# "Music Broadcast Limited
# Q3 FY2019 Earnings Conference Call"

January 29, 2019

| | |
|---|---|
| **MANAGEMENT:** | **MS. APURVA PUROHIT - PRESIDENT - JAGRAN PRAKASHAN LIMITED & DIRECTOR - MUSIC BROADCAST LIMITED**<br>**MR AMIT JAISWAL - JAGRAN PRAKASHAN LIMITED**<br>**MR. R. K. AGARWAL - GROUP CHIEF FINANCIAL OFFICER - JAGRAN PRAKASHAN LIMITED**<br>**MS. SANGEETA KABADI - IR TEAM - JAGRAN PRAKASHAN LIMITED**<br>**MR SHAILESH GUPTA - JAGRAN PRAKASHAN LIMITED**<br>**MR. JIMMY OZA- IR TEAM - JAGRAN PRAKASHAN LIMITED** |

**Moderator:** Good morning ladies and gentlemen, welcome to the Music Broadcast Limited Q3 FY2019 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 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, President of Jagran Prakashan Limited & Director of Music Broadcast Limited. Thank you and over to you Madam!

**Apurva Purohit:** Thank you. Hi and good morning to all of you. I welcome you to the MBL earnings conference call for quarter ended December 31, 2018. Along with me, I have Mr. R. K. Agarwal, Group CFO, Ms. Sangeetha, and Mr. Jimmy from our IR team. For Q3 FY2019, EBITDA grew at 23% Y-o-Y to Rs.28.59 Crores with margin at 32.9%, which was improvement of 223 basis points. Given the fact that our 28 legacy stations are running at 38% margin and some of our core stations are running at 45% margin level. We certainly see margins moving up to these levels as we move into steady state.

I am very happy to share with you that we have not only delivered a higher than expected growth with revenue being Rs.87 Crores, which is a growth of 14% Y-o-Y, but this has been the best ever quarter of absolute revenue performance for MBL. This was a result of rate increases of 11% in legacy market against the average rate hikes of 8% and higher Inventory utilization in our phase 3 market of 53% against the average level of 59% at a YTD level. There was an upside from sectors like government, e-commerce and auto growing in this quarter and on an overall basis the utilization of 39 markets has moved up between 60% and 70%.

Our PBT for Q3FY19 is at nearly Rs.25 Crores with a YoY growth of 45% while the margins expanded to 28.7% up from 22.6% a growth of 607 basis points. As you can see the PBT has grown three times the revenue reiterating the advantage of our fixed cost model and thus operating leverage playing out, which we believe is indicative of future as cost will normalize in the new stations. As you have seen in the presentation, we stand at a healthy operating run rate for FY2019 with revenues at Rs.242.84 Crores for the nine months, EBITDA already stands at Rs.81.21 Crores with a margin of 33.4% at a YTD level. PBT at the nine-month level is Rs.67.37 Crores with margins at 27.7%, PAT is at Rs.43.26 Crores with a growth of 24% and margin improvement from 15.7% to 17.8%. Keeping in line with the group philosophy of rewarding our shareholders, we have successfully completed a buyback of Rs.57 Crores and bought back 1745000 shares at an average price of Rs.326.61 per equity share. Thereby representing 99.99% of the maximum buyback size for this quarter. Also we are seeking approvals from shareholders for subdivision of shares of face value of Rs.10 to Rs.2 per share. If you look at the three-year trend, we have delivered a double-digit CAGR growth of 15% in revenue, which is almost the double of that of the radio industry as reported by various studies. Again, profit before tax has outpaced the growth of revenue by showing a CAGR of 34% in this period. This is resulted in ROE increase from 6.7% in FY2017 to an annualized 9.6% in FY2019, which would be slated to increase further. Economy was affected by certain macroeconomic headwinds in the last quarter, but we have clearly seen signs of revival spending across category and government increases in the coming month.

Going ahead we are confident that we will be able to sustain our current growth level and grow our operating margins further. We believe that the Radio industry a basic and efficient medium for advertisers to use and its poised to benefit the maximum from the economic upsurge we are seeing in the coming months and years. Thank you.

We are open to take questions please.

**Moderator**: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

**Abneesh Roy:** Congrats on a very good set of numbers. My question is on the government ads where you have reported 33% growth in this quarter. So wanted to understand the recent price increase which has been given to print companies, does this apply to you also in the radio also?

**Apurva Purohit:** No, we are currently operating at DAVP rates that were finalized I think a couple of years ago, there is no change in those things.

**Abneesh Roy:** But with the rate increase in the print can you go back or this follows it own cycles or this will come after three, four years?

