

August 27, 2024

## Playing the growth “tune” right ...

**About the stock:** Saregama India (Saregama) is India's oldest music label owned by RPSG Group with ~1.6+ lacs songs, which is monetized over various formats such as digitals (streaming, YouTube), physical (Carvaan) and television.

- Apart from music, it is also into TV serials (Tamil), creates regional films as well as web series for OTT platforms through Yoodlee Films/Filtercopy and has Artists and Events management business

### Investment Rationale:

- Robust outlook in Music Segment:** The management, in its analyst meet, guided for 25-26% revenue growth in medium with licensing revenue (B2B) growth at 23% CAGR, led by higher share in new content across Hindi and regional languages. In terms of old catalogue, it expects steady growth of 10-12% with 75-80% margin. **The company aims to lap up higher share in new movie content and has lined up capex of ₹ 1000 crore for new music acquisition in next 3 years. We estimate ~22% CAGR in B2B (licensing) music sales in FY24- 27E to ₹ 939 crore as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth.** The artist management segment is a byproduct of new music and does not require any upfront investment. We expect Artist Management revenues to inch up to ₹ 130 crore in FY27, with Pocket Aces ramping up.
- Video and Events segment growth to be strong:** With Pocket Aces acquisition, and Filtercopy offering, alongwith Yoodlee Films, Saregama has the entire gamut of video offerings from short clips to web series and movies. **It has guided for 25-30% CAGR in video segment revenues in the medium term. Over the medium term, it is looking at an 8-10% margin for this segment.**
- Profitability growth to be back ended:** The management highlighted that growth may be slower in the next 4-6 quarters as the company ramps up content acquisition and integrates Pocket Aces. Nonetheless, it expects the profitability CAGR to outpace the topline growth thereafter. **We expect reported EBITDA margins to moderate to 27.9% in FY25 vs. 30.7% in FY24, amid higher content charge. However, Margins are expected to bounce to 31.5% by FY27.**

### Rating and Target Price

- We have a positive view on Saregama India as we expect digital monetisation to provide sustained growth momentum. Synergy from Pocket Aces and accelerated opportunity fructification in new areas like Web Series, Artist management, etc., can provide further growth leg
- We assign a BUY rating, **valuing it at a target price of ₹ 600, with a multiple of 36x P/E on average of FY26E & FY27E EPS.**

### Key Financial Summary

(Year-end March)	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY24-27E)
Net Sales (₹ crore)	580.6	736.7	803.0	8.1	1,012.8	1,230.3	1,494.2	23.0
EBITDA (₹ crore)	187.1	221.0	246.6	45.2	282.7	358.2	470.1	24.0
Net Profit (₹ crore)	152.6	185.4	197.6	29.5	208.3	273.9	364.5	22.6
EPS (₹)	7.9	9.6	10.2		10.8	14.2	18.9	
P/E (x)	64.9	53.5	50.2		47.6	36.2	27.2	
Price / Book (x)	7.2	7.4	6.7		6.3	5.7	5.1	
EV/EBITDA (x)	47.6	41.5	37.5		32.7	25.7	19.4	
RoCE (%)	14.5	18.2	18.0		17.4	20.5	24.4	
RoE (%)	11.1	13.8	13.4		13.2	15.7	18.7	

Source: Company, ICICI Direct Research



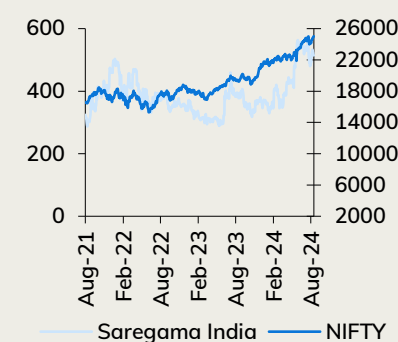
### Particulars

Particular	Amount
Market Cap (₹ crore)	9,929
Total Debt (FY24)	₹ 1.7 Crore
Cash & Inv. (FY24)	₹ 660 Crore
EV	₹ 9269 Crore
52 week H/L (₹)	581/ 310
Equity capital (₹ cr)	19.3
Face value (₹)	1.0

### Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	59.1	59.1	59.1	59.2
DII	2.4	2.6	2.6	3.2
FII	17.1	16.8	16.1	17.2
Other	21.4	21.5	22.3	20.3

### Price Chart



### Key risks

- Slower than anticipated growth in licensing revenue
- Increase in content costs

