

CMP: ₹ 410

Target: ₹ 465 (13%)

Target Period: 12 months

HOLD

August 3, 2022

Healthy performance!

About the stock: Saregama India (Saregama) is India's oldest music label with ~1.42 lakh songs across various languages, which is monetised over various formats such as digital (streaming, YouTube), physical (Carvaan) and television.

- Apart from music, it is also into TV serials/(Tamil) and creates low budget films as well as web series for OTT platforms through *Yoodlee Films*

Q1FY23: Saregama reported a healthy set of numbers.

- Revenues were up ~61% YoY, at ₹ 169.3 crore, led by TV & films segment, up 223% YoY at ₹ 38.6 crore, on a depressed base. Music segment was up 38.8% YoY led by Carvaan sales volumes, which were up 118% YoY to 98000 units while licencing revenues continued to be robust
- EBITDA grew 39% YoY (flat QoQ) to ₹ 51.4 crore with EBITDA margin at 30.4%, down 485 bps YoY, owing to revenue mix
- Consequent PAT was at ₹ 41.2 crore (up 51.5% YoY). The company has changed the useful life of music rights, which aided the EBITDA by ₹ 1.7 crore. Like to like PAT was at ₹ 39.7 crore, up 46% YoY, down ~18% QoQ

What should investors do? Saregama share price has grown 10x over the past five years (from ~₹ 41 in July 2017 to ~₹ 410 levels in August 2022).

- We expect digital monetisation to provide sustained growth. However, given the demanding valuations, we maintain **HOLD** rating on the stock as we await a better price point to turn buyers

Target Price and Valuation: We value Saregama at a revised target price of ₹ 465, at 38x FY24 P/E.

Key triggers for future price performance:

- Growth trajectory in music licencing, which the management envisages to grow at ~22-25% in the medium term, aided by new content monetisation
- Recovery in Carvaan on the back of economic reopening and expansion in movies and web series segment

Alternate Stock Idea: Besides Saregama, we like Inox Leisure in media coverage.

- Beneficiary of cinemas recovery and merger synergy
- BUY with a target price of ₹ 670



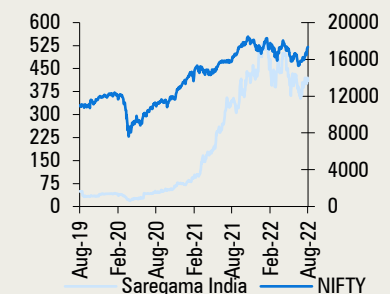
Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,903
Total Debt (FY22)	₹ 0 Crore
Cash & Investments (FY22)	₹ 855 Crore
EV	₹ 7048 Crore
52 week H/L (₹)	151/ 551
Equity capital (₹ crore)	19.3
Face value (₹)	1.0

Shareholding pattern

	Nov-21	Dec-21	Mar-22	Jun-22
Promoters	57.7	57.7	57.7	58.5
DII	3.6	3.7	3.1	0.2
FII	17.1	16.6	17.1	17.3
Other	21.7	22.2	22.2	24.0

Price Chart



Recent event & key risks

Key Risk: (i) Slower than anticipated growth in licencing revenue; (ii) Sharper than expected recovery in Carvaan

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	544.7	521.5	442.0	580.6	21.6	735.4	907.8	25.0
EBITDA (₹ crore)	38.2	60.5	130.1	187.1	81.8	235.0	299.5	26.5
Net Profit (₹ crore)	54.3	43.9	112.6	153.9	77.8	189.5	236.2	23.9
EPS (₹)	3.1	2.5	6.5	8.0		9.8	12.3	
P/E (x)	131.5	162.6	63.5	51.4		41.7	33.5	
Price / Book (x)	16.7	17.9	14.1	5.7		5.2	5.1	
EV/EBITDA (x)	204.7	129.4	58.6	36.9		28.9	22.8	
RoCE (%)	16.5	14.7	27.8	14.6		16.3	20.1	
RoE (%)	12.7	11.0	22.3	11.2		12.4	15.4	

Source: Company, ICICI Direct Research

Key Business outlook and triggers

Licensing revenues to remain robust

During the quarter, music segment revenues were up 38.8% YoY at ₹ 127.4 crore, led by Carvaan sales volumes which were up 118% YoY to 98000 units, while licencing revenues continued to be robust (~24% growth as per our estimates). **We note that management guidance for licensing revenue (B2B) growth is at 22-25%, ahead of expected industry growth of 15%**, led by higher share in new content across Hindi and regional languages and acquisition of small and mid-sized catalogue to plug in the content gaps of last 25 years. The company aims to lap up ~30% share in new movie content rights (annual spends by industry for new movies music overall is ~₹ 800 crore). **We estimate ~25% CAGR in B2B (licensing) music sales in FY22-24E to ₹ 567 crore** as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth. **We build in 0.5 mn and 0.65 mn units in FY23 and FY24, respectively for Carvaan and expect 27% CAGR in revenues in FY22-24 to ₹ 169 crore.** Minimal marketing spends on Carvaan have ensured that Carvaan is just breaking even and the company guided for low marketing expense for a few more quarters till the Carvaan sales volume picks up sharply. During Q1, the company started test marketing two new Carvaan variants - Music Bar with Karaoke at the higher end and Carvaan Mobile at the lower end. Furthermore, focus on transitioning Carvaan from one-time margin product to recurring revenue generating platform will continue.