**Apurva Purohit:** You are right, it follows its own cycle. Having said that as seen that the government has given increase in print rate, the radio industry is talking to them as of now. We have a central team asking them to increase our rates as the radio industry rates are amongst some of the lowest across the industry.

**Abneesh Roy:** This 33% growth is obviously the highest within your segment as it seems based on the presentation and what has led to this increase? Was there any election related revenue also being clubbed here? Secondly because rates in government will be much lower versus your private advertiser, does not it impact the overall profitability of the company?

**Apurva Purohit:** Abneesh, you can see that our EBITDA margin is 33% right so it is a mix of all type of category and advertisers, you also seen that on the overall basis we have taken 11% rate hike in this particular quarter against an average of 8% rate hike at a YTD level, that is the first point. The second point is that government is really on an RODP basis so we use government advertising in a sense to fill a lot of our slot throughout the day. From that point of view, the government advertising also is good advertising to us.

**Abneesh Roy:** Second question is on e-commerce now with the new regulations kicking in from February, this is the second fastest growing sector for you, do you see a big slow down here especially if you see last 15 days, also the sales season for e-commerce has been weaker than the earlier sales reason and now this new regulation kicks in?

**Apurva Purohit:** Traditionally, Abneesh if you see e-commerce comes in specific quarters and goes off on an overall basis it is none of five categories and in radio the contribution of e-commerce is just about 6% so in that sense nothing will really impact radio and Radio City advertising given that we get advertising from possibility all categories, also with various renovation coming in and going in as you are saying for example e-commerce I think we also seen that there are categories, which equally advertised then there is a consumption pattern playing out and demand and equally categories advertise to generate demand or neutralized some impact of regulation.

**Abneesh Roy:** Last question on elections now, in Q4 and Q1 there could be big benefit especially Q4 so in the previous cycle of 2014 how the growth rates had changed, taking into account that maybe government ads there could be some impact, could you comment on that?

**Apurva Purohit:** You are absolutely right so it is both ways and government advertising stops just before election starts and when political party advertising goes up. Of course net there is positive impact and if I remember right in 2014, the net positive impact was approximately Rs.4 -.5 Crores now that also depends on how much the radio spends is done by different political parties, our expectation is that election spending will be higher than 2014 and typically Radio City ends up getting around 21% of this election spend.

**Abneesh Roy:** Okay Apurva that is all from my side. Thank you.

**Moderator:** Thank you. We will move onto the next question that is from the line of Vivekanand Subramaniam from Ambit Capital. Please go ahead.

**Vivekanand S**: Hi I have quite a few questions, can you give us an update on the Friends FM amalgamation status. When do you expect that and also any progress on the move towards the common listenership metric on the lines of the barc for the TV industry that is question one. Question two is what is the growth trend local versus national advertisers, is there any major gap, is local catching up. Third question is with respect to operating expenses, employee cost was down around Rs.1 Crores drop YoY but admin cost grew that was up around Rs.6 Crores and

20% year-on-year so was there a recategorization of certain employee cost and admin cost, were there any one-offs? Thanks.

**Apurva Purohit:** So let me take your questions one by one, as far as Friends FM is concerned, our file is in the hands of government for last five to six months and we are constantly following up with them for updates which has still not come. As far as management is concerned as of now there is no further movement from what we have said last time, there are talks that have happened, a couple of agencies have been identified and commercial negotiations are going on, but there have been no progress in the last three months. As far as costs are concerned, in the employee cost there were reversal because of incentives to be looked at the target achievement at the end of H1 and certain incentives had been reversed, which were not paid out to the sales team. Marketing, we did a reasonably massive one-time exercise for increasing our consumer touch point across all our 39 markets through various events that in each of these markets and that really one-time cost that we took to increase engagement with the listeners. As far as local advertising and national advertising is concerned over the last two years, we have definitely seen a trend of local advertising going up it reached a level some 45%... from 40%, it has gone up to 45% and currently that is where it is at, 55% from national and 45% from local.

**Vivekanand S**: Right just a few followup so what is your expectation of the Friends FM deal certification should we look at it getting amalgamated by September this year or will the elections delay that and if you could just quantify the one-offs pertaining to the operating cost that could be great?

**Apurva Purohit:** Frankly on Friends FM deal there are a regular follow ups going on in terms of ministry but has happened with anything that is lying at the ministry at its table, it has its own due course, so we will not be able to actually say when this thing will culminate. On the one-time cost as I have already mentioned the only one-time cost on marketing expenses, which would be to the tune of around Rs.5.5 Crores.

**Vivekanand S**: Okay and what about the employee cost provision reversals?

**Apurva Purohit:** Those were approximately Rs.80 lakhs

**R. K. Agarwal**: The reversal was towards the incentives, target incentives since they did not achieve the budget for the nine-months that is why it was reversed.