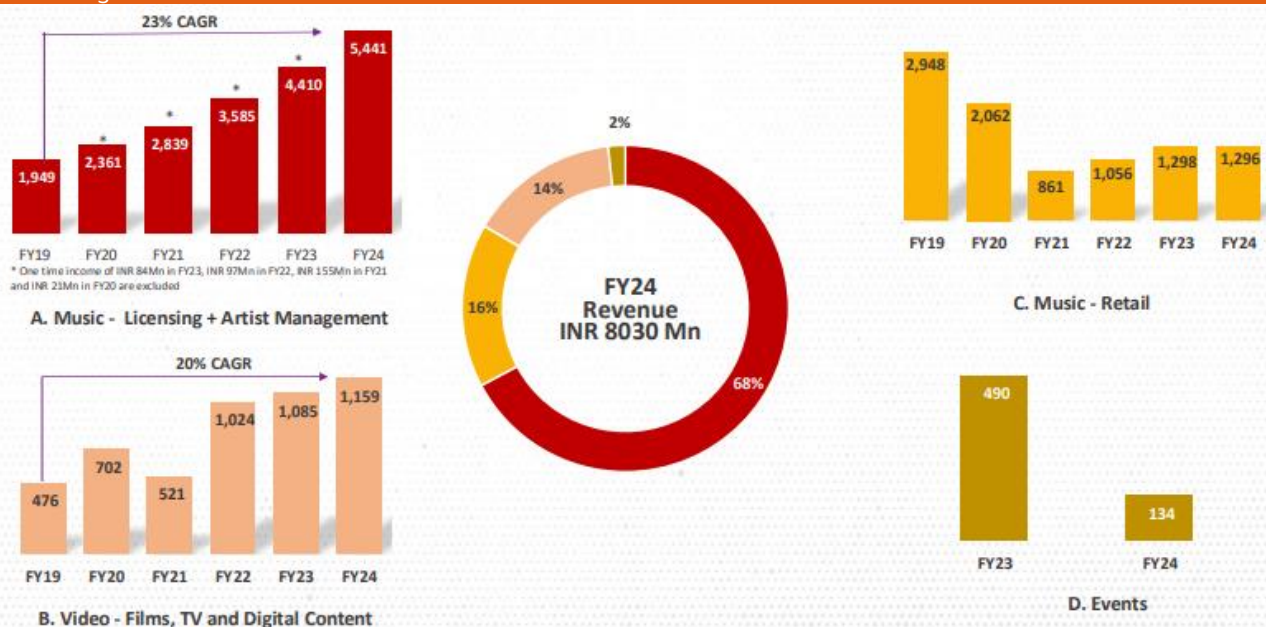
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## What Saregama does?

- Saregama India (Saregama) is India's oldest music label owned by RPSG Group with ~1.6+ lacs songs, which is monetised over various formats such as digitals (streaming, YouTube) & television as well retail distribution through Carvaan
- Apart from music, it is also into TV serials/(Tamil), creates low budget films as well as web series for OTT platforms through Yoodlee Films and Pocket Aces and has Artists and Events management business.

Exhibit 1: Saregama revenues overview



Source: Company, ICICI Direct Research

## Licensing revenues in a sweet spot; shift to paid subscription can be a game changer in future

The management guidance for licensing revenue (B2B) growth at 23%, will be led by higher share in new content across Hindi and regional languages. In terms of old catalogue, it expects steady growth of 10-12% with 75-80% margin. The company aims to lap up disproportionate in new movie content and **has lined up capex of ₹ 1000 crore for new music acquisition.**

**We estimate ~22% CAGR in B2B (licensing) music sales in FY24- 27E to ₹ 939 crore as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth. The artist management segment is a byproduct of new music and does not require any upfront investment. We expect Artist Management revenues to inch up to ₹ 130 crore in FY27, with Pocket Aces ramping up.**

Any faster transition to digital monetisation through subscription could drive faster than expected growth in licensing revenues. **We highlight that as per EY FICCI report 2024, ~87% of music revenues in India were earned through digital means (OTT, YouTube, social media), 77% of which was advertisement driven.** Interestingly, progressive shift is seen as paid subscription replaces free consumption. Three players (Gaana, Resso and Hungama) have moved behind paywalls. Further, Spotify also introduced further listening restrictions to free users in India

Under the Free platform, the company claims to earn 10 paisa per stream. However, under the subscription model, the streaming platform will create a content pool out of 50% of subscription charges. This pool would be divided among licensing companies on the basis of streams made by the customer during the subscription period. **Transition to subscription model, therefore, can be key game**

changer as the company has indicated that income from streaming platforms should go up by anything between 150% to 300% as the market moves from a free model to a paid model.

