

CMP: ₹ 358

Target: ₹ 430 (20%)

Target Period: 12 months

BUY

January 25, 2023

Decent 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 digitals (streaming, YouTube), physical (Carvaan) and television.

- 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 has artists and events management business

Q3FY23: Saregama reported a decent set of numbers.

- Revenues were up ~23.4% YoY, at ₹ 185.5 crore. The TV & films segment revenues were up 74.5% YoY at ₹ 27.2 crore, aided by release of three regional movies. Music segment was up ~16% YoY. Carvaan sales volumes were up ~19% YoY to 1.68 lakh units aided by festive season while licencing revenues continued to be robust with ~20% growth driven by digital monetisation
- EBITDA grew 15.2% YoY to ₹ 62.6 crore with margin at 33.8%, down 241 bps YoY, owing to revenue mix (higher proportion of TV& films revenues)
- PAT was at ₹ 52.5 crore (up 21% YoY). The company has changed useful life of music rights, which aided the EBITDA by 2.3 crore. Like to like PAT was at ₹ 50.2 crore, up 15.7% YoY

What should investors do? Saregama share price has grown by ~4x over the past five years.

- We expect digital monetisation to provide sustained growth momentum. Accelerated opportunity fructification in new areas like web series, artist management, etc, can provide further positive surprise. We maintain **BUY**

Target Price and Valuation: We value at ₹ 430, 30x FY25 P/E.

Key triggers for future price performance:

- Growth trajectory in music licencing, which the management envisages will grow at ~22-25% in medium term, aided by new content monetisation
- Expansion in movies and web series segment along with Carvaan volume recovery

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

- Beneficiary of cinemas recovery & merger synergy
- BUY with a target price of ₹ 675



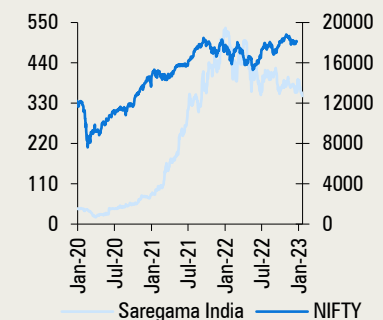
Particulars

Particular	Amount
Market Capitalization (₹ crore)	6,902
Total Debt (FY22)	₹ 0 Crore
Cash & Investments (FY22)	₹ 855 Crore
EV	₹ 6048 Crore
52 week H/L (₹)	326/ 528
Equity capital (₹ crore)	19.3
Face value (₹)	1.0
MF Holding (%)	8.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	57.7	58.5	58.5	58.5
DII	3.1	0.2	0.5	0.6
FII	17.1	17.3	17.2	17.5
Other	22.2	24.0	23.8	23.5

Price Chart



Recent event & key risks

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

Research Analyst

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	521.5	442.0	580.6	21.6	736.5	869.1	1,049.0	21.8
EBITDA (₹ crore)	60.5	130.1	187.1	81.8	229.9	268.8	344.6	22.6
Net Profit (₹ crore)	43.9	112.6	153.9	77.8	193.6	220.3	274.6	21.3
EPS (₹)	2.5	6.5	8.0		10.0	11.4	14.2	
P/E (x)	142.0	55.4	44.9		35.7	31.3	25.1	
Price / Book (x)	15.6	12.3	5.0		4.6	4.7	4.7	
EV/EBITDA (x)	112.9	50.9	31.5		25.3	21.9	17.3	
RoCE (%)	14.7	27.8	14.6		16.9	19.5	24.6	
RoE (%)	11.0	22.3	11.2		12.8	14.9	18.8	

Source: Company, ICICI Direct Research

Key Business outlook and triggers

Licensing revenues to remain robust

Saregama has booked highest-ever quarterly revenue in the music segment during Q2FY23, which was at ₹ 154.8 crore (up 16.1% YoY) - largely led by regained momentum in Carvaan sales (aided by festive season) and healthy traction witnessed in the music licensing business, which has witnessed healthy 20%+ growth backed by music launches of various regional language films, non-films music with strong licensing relationships with streaming applications and platforms for music and videos. We note that management guidance for licensing revenue (B2B) growth for FY23 is at 22-25%, ahead of expected industry growth of 15%, to be 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 ~24% CAGR in B2B (licensing) music sales in FY22- 25E to ₹ 700 crore as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth.**

Carvaan saw healthy growth...

Carvaan volumes have improved 19% YoY to 1.68 lakh units led by festive demand. **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 and focusing on natural demand pull till the Carvaan sales volume picks up sharply. The company indicated that margin is similar on all Carvaan variants: *base model, Mini, Mobile, Music Bar*. Furthermore, focus on transitioning Carvaan from one-time margin product to recurring revenue generating platform will continue. **We build in 0.56 mn, 0.65 mn and 0.7 mn units in FY23, FY24 and FY25, respectively, for Carvaan and expect 15% CAGR in revenues in FY22-25 to ₹ 154 crore.**

TV, films provide healthy growth tailwinds...