**Vivekanand S**: Thanks so despite this revenue growth, the targets were not achieved is it? Okay fine.

**R. K. Agarwal**: Despite this growth they did not achieve the target.

**Moderator**: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda**: Madam what was the phase I revenue growth rate for our business in the nine months?

**Apurva Purohit:** At the nine month, our growth had been around 9%, of which I would say that half a growth has come from old stations and half a growth has come from new stations. In Q3 when we look at 14% growth around 10% has come from our older station because it was mix also of the rate hike that we took there and around 4% has come from new station.

**Pritesh Chheda**: Okay my second question is regarding the phase 3 breakeven, so where are we in terms of monthly run rates on the phase 3 and where are we on the profitability part in phase 3 businesses?

**Apurva Purohit:** We broke even on phase 3 stations within 1.5 years. In our last interaction we had talked about breakeven that had already happened and currently all our 11 stations are operating at an EBITDA margin of around 8%.

**Pritesh Chheda**: And about the margin expansion side, so we had about I think about 200 basis point margin expansion in the nine-months considering that growth is coming in phase 1 and the profitability in phase 3 improves. So the trend will continue of similar number in terms of margin expansion incrementally if the structure has to be prevailing?

**Apurva Purohit:** Absolutely I mean as I said in my opening remarks, our 28 legacy markets or phase 2 markets are operating at 38% margin within that some of our core stations are operating 45% margin so clearly 33% is slated to just only go up.Blended margin of 33% of our stations, which has 8% margin so you can very well understand with the growth coming back, the margin, has to improve further.

**Pritesh Chheda**: Any reason for the volume growths being fairly soft in the first nine months and how do you see the volume and value growth in FY2020?

**Apurva Purohit:** I think let us take up the nine months into the H1 and Q3 onwards so if you look at the H1 yes the economy more subdued advertisers were playing a wait and watch kind of game that is all categories had in a sense dipped in spends, not only for radio, but for the entire advertising in media industry and this is something that we had said at the beginning of the year that H2 will be faster than H1 and clearly that is what is playing out. As Q3 started you are already seeing kind of growth levels 14% for us and I could assume around 10%, 11% for industry. So clearly we are seeing an upsurge and the upsurge is because the categories have packet spending so whether it is government, whether it is e-commerce, whether it is auto and this trend is even continuing in January and beyond so clearly we are seeing H2 being very different from H1. I think there are two points to note here, one is the volume increase, which has happened in H2, which has been far better than H1 because so many more categories have started spending, I would also point your attention to the fact that we have been able to take a rate growth of 11%, which I think in the last two years, we have been averaging at around 6%, 7% growth in rate so that again is a very positive side.

**Pritesh Chheda:** Then what kind of growth expectation do you have for FY2020 in blended revenue growth?

**Apurva Purohit:** If you see H2 FY2019 numbers going into these kind of 14%, kind of growth rate based on category spending, we see FMCG consumption, volume consumption had grown at 10%, government is spending, elections will come up as it is Q4 for radio industry is a good quarter because the finance sector spends in this particular quarter. Going forward we believe that the spend will continue even in FY2020, the couple of months post election might be a little subdued but the rest of the year we are expecting similar growth rates as we have seen in H2.

**Pritesh Chheda:** This 11% rate hike which quarter it is effective Q3 or?

**Apurva Purohit**: The way it works is that H1 had around 6%-7% rate hike, Q3 has seen 11% rate hikes but on an average for the full year, we see it at around 8%.

**Pritesh Chheda:** Thank you and all the best.

**Moderator**: Thank you. The next question is from the line of Neeta Khilnani from B&K Securities. Please go ahead.

**Neeta Khilnani**: Thank you for the opportunity. Just I wanted to understand this rate hike better, so this 11% is inclusive of some tactical campaigns that we did during the festival season which is why the hike looks little bigger or is this actually structural?

**Apurva Purohit**: Neeta, you are right that part of this is tactical advertising and that is why I have just explained in my earlier answer that on an overall basis it will be 8%, so partially it is a structural rate hike which continues as we keep on renewing deals and our deals keep on coming up with a newer quarter-on-quarter, so that is part of the structure. A small part of it is tactical, but again the larger point to note here is despite this being the normal base, as it plays out the tactical advertising that is from during festive every year which is at a higher rate actually, this is the first time we have been able to push at 11% rate hike, otherwise including typical advertising at slightly higher rates, the benchmark in the last two years has been around 8%.

**Neeta Khilnani**: Okay, I understood and my second question was that we have seen the inventory utilization for the new stations going up steadily, what I wanted to understand how are we faring at the second ranked phase 2 stations, not the top 12 cities, but the second ranked station if I recollect we have been talking of the entire network being at 60%, 70% utilization for the last two years, so I am trying to understand why the needle is not moving upwards, because new stations are sort of ramping up quite well and that the old stations would already be at 100%, so is there any gap in my understanding?

