

CMP: ₹ 316

Target: ₹ 400 (27%)

Target Period: 12 months

May 23, 2023

BUY

Revenue mix, one-time royalty impact margins...

About the stock: Saregama India (Saregama) is India's oldest music label owning ~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

Q4FY23: Saregama reported mixed bag numbers.

- Revenues were up ~15% YoY at ₹ 207 crore. Music segment was up ~15% YoY at ₹ 146 crore. Carvaan sales volumes were up ~23% YoY to 1.38 lakh units while licencing revenues continued to be robust with ~20%+ growth driven by digital monetisation, as per our understanding. The TV & Films segment revenues were up 10% YoY at ₹ 57.5 crore, aided by release of web series
- EBITDA declined 4.5% YoY to ₹ 49.1 crore with EBITDA margin at 23.7%, down 486 bps YoY, owing to revenue mix (web series were at cost recovery model) and one time royalty
- Consequent PAT was at ₹ 49.3 crore (up 2.2% YoY)

What should investors do? Saregama's share price has grown at ~32% CAGR 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 growth leg. Another key monitorable would be how the company enhances its catalogue inorganically to drive a higher growth trajectory. We maintain **BUY**

Target Price and Valuation: We value at ₹ 400, 30x FY25 P/E.

Key triggers for future price performance:

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

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

- Beneficiary of cinemas recovery & merger synergy
- BUY with a target price of ₹ 1640



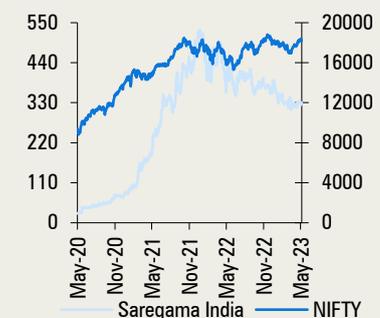
Particulars

Particular	Amount
Market Capitalization (₹ crore)	6,090
Total Debt (FY23)	₹ 0 Crore
Cash & Investments (FY23)	₹ 753 Crore
EV	₹ 5337 Crore
52 week H/L (₹)	306/ 450
Equity capital (₹ crore)	19.3
Face value (₹)	1.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	58.5	58.5	58.5	58.5
DII	0.2	0.5	0.6	2.4
FII	17.3	17.2	17.5	17.7
Other	24.0	23.8	23.5	21.4

Price Chart



Recent event & key risks

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

Research Analyst

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales (₹ crore)	521.5	442.0	580.6	751.3	16.1	883.0	1,064.7	19.0
EBITDA (₹ crore)	60.5	130.1	187.1	219.7	43.4	256.4	316.5	20.0
Net Profit (₹ crore)	43.9	112.6	152.6	189.3	46.2	214.5	258.9	16.9
EPS (₹)	2.5	6.5	7.9	9.8		11.1	13.4	
P/E (x)	125.3	48.9	39.9	32.2		28.4	23.5	
Price / Book (x)	13.8	10.9	4.4	4.1		4.1	4.2	
EV/EBITDA (x)	99.5	44.6	27.2	23.7		20.3	16.7	
RoCE (%)	14.7	27.8	14.5	16.9		19.2	23.5	
RoE (%)	11.0	22.3	11.1	12.8		14.5	17.8	

Source: Company, ICICI Direct Research

Key business outlook and triggers

Licensing revenues to remain robust

The music segment during Q4FY23 was at ₹ 146 crore (up 15% YoY) - largely led by healthy traction witnessed in the music licensing business, which 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. **For FY23, music licensing revenues grew ~23% YoY to ₹ 441 crore.** We note that management guidance for licensing revenue (B2B) growth at 22-25%, will be led by higher share in new content across Hindi and regional languages. The company aims to lap up ~30% share in the new movie content. **Additionally, the company is looking to pick up minority stakes and eventually moving to an absolute majority in regional music companies, allowing regional labels to run the company for the next couple of years. We estimate ~24% CAGR in B2B (licensing) music sales in FY23- 25E to ₹ 692 crore as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth.**

Carvaan volume recovery continues...

Carvaan sales volumes were up ~23% YoY to 1.38 lakh units. **Minimal marketing spends have ensured that Carvaan is just breaking even/making low margin.** The company guided for low marketing expense for a few more quarters and focusing on natural demand pull till Carvaan sales volume picks up sharply. **We build in 0.65 mn and 0.7 mn units in FY24 and FY25, respectively for Carvaan vs. 0.56 mn in FY23 and expect 7% CAGR in revenues in FY23-25 to ₹ 140 crore.**

Web series aids TV/movies segment; margins soft...