During Q3, three regional movies released, which aided the strong growth in the TV and films segment. Two Malayalam Films "Kaapa" starring Prithviraj Sukumaran and "Padavettu" starring Nivin Pauly released during Q3FY23. First Punjabi film "Oye Makhana" starring Ammy Virk released in Q3FY23. Malayalam film "Kasargold" starring Asif Ali is expected to release in Q4FY23. Also, it has started its new TV serial namely new TV serial "Iniya" on Sun TV from December 5, 2022. This replaced Roja, which had a run over 1300 episodes. The company has also announced a couple of other web series and is expected to be complete, going ahead. 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 ~20-25% revenues CAGR in TV & films segment ahead. **We estimate ~23% CAGR in TV & films in FY22-25E to ₹ 190 crore.**

Other highlights

- Saregama has released 18 film albums across regional languages like Tamil, Telugu, Malayalam, Bengali and Punjab. It also releases 158 non-films songs during Q3FY23 across Hindi, Bhojpuri, Gujarati, Punjabi, Bengali languages and devotional segment. The other highlight of Q3 was the use of Saregama's songs for the various films. It licensed 10 songs for the Rohit Shetty film *Cirkus*; one song deal with Maddock Film *Bhediya*; one song deal with Reliance Entertainment Film *Thai Massage*; one song deal with Tamil Film *Vikram*
- Going forward, the company has indicated towards big budget film music release over FY23 and FY24. The slate of movies includes *Rocky Aur Rani Ki Prem Kahani (Ranveer Singh)*, *Zara Hatke Zara Bachke (Vicky Kaushal)*, *Rolla (Vicky Kaushal)*, *Maidaan (Ajay Devgn)*, *Tippa Nijay Deverkonda* movie), Prithviraj Sukumaran film, two Vijay films, Ajith film in Tamil and Mammooty film

- The company has guided for 32-33% of OIBCID Margin (operating income before content, interest and depreciation) ahead due to likely change in business mix with higher contribution from low margin events business
- The latest variant of Carvaan, i.e., Carvaan Mobile, has given a lower price point, which is helping the company penetrate smaller markets. The average realisation of sold Carvaan units, have thus, come down
- The company has entered into 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). During Q3FY23, two concerts of Diljit Dosanjh were held in Mumbai and Jaipur in Q3FY23. Saregama Live's stage adaptation of Bollywood's iconic film – Disco Dancer premiered in London. Six live shows were held during Q3FY23
- The company has received necessary approvals from stock exchanges and Sebi for demerger along with shareholders' approval and is awaiting NCLT approval. The management is hopeful for final order by FY23 end
- **The unit economics for music licensing is as follows-**
 - **Free platform-** The company claims to earn 10 paisa 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

	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Revenue from TV & Film business	27.2	15.6	34.1	74.5	-20.3
Revenue from Music Business (A)	154.8	133.3	150.9	16.1	2.6
Revenue from Publication	3.5	1.4	4.2	146.2	-16.2
	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Revenue	185.5	150.3	189.2	23.4	-2.0
Other Income	15.2	8.1	11.4	86.6	33.1
Employee Expenses	21.7	18.2	22.2	19.4	-2.5
Other expenses	11.5	16.2	23.5	-29.2	-51.1
Operational Expenses	46.9	32.8	53.5	43.2	-12.3
Advertisement and Sales promotion	25.1	13.0	18.3	93.4	36.9
Royalties	17.7	15.9	15.1	11.6	17.3
EBITDA	62.6	54.4	56.5	15.2	10.8
EBITDA Margin (%)	33.8	36.2	29.9	-241 bps	387 bps
Depreciation	6.0	3.5	4.6	68.9	31.1
Interest	1.4	0.9	1.3	44.7	3.8
Total Tax	18.1	14.5	15.9	25.4	13.9
PAT	52.5	43.4	46.1	21.0	14.0

Source: ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	899.9	869.1	-3.4	1,088.0	1,049.0	-3.6	Realign estimates
EBITDA	274.8	268.8	-2.2	347.9	344.6	-1.0	
EBITDA Margin (%)	30.5	30.9	39 bps	32.0	32.9	87 bps	
PAT	220.2	220.3	0.0	275.7	274.6	-0.4	
EPS (₹)	11.4	11.4	0.0	14.3	14.2	-0.4	

Source: ICICI Direct Research

Exhibit 3: Annual segmental breakup and estimates

	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY 22-25 CAGR (%)
TV & Film business	70	52	102	140	161	190	23%
Music Business (A+B+C)	444	385	474	583	708	859	22%
A. Carvaan	206	86	102	129	143	154	15%
B. Music Licensing	236	286	363	448	560	700	24%
C. Other Operating Revenues	2	14	9	6	5	5	-17%
Revenue from Publication	7	4	4	14			
Revenue	521.5	442.0	580.6	736.5	869.1	1049.0	22%
EBITDA	60.5	130.1	187.1	229.9	268.8	344.6	23%
EBITDA Margin (%)	11.6	29.4	32.2	31.2	30.9	32.9	
PAT	43.9	112.6	153.9	193.6	220.3	274.6	21%