**Apurva Purohit**: If I were to break it up in that you are talking about I would say that the top 12 stations are around 80% inventory utilization which is the station where our rate hikes are playing out currently, the next set of stations would be between 70% and 50%, so they are also growing at similar volume levels because we clubbed all the phase 2 stations together and talk about rate hikes plus utilizations you would not have noticed, but there is a volume increase happening there too but only the new stations are currently around 45% to 50%. So the three levels are 45% to 50%, 65% to 75% and 80% plus.

**Neeta Khilnani**: The second ranked stations would have increased from about 60% to 70% in the last two years, is that correct?

**Apurva Purohit**: I would say every year around 5%, 7% improvement in the utilization.

**Neeta Khilnani**: Okay, thank you so much.

**Moderator**: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal Securities. Please go ahead.

**Aliasgar Shakir**: Thanks for the opportunity. Just a couple of questions. One is on this lock-in period for phase 3 stations have concluded quite sometime I think March last year. So I just wanted to understand apart from this one acquisition that we have announced, are there any more prospective deal that we have been exploring and is there anything in the works that is point number one and second question is, although you did mention in terms of the growth trajectory we are looking for FY2020 and beyond but if you can just throw some color in terms of how is the recovery from last year been in some of the larger categories like some retail, local advertisement, real estate and based on that how the trajectory looks good beyond to the next two quarters which is may be Q4 and probably Q1 which is when I think that government ads will or other political ads will be the stronger drivers.

**Apurva Purohit**: First point I would make is that for the radio industry and for Radio City, we are advertising across all categories. The good part for us is that we have no specific category unlike television where 30% or 40% of contribution comes from a single category, so the advantage for radio industry is that we are not dependent on a category or a couple of categories, equally fact is that as the economy improves, as the sentiment improves, the entire table moves up, so if you were to look at what has happened in the earlier two years and what is happening this year H2 onwards, I would say that early there is an upside that is happening across categories and across the economy and across in terms of sentiment and that is what really favor the growth of both the industry and the Radio City. There is no specific category that one should sort of pickup and identify as a particular growth driver across categories there has been growth and I think that is what we are looking at optimistically and we believe that is what will continue for the next couple of years and more.

**Aliasgar Shakir**: Okay. Just that the purpose of asking this question is to understand that this quarter has been very strong and I am sure there would be benefit because of the festive season, but the idea of asking this question is to understand how sustainable this growth beyond just the election benefit probably we will continue to see even in Q4 and therefore very good growth there.

**Apurva Purohit**: Absolutely Ali, so again I repeat that the festive season just came up a couple of percentage points of growth, it is not a dramatic fun of event that happens, so if you see the 45 days after Diwali immediately there is a huge pause and then it goes down, so over a quarter sort of I guess there is a couple of percentage points improvement because of that. Q4 again, keeping aside elections, there will be an improvement because finance category etc which are specifically Q4 categories coming at that point. Elections of course will give an additional boost. So I am saying that we are talking of an industry which will do a 12%, 14% growth and it will be doing 2% higher going forward on the back of resurgence across categories and in that sense I believe that for the radio industry that is a far more sustainable growth and gives a far more confidence than if we were dependent on one or two categories or one or two seasons to pull us through.

**Aliasgar Shakir**: Got it. This is very helpful and encouraging. Can you also just answer the question on consolidation part?

**Apurva Purohit**: As of now we are really looking at getting approval through for Friends FM apart from that if you look at consolidation in deals, there are opportunities that keep on coming and we will keep on analyzing and studying them and the moment we believe that they are in some sense value adding to us, from a network perspective or from the EPS perspective or from size perspective, we are certainly keen to explore them.

**Aliasgar Shakir**: Got it. Thanks. This is helpful.

**Moderator**: Thank you. The next question is from the line of Kartik Mehta from IDFC Mutual Fund. Please go ahead.

**Kartik Mehta**: Thanks for the opportunity. I just wanted to know what is the radio market share on nine month basis in overall advertisement and also what is the pie of the digital now, if you can throw some light?

**Apurva Purohit**: We believe that the radio industry share is anything between 4% and 5% and it has marginally grown in the last couple of years. I would assume that the digital pie would be approximately 12%.

**Kartik Mehta**: As an industry we have not shed the market share in the nine months as such?

**Apurva Purohit**: What have been shed it in the last nine months will not go below this percent in the future years. If at all it will grow because we believe in that sense, radio is a very cost efficient medium for advertisers, it improves the efficiency of the media clan and ultimately an advertiser chasers where the consumer is and consumer even to they are spending close to 45 minutes day on an average listen to FM radio so to that extent we believe that this is stable only as geographical expansion happens for the industry, the share will grow.