### Carvaan – pivoting to e-commerce distribution

The company indicated that with the elder generation getting accustomed, to streaming, the life cycle of the product has become limited. The focus, in the Carvaan segment, therefore is now clearly on generating higher margins as opposed to revenue growth. Consequently, the company expects to ramp down on physical distribution and pivot to distribution through e-commerce and focus on profitability ahead. We expect Carvaan revenues at ₹ 68 crore in FY27 vs. ₹ 130 crore in FY24.

### Video & Event segment to remain robust..

With Pocket Aces acquisition, and filtercopy offering, alongwith Yoodlee Films, Saregama has the entire gamut of video offerings from short clips to web series and movies. The company indicated that in the movies segment, it will continue to only operate in the regional space given the lower risks. The company ensures that 70% of expenses are recovered before the release of the movie, ensuring it is a high IRR despite low margins. For web series as well, it minimises the risk by securing deals with OTT platforms before starting production. **It has guided for 25-30% CAGR in video segment revenues in the medium term. Over the medium term, it is looking at an 8-10% margin for this segment. We estimate ~40% CAGR in TV & films, Events in FY24-27E to ₹ 357 crore, also aided by Pocket Aces consolidation**

**Exhibit 2: Segmental Revenues Breakup**

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY19-24 CAGR	FY 24-27 CAGR (%)
TV, Events & Film business	52	102	157	130	225	288	357	22%	40%
Music Business (A+B+C)	385	474	579	674	788	942	1137		19%
A. Carvaan	86	102	128	130	86	68	68	-15%	-19%
B. Music Licensing	299	372	452	523	621	764	939	22%	22%
C. Artist Management				21	82	110	130		
Revenue from Publication	4	4		Demerged					
<b>Revenue</b>	<b>442.0</b>	<b>580.6</b>	<b>736.7</b>	<b>803.0</b>	<b>1012.8</b>	<b>1230.3</b>	<b>1494.2</b>	<b>8%</b>	<b>23%</b>

Source: Company, ICICI Direct Research

### Risk and Concerns

#### Slower than anticipated growth in licensing revenue

The company expects strong revenue growth in medium to long-term. Nonetheless, delay in monetisation amid subscription model or inability to close a deal with streaming platform can slow down the licensing revenues in the interim.

#### Slower recovery in Carvaan profitability

Carvan currently is operating at near breakeven levels. Minimal marketing spends have ensured that Carvaan is just breaking even/making low margin, and the company guided for low marketing expense for a few more quarters, alongwith e-commerce led distribution to improve profitability. However, delayed recovery in profitability will restrict overall margins

#### Incremental investment and losses in other segments

The other segment of Events as well as new acquisition is loss making. Thus, incremental investments without path to profit remain a risk.

#### Any sharp increase in content costs

High competition can potentially increase the cost that needs to be paid by the music companies like Saregama to the producers.