During Q4, two web series "Hunter" starring Suniel Shetty and "United Kacche" starring Sunil Grover were released. **The company indicated that given their initial entry into web series, they did these web series on a cost recovery model and could not get much profit on the same. This also impacted the Q4 margins.** In FY23, Yoodlee released six films and web-series across Hindi, Malayalam, Tamil and Punjabi language. 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, Saregama expects ~20-25% revenues CAGR in TV & films segment ahead. **We estimate ~20% CAGR in TV and films in FY23-25E to ₹ 227 crore.**

Other highlights

- The company clarified that it will limit its capital employed to 18% in non-music segment and major focus will remain on music business.
- In FY23, the Company ventured into live events "Saregama's Live" with Diljit Dosanjh being the first concert. Overall, 14 concerts were held across India, the US and Canada. Saregama Live's stage adaptation of Bollywood's iconic film – Disco Dancer premiered in London with six live shows held in FY23. It expects the events business in the nascent stage to be loss making
- In Q4FY23, Saregama released 230 film and non-film "Originals" including film music of Nani's films *Dasara*; Kalyan Ram's *Amigos*; Ravi Teja's *Ravanasura* in Telugu; Sivakarthekeyan's film *Maaveeran*; Gautham Karthik's *1947* in Tamil and Asif Ali's *Kasargold* in Malayalam. In non-films, the company released chartbuster songs like "Tu Mile Dil Khile" by Stebin Ben; "O Mere Dil ke chain" by Sanam in Hindi; "Nagin" and "Aara Main" by Kesari Lal; Akshara Singh's "Billo Rani" in Bhojpuri, etc
- Going forward, the company has indicated towards big budget film music release over FY24. The slate of movies includes *Rocky Aur Rani Ki Prem Kahani* (Ranveer Singh), *Zara Hatke Zara Bachke* (Nicky Kaushal), *Rolla* (Vicky Kaushal), *Maidaan* (Ajay Devgn), *Tippa*, Vijay Deverkonda movie, Prithviraj Sukumaran film, two Vijay films, Ajith film in Tamil and Mammooty film
- The company has guided for 32-33% of Operating Income before content, interest and depreciation (OIBCID) margin ahead due to likely change in

business mix. During the quarter, the company took a hit of one-time royalty in Q4 (amount not specified). Going ahead, the company would have to share ~25% of the live events royalty with the singers. However, once given clarity on the issue that would result in higher events, going ahead. The company also indicated that more newer content is coming on the regional side, which is procured on a one-time payment basis and zero royalties getting attributed to them. Thus, royalty percentage is likely to be stable

- 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, has thus, come down with Carvaan Mini and Mobile now forming ~73% of volumes sold
- The company has already received necessary approvals from stock exchanges and Sebi for demerger along with shareholders' approval and is awaiting NCLT approval
- **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 a key game changer for medium to long term growth

Exhibit 1: Segmental and Variance

	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comment
Revenue from TV & Film business	57.5	52.5	27.2	9.5	111.6	This segment was driven by music licensing which continued to remain robust
Revenue from Music Business (A)	146.1	127.1	154.8	15.0	-5.6	
Revenue from Publication	3.8	0.6	3.5	514.8	6.5	
	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	
Revenue	207.4	180.2	185.5	15.1	11.8	
Other Income	24.7	18.8	15.2	31.0	62.9	
Employee Expenses	23.3	17.8	21.7	31.0	7.6	
Other expenses	21.5	17.5	11.5	22.7	87.5	
Operational Expenses	75.4	61.3	46.9	23.1	60.7	
Advertisement and Sales promotion	17.8	17.0	25.1	5.1	-28.9	
Royalties	20.2	15.2	17.7	32.9	14.3	
EBITDA	49.1	51.4	62.6	-4.5	-21.6	Margin was lower owing to revenue mix, content charge and one time royalty
EBITDA Margin (%)	23.7	28.5	33.8	-486 bps	-1009 bps	
Depreciation	6.6	4.5	6.0	46.7	10.4	
Interest	1.7	1.5	1.4	14.8	25.7	
Total Tax	16.3	16.3	18.1	0.0	-10.1	
PAT	49.3	48.2	52.5	2.2	-6.2	

Source: ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	869.1	883.0	1.6	1,049.0	1,064.7	1.5	Realign estimates
EBITDA	268.8	256.4	-4.6	344.6	316.5	-8.1	
EBITDA Margin (%)	30.9	29.0	-189 bps	32.9	29.7	-312 bps	
PAT	220.3	214.5	-2.6	274.6	258.9	-5.7	
EPS (₹)	11.4	11.1	-2.6	14.2	13.4	-5.7	

Source: ICICI Direct Research

Exhibit 3: Annual Segmental breakup and estimates

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY 23-25 CAGR (%)
<i>TV & Film business</i>	70	52	102	157	189	227	20%
<i>Music Business (A+B+C)</i>	444	385	474	579	694	838	20%
<i>Revenue from Publication</i>	7	4	4	15			
Revenue	521.5	442.0	580.6	751.3	883.0	1064.7	19%
EBITDA	60.5	130.1	187.1	219.7	256.4	316.5	20%
EBITDA Margin (%)	11.6	29.4	32.2	29.2	29.0	29.7	
PAT	43.9	112.6	152.6	189.3	214.5	258.9	17%