**Kartik Mehta**: Alright and what was the contribution of the government particularly on a nine-month basis, percentage of the revenue?

**Apurva Purohit**: Around 15%.

**Kartik Mehta**: Have we got any price hike from them?

**Apurva Purohit**: No, we have not got a price hike.

**Kartik Mehta**: Because I believe some of the media platforms have probably got the price hike from the government or…?

**Apurva Purohit**: That is right. Print has got a price hike, the industry body has written to the government but they have not got a price hike as yet.

**Kartik Mehta**: And when was the last price hike given by them to you in the radio industry?

**Apurva Purohit**: Two years ago.

**Kartik Mehta**: And there is no written rule as such you have to just approach them and they would consider as per there?

**Apurva Purohit**: It happens once in four or three years, so there is a certain cycle to it, but given the fact that the other media have got the rates hike and as a consequence of that the radio industry has also written to the government and we are hopeful of getting positive response soon.

**Kartik Mehta**: So just to continue on that if you have any idea for the print industry, what was the frequency after which they got the price hike just now, so when was the last time they got the price hike. There are two year cycle there as well?

**R. K. Agarwal**: Every year we get the increase in price basis, increase in your circulation that is one increase which happens every year then there is a structural increase which happened in 2013 thereafter it has happened now.

**Kartik Mehta**: Okay, fair point.

**R. K. Agarwal**: And in fact whatever is the increase of 25% which print has got it is primarily because we have lost tender advertisement so we went to government telling them in fact the body and we all were working with the government for the past one year or so to have the increase in the rates, because since the volume has gone the discount which government was getting from all of us also has to be reduced and from that perspective only we were chasing the government and ultimately government had agreed to give a hike of 25% of January 9, 2019.

**Kartik Mehta**: Right and of the overall government budget what could be the share of the radio?

**R. K. Agarwal**: Radio could be very little I believe, radio may not be… of the total spend may not be more than 5%, 6% I think.

**Kartik Mehta**: So it is broadly slightly higher than the overall industry wide radio market share which is 4%, 4.5%, so government is slightly giving better?

**R. K. Agarwal**: Because government does not use many other platforms, so when you talk about 4%, 4.5% it is into 4%, 4.5% is of every media platform, like there would be digital gaming, etc, etc, but government does not use many other platform and as it is they do not have much of a spend on digital either.

**Kartik Mehta**: Fair enough, okay Sir. Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

**Jinesh Joshi**: Thanks for the opportunity. My question pertains to the ad rates in the print media sector which have increased by about 25% and which was just kind of questioned previously, so that position was taken into account after considering increase in prices of newsprint processing charges and other factors which go into kind of computation of ad rate, so in our case what is the basis of increase, what will be the basis of increase, because we have also kind of written you just mentioned that to the DAVP to increase the rates, so what will be the basis on which ask for a rate hike?

**Apurva Purohit**: Actually when you look at rates, they are not rates in isolation in media and they are not cost plus kind of rate that anybody looks at. One looks at rate in the context of how… within a media plan, how efficient a media where how many thousands listeners, viewers, readers, it is able to deliver, so when we talk to the government, when we have written to the government, they benchmarked our rates and what is the CPT cost per thousand radio deliver, what is the cost of thousand print deliver, what is the cost per thousand television deliver I mean that context we believe that we are far more paid than the number of listeners we are able to deliver to advertiser, so the benchmark our rate is based on the cost per thousand and the fact that it is amongst the lowest.

**R. K. Agarwal**: There are two other reasons. Government as it is gives discounted rate, so not necessary that they need to have increase in the cost only then they go to there, this is our persistent request to the government from all media platform you increase the rate and bring it to a commercial level, so that its is not something around which is linked only to increase in the cost number one. Number two, if the rate has not been increased for two years, how can it remain at par with what they were in three years ago, because inflation even if you assume inflation at the rate of 5%, so to that extent we have increased, should have happen automatically.

**Jinesh Joshi**: Okay and another question pertains to our EBITDA margin profile of batch 1 stations in the initial comments you mentioned that we are at about 8%, now if I remember correctly in the last quarter for batch 1 stations, our EBITDA margin was about 12% to 15%, so has it kind of declined on a Q-o-Q basis, because considering the fact that our utilization has gone up from 50% to about 53% I thought the operating leverage in batch 1 stations should have played out much better?