## Financial Summary

Exhibit 3: Profit and loss statement		₹ crore			
(₹ Crore)	FY24	FY25E	FY26E	FY27E	
Total operating Income	803.0	1,012.8	1,230.3	1,494.2	
Growth (%)	9.0	26.1	21.5	21.4	
Contract manf. charges	90.8	60.3	48.0	48.0	
Cost of prod. of TV, Films	141.3	257.2	338.2	414.3	
Employee Expenses	93.2	114.0	129.2	143.4	
Other Expenses	231.3	298.6	356.8	418.4	
Total Op. Expenditure	556.5	730.1	872.1	1,024.1	
EBITDA	246.6	282.7	358.2	470.1	
Growth (%)	11.6	14.7	26.7	31.2	
Depreciation	36.2	54.7	55.4	61.3	
Interest	3.2	1.4	1.0	1.0	
Other Income	63.7	56.2	65.0	80.0	
Exceptional Items	-	-	-	-	
PBT	270.8	282.8	366.8	487.8	
MI/PAT from associates	0.9	0.0	0.0	0.0	
Total Tax	73.2	73.9	92.4	122.9	
PAT	197.6	208.3	273.9	364.5	
Growth (%)	6.6	5.4	31.5	33.0	
EPS (₹)	10.2	10.8	14.2	18.9	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Profit after Tax	197.6	208.3	273.9	364.5	
Add: Depreciation	36.2	54.7	55.4	61.3	
Add: Interest Paid	3.2	1.4	1.0	1.0	
(Inc)/dec in Current Assets	-24.1	-147.2	-150.2	-182.2	
Inc/(dec) in CL and Prov.	193.1	129.4	135.9	164.9	
CF from op. activities	405.9	246.6	316.0	409.4	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-442.2	-150.0	-150.0	-150.0	
Others	142.2	0.0	0.0	0.0	
CF from inv. activities	-300.0	-150.0	-150.0	-150.0	
Change in Reserve & Surp.	-70.6	-96.4	-115.7	-154.2	
Inc/(dec) in loan funds	1.7	0.0	0.0	0.0	
Interest paid	-3.2	-1.4	-1.0	-1.0	
Others	0.1	0.0	0.0	0.0	
CF from fin. activities	-72.1	-97.8	-116.7	-155.2	
Net Cash flow	33.8	-1.2	49.4	104.2	
Opening Cash	508.3	542.1	540.9	590.3	
Closing Cash	542.1	540.9	590.3	694.4	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Equity Capital	19.3	19.3	19.3	19.3	
Reserve and Surplus	1,449.8	1,561.8	1,720.0	1,930.2	
Total Shareholders funds	1,469.1	1,581.0	1,739.3	1,949.5	
Total Debt	1.7	1.7	1.7	1.7	
Minority Interest	3.4	3.4	3.4	3.4	
Deferred Tax Assets	47.4	47.4	47.4	47.4	
Total Liabilities	1,521.7	1,633.6	1,791.8	2,002.0	
Gross Block	826.6	976.6	1,126.6	1,276.6	
Less: Acc Depreciation	87.7	142.4	197.8	259.0	
Net Block	738.9	834.2	928.8	1,017.6	
Capital WIP	5.5	5.5	5.5	5.5	
Total Fixed Assets	744.4	839.8	934.4	1,023.1	
Investments	117.7	117.7	117.7	117.7	
Other non current Assets	46.8	46.8	46.8	46.8	
Debtors	158.7	199.8	242.7	294.7	
Loans and Advances	39.3	49.5	60.2	73.1	
Other Current Assets	133.4	163.3	194.4	232.1	
Cash	542.1	540.9	590.3	694.4	
Inventories	239.3	305.2	370.8	450.3	
Total Current Assets	1,112.7	1,258.8	1,458.3	1,744.6	
Creditors	93.4	116.5	141.6	171.9	
Provisions	65.0	81.1	98.6	119.7	
Other Current Liabilities	345.0	435.1	528.5	641.9	
Total Current Liabilities	503.3	632.8	768.7	933.5	
Net Current Assets	609.4	626.0	689.6	811.1	
Application of Funds	1,521.7	1,633.6	1,791.8	2,002.0	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Per share data (₹)					
EPS	10.2	10.8	14.2	18.9	
Cash EPS	12.1	13.6	17.1	22.1	
BV	76.2	82.0	90.2	101.1	
DPS	4.0	5.0	6.0	8.0	
Cash Per Share	28.1	28.1	30.6	36.0	
Operating Ratios (%)					
Adj. EBITDA Margin	30.7	27.9	29.1	31.5	
PBT / Total Op. income	26.2	22.5	24.6	27.4	
PAT Margin	24.6	20.6	22.3	24.4	
Inventory days	108.8	110.0	110.0	110.0	
Debtor days	72.2	72.0	72.0	72.0	
Creditor days	42.4	42.0	42.0	42.0	
Return Ratios (%)					
RoE	13.4	13.2	15.7	18.7	
RoCE	18.0	17.4	20.5	24.4	
RoIC	25.2	24.1	28.7	35.2	
Valuation Ratios (x)					
P/E	50.2	47.6	36.2	27.2	
EV / EBITDA	37.5	32.7	25.7	19.4	
EV / Net Sales	11.5	9.1	7.5	6.1	
Market Cap / Sales	12.3	9.8	8.1	6.6	
Price to Book Value	0.0	0.0	0.0	0.0	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.2	1.2	1.2	1.2	
Quick Ratio	0.7	0.7	0.7	0.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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