit:** That's what we believe right now.
- Vikram Kotak:** Of course I understand the market scenarios I am not trying to kind of go on projections, but whatever you see because we are seeing in an overall economy we are seeing some kind of momentum coming back with the corporate trade tax cut and the way government is kind of behaving to bring the growth back in the economy, I think you will definitely get a benefit towards that right?
- Apurva Purohit:** Absolutely Vikram.
- Moderator:** Thank you. The next question is from the line of Sachin Shah from Emkay Investments. Please go ahead.
- Sachin Shah:** Good afternoon Mam. Thank you for this opportunity. Just taking the question ahead from what Mr. Vikram said, so generally second half is supposed to be a little better for us because of seasons and festivals and all that, do we expect that at least the second half we should be at least equal to the last year second half, will that be a fair assumption?
- Apurva Purohit:** Actually we have not seen too much of festive cheer really come back to any of the industries as I said except auto and to a certain extent e-commerce and local advertisers, none of the national advertisers as of the festival showed any inclination to restart their spends. How it pans out in the later part of the year, as of now I cannot say but if you were to ask me a specific question, I would say that I am not seeing that resurgence come back.
- Sachin Shah:** Got it. Okay. The other thing was that on the proposed acquisition of Big FM have we made the payment of that initial Rs. 200 Crores?
- Jimmy Oza:** No we have not made any initial payment.
- Sachin Shah:** Okay is it because that somewhat certain conditions that the ADAG Group had to go through, is it still pending from that side, is that the reason?
- Jimmy Oza:** Yes.
- Sachin Shah:** Do we expect that to happen soon because March we were expecting to get the approvals from the regulatory, but before that I think this was to happen so we are already now November, December so what is your sense now?

- R. K. Agarwal:** In fact, government approval we were waiting in March it should have come by now it is also delayed so in fact it is more of pending government approval, then their compliance with the conditions.
- Sachin Shah:** Okay. So this Rs. 200 Crores will also be made at the time when the government approvals come?
- R. K. Agarwal:** Yes.
- Sachin Shah:** The other thing was that in such tough environment and where the business has so much of high operating leverage whenever the revenues come down quite significantly or to some extent at least, we have been very, very extremely cautious and very, very efficient in terms of managing our cost and all of that, any sense how is that business doing in this tough environment?
- Jimmy Oza:** RBNL front, I think we will not be able to comment right now.
- R. K. Agarwal:** But let me know give you a sense on how that is doing at the moment, of course where we saw opportunity that is to rationalize the cost that is not happening till it come to us, on revenue front they are not doing bad.
- Sachin Shah:** Okay. They have not lost some major market share or anything of that sort?
- R. K. Agarwal:** They have not.
- Sachin Shah:** I am talking about revenue market share so they have not lost?
- R. K. Agarwal:** Yeah. But they have not gained either which is expected whenever they will come with us.
- Sachin Shah:** Fair point, thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Managers. Please go ahead.
- Jinesh Joshi:** Thanks for the opportunity. A couple of questions, in the opening remarks you mentioned that we have saved about Rs. 12 Crores in H1 by rationalizing the employee cost and negotiating better on the royalty front so what I want to know is that have we also kind of undertaken any employee retrenchment in this quarter or it was just more of a rationalization on the salary front?

- Apurva Purohit:** It was neither retrenchment nor rationalization on the salary front. Two things that we put in place one is that non critical hires and recruitment we put on freeze, the second thing is that there is a reasonably significant variable component across the organization which is based on achievement of targets and as the targets did not happen that was obviously not given.
- Jinesh Joshi:** Okay.
- R.K Agarwal:** When she was taking about rationalization of the salary, she was essentially referring to granting annual increments, which have not been granted.
- Jinesh Joshi:** Secondly on the royalty front, I understand it is fixed at about 2% of revenue, so if that number is fixed, then how is optimization possible on that front?
- Apurva Purohit:** The royalty is composed of the royalty that is the terrestrial royalty the other bit is also the digital royalty. So the most of the rationalization that has happened in the digital royalty which as you all know is not based on revenue but it as a fixed fee.
- Jinesh Joshi:** Okay. If you can just help me with the inventory utilization in legacy and phase 3 stations for the current quarter and also what kind of tax rate should we build in for FY20 considering that some bit of reversal has happened in this quarter?
- Sangeetha Kabadi:** So Jinesh the inventory utilization for the legacy station is around 50% and for the newer station is around 35%.
- Jinesh Joshi:** And the tax part?
- Jimmy Oza:** And the tax bit, you can build in at 25%.
- R.K Agarwal:** Plus the charges which will amount to 29%.
- Jinesh Joshi:** Will it be 25 or 29?
- Jimmy Oza:** 25 is base plus surcharge and Cess it will become 29%
- Jinesh Joshi:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sundeep Allamraju from L&T Mutual Fund. Please go ahead.