**Apurva Purohit**: I think what you mean is phase 3 stations right?

**Jinesh Joshi**: Yes.

**Apurva Purohit**: On a quarter-to-quarter basis it will vary depending on when we have done marketing activity, when we have not done market activity, so this marginal difference that is occurring which is 10%, 11% and 8%, 9% is primarily only because of the marketing activity that we did as on time consumer touch point exercises which I said in the beginning across 39 markets, so over the years, it evens out and it is only on an upward path.

**Jinesh Joshi**: Okay and the marketing expense number, which you had shared previously, that is Rs.4.5 Crores to Rs.5 Crores, I just want…

**Apurva Purohit**: That is right.

**Jinesh Joshi**: Okay, one last question. The local advertisers contribute roughly 45% to our overall scheme of things, so I just wanted to understand how has been the pricing difference between the national and local advertisers over the last two to three years, has the gap kind of narrowed as it widened or how has it behaved over the last couple of quarters and if you can just share?

**Apurva Purohit**: Over the last two, three years I would say that more or less the rates are broadly similar, the only difference is that because local advertisers take single stations, their rates would be marginally higher, national advertisers, because they get an network impact, the rate will be marginally lesser. The advantage on national advertisers obviously is that they end up f taking,35 markets, so that it is only how it plays out, but I would say more or less they are similar, the difference only would be in single station rate or a multiple station rate.

**Jinesh Joshi**: Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Aejas Lakhani from Edelweiss. Please go ahead.

**Aejas Lakhani**: Thanks for the opportunity. My question is pertaining to that copyright board order, which was set to expire in calendar year 20 where currently royalty on music is capped at around 2%, so what is the risk that the royalty does not increase?

**Apurva Purohit**: We still remember that this order came back way of the copyright board passing this judgment after it has been passed by the Supreme Court and they said that the jurisdiction is of the copyright board. There is no copyright board information even now what we anticipate and expect is that it will be kind of a rollover and this will become applicable for the next 10 years or so, that is our expectation.

**Aejas Lakhani:** Perfect. Thanks. That is it.

**Moderator:** Thank you. The next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

**Karan Taurani:** Thanks for taking my question. My question is pertaining to something on the Tier-2 and Tier-3 markets, one of your peers have been reporting about 25%, 40% price hike consistently in the last two, three years, so where are we in terms of these stations in the smaller markets and what kind of price hike can we see and the outlook on that?

**Apurva Purohit:** I think if you look at price hike you must understand also at what entry points different players enter the new market, so most of players who are operating only in Tier-2 and Tier-3 markets typically end up entering a new city at the lowest rate that is operating in that particular market. Radio City does not operate like that, we enter a market with the average rate of that market, so let us say if the average rate is Rs.300 we will enter that market at Rs.300, a volume player will enter that market at Rs.150, naturally the rate hike of what you desire to get out of the market are higher. For us we enter at the SBU level and then as we start building up perception in the market our rates move up accordingly. As far as Radio City strategy is concerned, we start taking rate hikes only when we have reached an inventory utilization of around 60% plus, otherwise we concentrate on improving our volume.

**Karan Taurani:** But you know what generally I have got to know that those players basically down the Tier-2 and Tier-3 markets operate at the premium as compared to yours in terms of pricing, so is it only because of the inventory gap or are they able to get a better pricing of a better strategy in the Tier-2 and Tier-3 market?

**Apurva Purohit:** So I frankly would not agree that the Tier-2, Tier-3 players operate at any premium to Radio City, I think that two premium players in all these markets are either Radio City or Radio Mirchi, all the other players are operating at rates lower than us and this is analysis market by market that we have done across 39 markets.

**Karan Taurani:** Great thanks. The second question would be pertaining to digital labeling it is operative it goes on every quarter, but this time around you are going to see Spotify launching in India CY19 the first quarter, you have seen Gaana cutting rates, Saavn is now providing free subscription with Jio, music I believe is a commoditized content, so again what is Radio City doing as a digital initiative, what kind of things you all looked after for the digital strategy, any major change or whatever trying to consider, to combat this competition from the digital platforms?

**Apurva Purohit:** Firstly let me tell you that while music may be a commoditized content but we do not play music alone and I think therein lies a differentiator to what your FM provides and what all the music streaming devices whether it is Spotify or Gaana or Saavn or anybody else provides. I think we should be very pleased that our content is a mix of local news coverage, live information, our RJ is interacting with listeners and music, so this is a blend of content he provides and this content is not transferable. When you listen to a playlist on Saavn of Gaana or an iPod, which has been existing from 15 years alongside FM or you listen to what Spotify is doing, they are only playing playlist, whereas we give local content, we give live content and we give RJs who have become role models and big influences in each of the markets that Radio City exists since. The cost content is not transferable to any other mediums . We will continue to maintain uniqueness and as a consequence of that even today in most digitally mature markets like the US or Europe, FM listenership is as high as 93%, FM reach is as high as 93% and all the music streaming reach is only around 6% to 8%, so even in India we do not anticipate that any music will go above a reach of 6% and FM will continue to have a reach of 90% plus.