TV, films provide healthy growth tailwinds...

Three films are under production currently – a) Malayalam movie *Padavettu* starring Nivin Pauly with shooting done; b) first Punjabi film *Oye Makhana* starring Amy Virk with shooting done and c) shooting began for next Malayalam film *Kaapa* starring Prithviraj Sukumaran. Also, it expects the web series titled *Hunter- The Invisible Women* starring Suniel Shetty to release soon. The company has also announced a couple of other web series and is expected to be complete in the next few months. We note that the management had earlier reiterated that it would only make pre-licensed films and web series, except for regional movies, thereby minimising the uncertainty. **Also, the company expects Yoodlee films to clock ₹ 100+ crore revenues in the next couple of years and expect ~25% revenues CAGR in TV & films segment ahead. We estimate ~28% CAGR in TV & films in FY22-24E to ₹ 168 crore.**

Other highlights

- During Q1, the company revised the useful life of content from six years (35% amortisation is first year and 13% each for remaining five years) to 10 years (20% in first year, 15% in second years and ~8.1% each in remaining eight years). **This, we believe, will result in higher reported PAT in initial years while cash flows construct would remain unchanged**
- **Overall, 77 new film and 109 non film songs released during the quarter** – 44 Hindi, 16 Tamil, 33 Telugu, 12 Malayalam, 15 Bengali, 21 Bhojpuri and 29 Gujarati songs. During the quarter, in the new film music category, the company launched the music of Mahesh Babu's *Sarkaru Vaari Paata* in Telugu, *Operation Romeo* and *Ittu Si Baat* in Hindi. It also released 'Originals' sung by Neeti Mohan, Stebin Ben, Kanika Kapoor, etc
- **The company has also entered events business (mainly for musical events) and talent management business** (whereby it will nurture the young talents and provide opportunities in big production projects subsequently banking on commission income the talent earns in the future). **It has started the event business with music tour of Diljeet Dosanj in Q1FY23 wherein six events were held across India and Canada. It expects 5-10% margin in events business.**
- **The unit economics for music licensing is as follows-**
 - Free platform- The company claims to earn 10 paise per stream
 - Subscription model - The streaming platform creates a content pool out of 50% of subscription charges. This pool is divided among licensing companies on the basis of streams made by the customer during the subscription period. Transition to subscription model (very miniscule currently) can be key game changer for medium to long term growth

Exhibit 1: Segmental and Variance

	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue from TV & Film business	38.6	11.9	52.5	223.7	-26.5
Revenue from Music Business (A)	127.4	91.8	127.1	38.8	0.3
Revenue from Publication	3.3	1.2	0.6	165.0	434.4
	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue	169.3	105.0	180.2	61.3	-6.1
Other Income	9.9	2.8	18.8	251.8	-47.7
Employee Expenses	18.7	16.8	17.8	11.5	4.9
Other expenses	19.7	13.5	17.5	45.9	12.0
Operational Expenses	49.9	15.0	61.3	233.3	-18.6
Advertisement and Sales promotion	17.2	8.4	17.0	104.5	1.1
Royalties	12.5	14.4	15.2	-13.1	-17.7
EBITDA	51.4	37.0	51.4	39.1	0.0
EBITDA Margin (%)	30.4	35.2	28.5	-485 bps	184 bps
Depreciation	4.1	2.3	4.5	78.3	-8.9
Interest	1.4	0.7	1.5	105.9	-6.0
Total Tax	14.3	9.5	16.3	51.6	-12.0
PAT	41.4	27.2	48.2	52.3	-14.1

Source: ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	721.1	735.4	2.0	907.9	907.8	0.0	Realign estimates
EBITDA	227.0	235.0	3.5	290.9	299.5	3.0	
EBITDA Margin (%)	31.5	32.0	48 bps	32.0	33.0	95 bps	Bake in lower content ammortisation under new policy
PAT	180.0	189.5	5.3	231.5	236.2	2.1	
EPS (₹)	9.3	9.8	5.3	12.0	12.3	2.1	

Source: ICICI Direct Research

Exhibit 3: Annual segmental breakup and estimates

	FY20	FY21	FY22	FY23E	FY24E	FY 22-24 CAGR (%)
TV & Film business	70.3	52.1	102.4	140.0	168.0	28%
Music Business (A+B+C)	444.3	385.5	473.8	590.4	739.8	25%
A. Carvaan	206.2	86.1	101.7	131.0	169.0	29%
B. Music Licensing	235.7	285.6	363.3	453.4	566.8	25%
C. Other Operating Revenues	2.5	13.8	8.8	6.0	4.0	-33%
Revenue from Publication	6.9	4.4	4.4	5.0	0.0	-100%
Revenue	521.5	442.0	580.6	735.4	907.8	25%
EBITDA	60.5	130.1	187.1	235.0	299.5	27%
EBITDA Margin (%)	11.6	29.4	32.2	32.0	33.0	