**Sundeep Allamraju:** Thanks for taking my question. Question has been partly addressed already so I can be just a bit more specific, one on the connection of the acquisition of RBNL, as you indicated Sir what is the kind of sense you are getting from MIB in terms of the approvals which may come by or is it like a very, very procedural thing that it will take its own sweet time for the approvals to come by? That's one. Second, given that the financial stress that Reliance ADAG Group as of now, does it have any impact in the operational environment for RBNL also over the next six months which may deteriorate the acquisition value for you completely from that perspective is it also a possibility that you want to put in that or you want to complete that first line of putting Rs. 200 Crores which may just help the company survive for some more time so that the value of the company does not get eroded significantly?

**R.K Agarwal:** Approval from MIB should have come by now as I mentioned, there is a delay, there is no doubt about it. Now when it comes, it is anybody's guess, but we are expecting it to come anytime and this anytime may get extended maybe a month, maybe two months, maybe 15 days. So there is nothing pending from our side, it is just question of releasing the approval and when they relieve they only will know, that is one point.

Number two, RBNL operations are not affected at all as of now. The current promoters are providing the funds to RBNL and RBNL itself is generating cash, maybe not to the extent it could have, but then it is also cash generating business. So putting in Rs. 200 Crores at the moment, I am not sure it is going to help them in any case because their operations are not suffering at all.

**Sundeep Allamraju:** Sure Sir. So does it mean that both the legs will happen together only and there is no reason to believe that first 24% acquisition may have happened earlier and the balance 76% will happen may be post March 2020?

**R.K Agarwal:** I think both should happen simultaneously.

**Sundeep Allamraju:** Okay Sir, great, thank you very much.

**Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Hi Apurva. Number one on the RBNL acquisition, I was seeing this market share charts that you have given of the top three markets. First of all what is the contribution of revenue from these three markets to us right now?



- Apurva Purohit:** Around 35% to 40%
- Sarvesh Gupta:** So after this acquisition, do you need a CCI approval for this because it seems that for example in Bangalore you are the number one and number two is Big FM, so do you need a CCI approval for this?
- R.K Agarwal:** No we do not need.
- Apurva Purohit:** These are listenership shares.
- Sarvesh Gupta:** But when you go to the advertisers these are the market share numbers that....
- Apurva Purohit:** From a listenership perspective. Yes, but whenever we talk of market share etc., we are talking of the revenue market share.
- Sarvesh Gupta:** Okay understood. So in terms of revenue market share that will also significantly move, you will become number one in all these three markets right post acquisition?
- Apurva Purohit:** Yes.
- Sarvesh Gupta:** Okay and do you expect a significant moving of your yields because of the same.
- Apurva Purohit:** In terms of what?
- Sarvesh Gupta:** In terms of the yields or the ad rates that you get?
- Apurva Purohit:** So as you are aware RadioCity plays in the premium end of market and Big FM plays in the popular or mass end of the market. So what we expect out of the acquisition and the joint entity is that the volume utilization in Big FM will go up because that is where they are underutilized whereas the yield improvement is largely likely to happen in RadioCity.
- Sarvesh Gupta:** Okay, understood and right now you are having around how much cash in your balance sheet, net cash if you can give me the figure?
- R.K Agarwal:** We have nearly Rs. 275 Crores.
- Sarvesh Gupta:** And 0 debt.
- R.K Agarwal:** I am talking about net debt it should be about Rs. 250 Crores.

- Sarvesh Gupta:** Rs. 250 Crores and all of this would now be part for the Rs. 300 Crores that we need to pay for the Big FM acquisition correct?
- R.K Agarwal:** Yes.
- Sarvesh Gupta:** So till that acquisition is completed there would not be any scope for any buyback or anything right?
- R.K Agarwal:** I do not rule out all those possibilities because we are generating cash as it is, I think in the first six months also we have generated nearly about Rs. 40 45 Crores of cash from operating activity.
- Sarvesh Gupta:** So that is the free cash flow after the..
- R.K Agarwal:** There has not been any major fixed asset acquisition, the acquisition of immovable property which I would not factor in working out the free cash flows otherwise it should be more or less same as the free cash flows the figure which are there.
- Sarvesh Gupta:** Okay. Thanks a lot Apurva and thanks a lot Sir. I think even this tough environment you guys have really done well at least on the margin front. So all the best for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Sachin Shah from Emkay Investments. Please go ahead.
- Sachin Shah:** I just wanted to understand a little bit now that we are thinking that the Rs. 200 Crores payment and even for the full acquisition, the large part of the payment will also be done in the next three, four, five months or maybe sometime in April, May or something like that and I believe that we will have to borrow money because I do not know at this point in time equity dilution may not be probably the right thing with the current valuations, so when we will be having this kind of borrowing on our balance sheet with the kind of the EBITDA that we have today and with the kind of EBITDA that the new company will also probably add do you think with the new debt and servicing and all that will not have a major impact on our profitability, any thoughts on that, what is your planning on that part?
- R.K Agarwal:** Whenever we contemplated this transaction, we had very clear thing in our mind that the debt servicing should happen from the accruals of RBNL itself and that thinking continues to be there, but of course since 2019-20 is proving to be a washout year, maybe there is

shortfall to the extent of Rs. 30-40 Crores in that approach right. So that is not a huge amount of money and that is something which holding company can come in to compensate for.