**Karan Taurani:** So any plans launching an App of Radio City, you are probably spending more in the digital station network front?

**Apurva Purohit:** Not now, but for the last seven years we have been operating a digital platform called radiocity.in where we currently have around 53 radio stations that people can access via the web or via an app, these are niche radio stations, we have different genres of music, it is spiritual music or English music or hip-hop or poetry, etc., etc., or English, different genres of English music and that is both a way to explore online audiences to the Radio City the brand as well as a marketing platform or a marketing initiative to build the presence of Radio City online.

**Karan Taurani:** Thanks. That is it from my side.

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

**Deepesh Kashyap:** Thanks for the opportunity. Can you please share us the revenue contribution of the new stations please in this quarter?

**Apurva Purohit:** Around 10%, 11%.

**Deepesh Kashyap:** You talked about Rs.75 to Rs.85 average realization in the phase 3 stations, I think in Q4 FY2017 is there any change to that or we still work with that number?

**Apurva Purohit:** No, as I said the rates are the same through this year and we were only start taking rate hikes once 60% plus utilization level and these rates are at the average of each of the market.

**Deepesh Kashyap:** Other expenses used to be in the range of 26- 27 Crores earlier, but in Q2 you talked about 9 Crores of marketing expense and this quarter you have dropped it further like Rs.4 Crores to Rs.5 Crores, just wanted to understand how should we think about the other expenses and EBITDA margins going forward?

**Apurva Purohit:** So this particular quarter I think the 4.5, 5 Crores cost that you would have mentioned is an onetime given as cost, otherwise I think broadly our marketing cost will remain at around 9.

**Deepesh Kashyap:** Around Rs.30 Crores is other expenses?

**Apurva Purohit:** Yes.

**Deepesh Kashyap:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Jai Shah from OHM portfolio. Please go ahead.

**Jai Shah:** Hi Apurva, great result. Just trying to get a sense that post elections how would the numbers settle down because a) the government business would actually come off, b) because of the NBFC crisis that we see in the market right now we do believe autos and overall there seems to be a slowdown. In your experience how would couple of quarters be after the election quarter?

**Apurva Purohit:** Let me first give you a slightly broader sense, our sense is that starting from H2 there has been a recovery in the economy and as a consequence of that over the next two, three years we have clearly seen that the radio industry going back to the good phase that we had predicted, which was around 12% to 14%, I think still play out on an average on a CAGR basis across the next year. Yes elections will come and this is one particular quarter government package will go up or go down before that, etc., etc, but broadly we are seeing that from the earlier 8%, 9% growth levels that this industry has unfortunately seen in the last two years because of demonetisation, GST, muted economy, etc., is going back to a 30% to 40% kind of growth.

**Jai Shah:** So in your experience basically you settle down at a higher level once you have reached a particular level and then keep going up right?

**Apurva Purohit:** That is right and that is for two, three reasons, one is if you look at the industry the size is very small, so these kind of growth expectations are not out of that. The second thing is clearly the radio industry has seen that in the last two years the rates that what we are charging our advertisers has not gone up as much and therefore the cost for 1000 that we are delivering to our advertisers is amongst the least in the industry, just to give a sense, earlier three years ago, five years ago, the difference is between us and television used to be 1:7, now the difference is 1:10, as a consequence all of us are definitely pushing whether the government or a social advertiser for a rate hike across all our market. Clearly we see that best of both because we all will be pushed for a rate hike we will certainly get a higher growth than the rest of the advertising industry.

**Jai Shah:** So post elections the mix would improve and even the growth rate would be better broadly?

**Apurva Purohit:** I think maybe it will move up quite slow because categories are so spread out across all kind of different advertisers and overall resurgence will have an impact on each of the categories that is the second reason and clearly every year you see every quarters new categories keep coming in and increasing the table, for example five years ago it was telecom, two years ago it was e-commerce.

**Jai Shah:** Right and you are not sensing any slowdown that we are witnessing in autos and couple of other segments in terms of advertising demand?

**Apurva Purohit:** If you purely just respected to what we are seeing in the major advertising actually in Q3 one of the categories that did spend reasonably high was auto, so the profit for Q3 was quite high, it was around 23%, now that could also be because the previous quarter was for auto and is also the year end period, which is when auto really spends. We may not see the same kind of growth rates for two coming Q4 and Q1 then they will get the categories like finance, etc., will spend in those, so I think I am making two points, one point is that the overall table we believe is going to go up because of upsurge in the economy. The other thing is that certain categories will keep coming and keep going out every quarter, so for example auto came in Q3, finance will come in Q4, elections will come in Q4 and government will come back in Q1 and so on and so forth.