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Total operating Income	442.0	580.6	735.4	907.8
Growth (%)	-15.2	31.4	26.7	23.4
Contract manufacturing charges	21.1	69.1	84.3	110.5
Cost of production of TV, Films	46.5	74.0	116.1	142.8
Employee Expenses	69.5	73.4	83.6	91.7
Other Expenses	174.8	177.0	216.4	263.3
Total Operating Expenditure	311.9	393.5	500.4	608.3
EBITDA	130.1	187.1	235.0	299.5
Growth (%)	115.1	43.8	25.6	27.5
Depreciation	5.6	11.8	18.4	20.0
Interest	3.5	4.5	5.6	5.6
Other Income	30.9	34.9	42.9	42.0
Exceptional Items	-	-	-	-
PBT	151.9	205.7	253.9	316.0
MI/PAT from associates	0.9	0.1	0.0	0.0
Total Tax	38.4	51.8	64.3	79.6
PAT	112.6	153.9	189.5	236.2
Growth (%)	156.1	36.7	23.2	24.6
EPS (₹)	6.5	8.0	9.8	12.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	112.6	153.9	189.5	236.2
Add: Depreciation	5.6	11.8	18.4	20.0
Add: Interest Paid	3.5	4.5	5.6	5.6
(Inc)/dec in Current Assets	33.0	-110.0	-96.2	-105.5
Inc/(dec) in CL and Provisions	65.6	31.7	68.9	74.9
CF from operating activities	220.3	92.0	186.2	231.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-14.2	-63.5	-40.0	-40.0
Others	-52.7	-563.3	-120.0	-100.0
CF from investing activities	-66.9	-626.8	-160.0	-140.0
Change in Reserve & Surplus	-5.6	716.2	-38.6	-226.9
Inc/(dec) in loan funds	-9.2	0.0	0.0	0.0
Interest paid	-3.5	-4.5	-5.6	-5.6
Others	0.9	2.0	0.0	0.0
CF from financing activities	-17.4	713.6	-44.2	-232.5
Net Cash flow	136.0	178.8	-18.0	-141.3
Opening Cash	9.0	145.0	323.7	305.8
Closing Cash	145.0	323.7	305.8	164.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	17.4	19.3	19.3	19.3
Reserve and Surplus	488.4	1,358.4	1,509.4	1,518.7
Total Shareholders funds	505.8	1,377.7	1,528.7	1,538.0
Total Debt	0.0	0.0	0.0	0.0
Minority Interest	3.1	3.2	3.2	3.2
Deferred Tax Assets	50.5	56.2	56.2	56.2
Total Liabilities	559.4	1,437.1	1,588.1	1,597.4
Gross Block	245.2	309.6	349.6	389.6
Less: Acc Depreciation	20.5	33.1	51.5	71.4
Net Block	224.8	276.5	298.1	318.1
Capital WIP	2.0	1.8	1.8	1.8
Total Fixed Assets	226.7	278.2	299.8	319.9
Investments	136.6	676.0	796.0	896.0
Other non current Assets	11.2	29.2	29.2	29.2
Debtors	87.4	107.8	141.0	174.1
Loans and Advances	13.5	24.8	31.4	38.8
Other Current Assets	93.4	141.3	172.1	206.5
Cash	145.0	323.7	305.8	164.5
Inventories	69.2	105.4	131.0	161.7
Total Current Assets	408.5	703.1	781.3	745.5
Creditors	56.3	64.5	82.6	102.0
Provisions	70.9	90.2	115.4	142.5
Other Current Liabilities	97.3	95.9	121.5	150.0
Total Current Liabilities	224.6	250.7	319.6	394.5
Net Current Assets	183.9	452.4	461.8	351.0
Application of Funds	559.4	1,437.1	1,588.1	1,597.4

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.5	8.0	9.8	12.3
Cash EPS	6.8	8.6	10.8	13.3
BV	29.0	71.5	79.3	79.8
DPS	2.0	2.0	2.0	2.0
Cash Per Share	8.3	16.8	15.9	8.5
Operating Ratios (%)				
Adj. EBITDA Margin	29.4	32.2	32.0	33.0
PBT / Total Operating income	28.2	30.2	29.5	30.8
PAT Margin	25.5	26.5	25.8	26.0
Inventory days	57.1	66.3	65.0	65.0
Debtor days	72.1	67.8	70.0	70.0
Creditor days	46.5	40.6	41.0	41.0
Return Ratios (%)				
RoE	22.3	11.2	12.4	15.4
RoCE	27.8	14.6	16.3	20.1
RoIC	48.8	42.9	47.3	55.0
Valuation Ratios (x)				
P/E	63.5	51.4	41.7	33.5
EV / EBITDA	58.6	36.9	28.9	22.8
EV / Net Sales	17.2	11.9	9.2	7.5
Market Cap / Sales	17.9	13.6	10.7	8.7
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	1.1	1.5	1.5	1.5
Quick Ratio	0.8	1.1	1.1	1.1

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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