

CMP: ₹ 507

Target: ₹ 610 (20%) Target Period: 6-12 months

BUY

December, 02, 2024

## Proxy play on thriving music industry ...

**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:

- Strong medium-term outlook in Music Segment:** The management has guided for ~30% revenue growth (excluding Carvaan) over the next 3-4 years, with licensing revenue (B2B) growth at 23% CAGR, led by higher share in new content across Hindi and regional languages. **The company aims to lap up higher share (25-30%) in new movie content and has lined up capex of ~₹ 1000 crore for new music acquisition in next 3 years. We estimate ~21% CAGR in B2B (licensing) music sales in FY24-27E to ₹ 939 crore, as monetisation of existing IPs via digital platforms and new music 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 (vs. ₹ 21 crore in FY24), 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 25-20% CAGR in video segment revenues in the medium term, at an 8-10% margin for this segment.**
- Profitability growth to be back ended:** The management highlighted that growth may be slower for next 4-6 quarters as it ramps up content acquisition. Nonetheless, it expects the profitability CAGR to outpace the topline growth thereafter. **We expect reported EBITDA margins to moderate to 27.2% in FY25 vs. 30.7% in FY24, amid higher content charge. However, margins are expected to bounce to 31.5% by FY27, resulting in 23% earnings CAGR over FY24-27E.**

### 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., will provide further growth leg
- We assign a BUY rating, **valuing it at a target price of ₹ 610, 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	1,022.8	1,237.2	1,511.9	23.5
EBITDA (₹ crore)	187.1	221.0	246.6	45.2	278.1	352.3	476.9	24.6
Net Profit (₹ crore)	152.6	185.4	197.6	29.5	206.1	269.3	369.0	23.1
EPS (₹)	7.9	9.6	10.2		10.7	14.0	19.1	
P/E (x)	64.1	52.7	49.5		47.4	36.3	26.5	
Price / Book (x)	7.1	7.3	6.7		6.2	5.6	5.0	
EV/EBITDA (x)	46.9	40.8	37.0		32.8	25.8	18.8	
RoCE (%)	14.5	18.2	18.0		17.1	20.3	24.8	
RoE (%)	11.1	13.8	13.4		13.1	15.5	19.0	

Source: Company, ICICI Direct Research



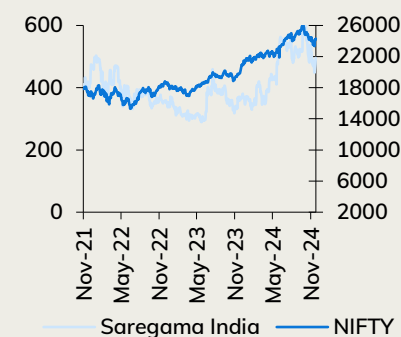
### Particulars

Particular	Amount
Market Cap (₹ crore)	9,775
Total Debt (FY24)	₹ 1.7 Crore
Cash & Inv. (FY24)	₹ 660 Crore
EV	₹ 9115 Crore
52 week H/L (₹)	688/ 326
Equity capital (₹ cr)	19.3
Face value (₹)	1.0

### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	59.1	59.1	59.2	59.4
DII	2.6	2.6	3.2	4.0
FII	16.8	16.1	17.2	17.3
Other	21.5	22.3	20.3	19.3

### Price Chart



### Key risks

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

### Research Analyst

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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