**Jai Shah:** Thanks. That is useful and secondly today we heard about ENIL looking at something in US and overseas, any such plans and some thoughts to tap the NRI community?

**Apurva Purohit:** The NRI community for us is getting quite well actually through digital, one of the highest listener base is of the NRI community. As of now we have no plans to look beyond India, actually there is enough potential from growth in our 39 markets, there is enough things that we are doing within this 39 markets to expand margins, so right now focus is really to take up the entire network to the margins that our legacy stations are delivering.

**Jai Shah:** Thank you. That is very useful. Best of Luck.

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

**Sarvesh Gupta:** Madam, two questions, I was just comparing your performance with DB Corp MY FM, so it seems that they have been able to take a much higher yield hike, their EBITDA margins have gone up to 43% even though we are a premium player compared to them and the growth rates also are 2x, 3x of what we have done, so any comments on that?

**Apurva Purohit:** I think, if you look at it the bases are very different, we are operating on a far higher base, we are operating on a much larger footprint, we are already operating at higher than average market price as was explaining earlier, so the rate hike really is inconsequential because one have to look at it from the perspective of what a player is starting off with and what his set of market is, so that is the first one. The other base is that given that DB Corp operates in MP, Chhattisgarh, Rajasthan kind of markets, which had elections in Q3 I would not have the figures, but I would assume that the impact of MP, Chhattisgarh, and Rajasthan has played out for them in this particular quarter.

**Sarvesh Gupta:** So this EBITDA margin difference of almost 1000 basis points between you and they have been ahead of us should normalize it with time is it?

**R. K. Agarwal:** What you need to understand is their footprint is in Tier-2 towns, Tier-3 towns, so where you have lower cost, but then at the same time you have a lower potential of growth as well, so you have to bear these two things in mind and third thing is as Madam mentioned in the opening remarks we already have 38% operating margin in 28 old markets, these are the new markets, which are pulling down the margin to 33% and out of those 28 markets there are markets where we have margin of 45%, so how do you explain that, this is how it is, but what we need to note is in fact radio industry is coming back to its true potential growth path that is something, which is very heartening.

**Sarvesh Gupta:** Understood Sir and second question what is the level of debt and cash that we have and any comments on how do we plan to utilize that?

**R. K. Agarwal:** We do not have any debts, in fact we have net cash to the tune of about Rs.200 Crores I believe or Rs.150 Crores I believe, so of course as stated at the type of IPO we have been looking for acquisition opportunities, but there are not too many and at the same time we do not find ourself or feel ourself under pressure to make any acquisition under any circumstance, if it make sense fine, it does not make sense fine because at the time of phase 3 also we could have gone, in fact little irrational in bidding for frequencies, but that we never did as group and we will never do.

**Sarvesh Gupta:** So the main use of this Rs.150 Crores cash would be to use it for inorganic?

**R. K. Agarwal:** Yes inorganic that is what was stated to be the object of an IPO and in the sense that we strengthened our capital structure in order to be in position to make any acquisition of substance.

**Sarvesh Gupta:** Understood.

**R. K. Agarwal:** This was our confidence on our robust cash flow that we distributed 57 Crores to shareholders through buyback.

**Sarvesh Gupta:** Understood Sir. Thanks a lot and all the best for the coming quarters.

**Moderator:** Thank you. The next question is from the line of Vivekanand Subramanian from Ambit Capital. Please go ahead.

**V Subramanian:** Thanks for the followup opportunity. I have two questions, so the difference between the margins of the phase 2 stations, the 28 stations and the matured stations, is that only on account of the different inventory utilization, you mentioned around 60%, 70% versus 80% plus utilization is that the difference or is there something else and secondly can you give us an update on the non-FCT part of the business where do you stand now and what is the revenue contribution and how that has progressed? Thank you.

**Apurva Purohit:** So on the first question the difference is partially utilization and partially net utilization so in the stations, which are already as I said above 60%, 70% rate hike, out of this 28 stations there will be 12 to 14 stations where we will be taking rate hikes rather than filling the volume, so the margin difference is a mix of both. On FCT around 12% of our revenue comes from non-FCT, but I would like to clarify that this non-FCT not on ground events, etc., if non-FCT is content integration and other things that we do on air, which delivers as high margin as the rest of our FCT business.

**V Subramanian:** Thanks a lot. All the best.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question, I now hand the conference over to the management for their closing comments.

**Apurva Purohit:** We thank all of you for your participation in our earnings call. We have uploaded the investor presentation on the company's website. In case of future queries you may get in touch with any of us or the strategic growth advisors, investor relations team. Thank you so much for participation and good bye.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Music Broadcast Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.