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Total operating Income	580.6	736.5	869.1	1,049.0
Growth (%)	31.4	26.8	18.0	20.7
Contract manufacturing charges	69.1	98.5	110.5	119.0
Cost of production of TV, Films	74.0	109.3	137.0	161.6
Employee Expenses	73.4	85.3	96.5	110.1
Other Expenses	177.0	213.6	256.4	313.7
Total Operating Expenditure	393.5	506.7	600.3	704.4
EBITDA	187.1	229.9	268.8	344.6
Growth (%)	43.8	22.8	16.9	28.2
Depreciation	11.8	19.9	23.5	28.3
Interest	4.5	5.5	5.6	6.0
Other Income	34.9	55.4	55.0	57.0
Exceptional Items	-	-	-	-
PBT	205.7	259.9	294.7	367.3
MI/PAT from associates	0.9	0.1	0.0	0.0
Total Tax	51.8	66.5	74.3	92.6
PAT	153.9	193.6	220.3	274.6
Growth (%)	36.7	25.8	13.8	24.7
EPS (₹)	8.0	10.0	11.4	14.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	153.9	193.6	220.3	274.6
Add: Depreciation	11.8	19.9	23.5	28.3
Add: Interest Paid	4.5	5.5	5.6	6.0
(Inc)/dec in Current Assets	-110.0	-96.9	-81.1	-110.1
Inc/(dec) in CL and Provisions	31.7	69.4	57.6	78.2
CF from operating activities	92.0	191.4	225.8	277.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-63.5	-40.0	-40.0	-40.0
Others	-563.3	-120.0	-100.0	0.0
CF from investing activities	-626.8	-160.0	-140.0	-40.0
Change in Reserve & Surplus	716.2	-57.8	-250.5	-297.6
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Interest paid	-4.5	-5.5	-5.6	-6.0
Others	2.0	0.0	0.0	0.0
CF from financing activities	713.6	-63.3	-256.1	-303.6
Net Cash flow	178.8	-31.9	-170.3	-66.6
Opening Cash	145.0	323.7	291.8	121.5
Closing Cash	323.7	291.8	121.5	54.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	19.3	19.3	19.3	19.3
Reserve and Surplus	1,358.4	1,494.1	1,463.9	1,440.9
Total Shareholders funds	1,377.7	1,513.4	1,483.1	1,460.1
Total Debt	0.0	0.0	0.0	0.0
Minority Interest	3.2	3.2	3.2	3.2
Deferred Tax Assets	56.2	56.2	56.2	56.2
Total Liabilities	1,437.1	1,572.8	1,542.5	1,519.5
Gross Block	309.6	349.6	389.6	429.6
Less: Acc Depreciation	33.1	53.0	76.4	104.8
Net Block	276.5	296.6	313.1	324.8
Capital WIP	1.8	1.8	1.8	1.8
Total Fixed Assets	278.2	298.3	314.9	326.6
Investments	676.0	796.0	896.0	896.0
Other non current Assets	29.2	29.2	29.2	29.2
Debtors	107.8	141.2	166.7	201.2
Loans and Advances	24.8	31.4	37.1	44.8
Other Current Assets	141.3	172.4	198.8	234.7
Cash	323.7	291.8	121.5	54.9
Inventories	105.4	131.2	154.8	186.8
Total Current Assets	703.1	768.0	678.8	722.4
Creditors	64.5	82.7	97.6	117.8
Provisions	90.2	115.6	136.4	164.7
Other Current Liabilities	95.9	121.7	143.6	173.3
Total Current Liabilities	250.7	320.0	377.6	455.8
Net Current Assets	452.4	448.0	301.2	266.5
Application of Funds	1,437.1	1,572.8	1,542.5	1,519.5

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	8.0	10.0	11.4	14.2
Cash EPS	8.6	11.1	12.6	15.7
BV	71.5	78.5	76.9	75.7
DPS	3.0	3.0	4.0	4.0
Cash Per Share	16.8	15.1	6.3	2.8
Operating Ratios (%)				
Adj. EBITDA Margin	32.2	31.2	30.9	32.9
PBT / Total Operating income	30.2	28.5	28.2	30.2
PAT Margin	26.5	26.3	25.3	26.2
Inventory days	66.3	65.0	65.0	65.0
Debtor days	67.8	70.0	70.0	70.0
Creditor days	40.6	41.0	41.0	41.0
Return Ratios (%)				
RoE	11.2	12.8	14.9	18.8
RoCE	14.6	16.9	19.5	24.6
RoIC	42.9	46.0	49.4	58.6
Valuation Ratios (x)				
P/E	44.9	35.7	31.3	25.1
EV / EBITDA	31.5	25.3	21.9	17.3
EV / Net Sales	10.2	7.9	6.8	5.7
Market Cap / Sales	11.9	9.4	7.9	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	1.5	1.5	1.5	1.5
Quick Ratio	1.1	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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