**Sachin Shah:** Okay when you say holding company means, Music Broadcast itself right?

**R.K Agarwal:** That is Jagran.

**Sachin Shah:** That is just a support, but finally it has to go through the P&L of Music Broadcast?

**R.K Agarwal:** What I am saying is right there could be 100s of ways to do it so as I said first of all Rs. 30 40 Crores cash short fall which happens in the current year, not necessarily it has to be filled in right now. It can be filled in over a period of time and to that extent you know it can get compensated by the additional profit or by the profits which are generated there so we are not perturbed about it, we still maintain that the debts which RBNL will carry in its balance sheet, it will be able to solve, or where we thought it will be able to solve in six years' time it may now take seven years' time and for that one year additionally only I was saying..

**Sachin Shah:** Right, okay.

**R.K Agarwal:** Right, so in the mean time supposing you know if the Jagran needs to help RBNL to that extent, it will help.

**Sachin Shah:** Okay, fair enough.

**R.K Agarwal:** Instead of six years, maybe that I mean like the loans which they carry we do not want to take any fresh loan, we want to carry those loans, right so with the adjusting lender. We will have discussions and I believe they will be able to extend it after Jagran comes in for a period of another five years which means everything will have to be repaid within six years. Supposing they do not agree we get loan only for a maximum period of five years or six years then in that case RBNL will be discharging its to debts to JPL not to outsider by taking one more year that is all.

**Sachin Shah:** Got it. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Depesh Kashyap from Equirus Capital. Please go ahead.

- Depesh Kashyap:** My question is regarding the sharp drop in the government ad spends, just wanted your thoughts on this do you think this sharp reduction in the spends is like temporary issue or do you think any structural trend here because we think that the government likes to spend more on outdoors, so do you think it is temporary issue or structural?
- Apurva Purohit:** Government spends is broken up into two parts, one is the central government and other is the state government. Clearly we have seen practically no spends coming from central government which was expected immediately after the election they would restart spending which they have not done. While a little very minor traction has started, we do not anticipate or expect that they will go back to the normal levels of spend they have done, not only in radio, but across any category. State government which was a smaller segment has started spending and continues to spend and that is where we believe there will be some amount of upswing that will be coming in.
- R.K Agarwal:** Let me add here, our sense is central government may not be coming back at least in this fiscal to the extent they were contributing to radio, print, TV or whatever including digital. The reason is if you look at there, they have own fiscal I do not think they have much of scope left to spend on so call discretionary spend.
- Depesh Kashyap:** Sir, what can be rough split of the central and state government please of the overall the government spends?
- Sangeetha Kabadi:** The overall government spends contributes to 15% of which 12% from central and around 3% from the various state governments.
- Depesh Kashyap:** Okay, also there are lot of radio spend by the Delhi government in the past few quarters so if you exclude this spend by the Delhi government specifically like how much drop will you see in the government spend overall in first half or this quarter?
- Sangeetha Kabadi:** When the 12% has practically been 0 the 3% has moved up to 5%.
- Depesh Kashyap:** This is mainly from Delhi or like other state government also?
- Sangeetha Kabadi:** All the state governments.
- Depesh Kashyap:** Also like second question is basically there is 4 to 5 Crores reduction in your employee cost you explained the variable component part which has reduced so is this variable component paid every quarter, so how shall we think it going forward?



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- Apurva Purohit:** It is a quarter wise dispersal, it is an ongoing savings, marketing tools and achievement goes up it is depended on the revenue right?
- Depesh Kashyap:** Understood, lastly what is the EBITDA contribution to phase 3 station please?
- Jimmy Oza:** EBITDA margin is at 15% .
- Sangeetha Kabadi:** Top line is around 10% of the mix.
- Depesh Kashyap:** Okay. Thank you.
- Moderator:** Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to the Ms. Apurva Purohit for closing comments. Mam, over to you!
- Apurva Purohit:** We thank everyone for your participation in our earnings call, we have uploaded the investor presentation on the company website. In case of further queries you may please get in touch with any of us. Thank you once again and good bye.
- Moderator:** Thank you very much Mam. Ladies and gentleman, on behalf of Music Broadcast Limited that concludes this conference. Thank you for joining with us. You may now disconnect your lines.