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Total operating Income	580.6	751.3	883.0	1,064.7
Growth (%)	31.4	29.4	17.5	20.6
Contract manufacturing charges	69.1	86.2	91.0	98.0
Cost of production of TV, Films	74.0	139.5	167.8	201.4
Employee Expenses	73.4	85.9	101.5	117.1
Other Expenses	177.0	220.1	266.2	331.7
Total Operating Expenditure	393.5	531.7	626.6	748.2
EBITDA	187.1	219.7	256.4	316.5
Growth (%)	43.8	17.4	16.7	23.5
Depreciation	13.1	21.2	26.5	31.9
Interest	4.5	5.8	6.0	6.0
Other Income	34.9	61.1	65.0	70.0
Exceptional Items	-	-	-	-
PBT	204.4	253.7	288.9	348.6
MI/PAT from associates	0.9	0.0	0.0	0.0
Total Tax	51.8	64.7	74.3	89.6
PAT	152.6	189.3	214.5	258.9
Growth (%)	35.6	24.0	13.3	20.7
EPS (₹)	7.9	9.8	11.1	13.4

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	152.6	189.3	214.5	258.9
Add: Depreciation	13.1	21.2	26.5	31.9
Add: Interest Paid	4.5	5.8	6.0	6.0
(Inc)/dec in Current Assets	-110.0	-183.0	-3.5	-111.2
Inc/(dec) in CL and Provisions	31.7	55.1	75.6	79.0
CF from operating activities	92.0	88.4	319.1	264.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-64.8	-84.1	-80.0	-80.0
Others	-563.3	281.4	-100.0	0.0
CF from investing activities	-628.1	197.3	-180.0	-80.0
Change in Reserve & Surplus	717.5	-90.0	-215.5	-282.9
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Interest paid	-4.5	-5.8	-6.0	-6.0
Others	2.0	0.2	0.0	0.0
CF from financing activities	714.9	-95.6	-221.5	-288.9
Net Cash flow	178.8	190.1	-82.4	-104.3
Opening Cash	145.0	323.7	513.9	431.5
Closing Cash	323.7	513.9	431.5	327.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	19.3	19.3	19.3	19.3
Reserve and Surplus	1,358.4	1,457.7	1,456.7	1,432.7
Total Shareholders funds	1,377.7	1,477.0	1,476.0	1,452.0
Total Debt	0.0	0.0	0.0	0.0
Minority Interest	3.2	3.4	3.4	3.4
Deferred Tax Assets	56.2	53.9	53.9	53.9
Total Liabilities	1,437.1	1,534.2	1,533.3	1,509.3
Gross Block	309.6	391.5	471.5	551.5
Less: Acc Depreciation	33.1	54.3	80.8	112.8
Net Block	276.5	337.2	390.7	438.7
Capital WIP	1.8	4.1	4.1	4.1
Total Fixed Assets	278.2	341.2	394.7	442.8
Investments	676.0	360.8	460.8	460.8
Other non current Assets	29.2	57.4	57.4	57.4
Debtors	107.8	151.2	169.3	204.2
Loans and Advances	24.8	79.2	37.7	45.5
Other Current Assets	141.3	168.9	207.2	243.4
Cash	323.7	513.9	431.5	327.2
Inventories	105.4	168.7	157.2	189.6
Total Current Assets	703.1	1,081.8	1,003.0	1,009.9
Creditors	64.5	63.3	99.2	119.6
Provisions	90.2	91.3	138.6	167.1
Other Current Liabilities	95.9	153.4	145.9	175.9
Total Current Liabilities	250.7	308.1	383.7	462.7
Net Current Assets	452.4	773.8	619.3	547.2
Application of Funds	1,437.1	1,534.2	1,533.3	1,509.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	7.9	9.8	11.1	13.4
Cash EPS	8.6	10.9	12.5	15.1
BV	71.5	76.6	76.6	75.3
DPS	3.0	3.0	4.0	4.0
Cash Per Share	16.8	26.7	22.4	17.0
Operating Ratios (%)				
Adj. EBITDA Margin	32.2	29.2	29.0	29.7
PBT / Total Operating income	30.0	26.4	26.0	26.7
PAT Margin	26.3	25.2	24.3	24.3
Inventory days	66.3	82.0	65.0	65.0
Debtor days	67.8	73.4	70.0	70.0
Creditor days	40.6	30.8	41.0	41.0
Return Ratios (%)				
RoE	11.1	12.8	14.5	17.8
RoCE	14.5	16.9	19.2	23.5
RoIC	42.6	31.8	38.0	41.6
Valuation Ratios (x)				
P/E	39.8	32.1	28.3	23.5
EV / EBITDA	27.1	23.7	20.2	16.7
EV / Net Sales	8.7	6.9	5.9	5.0
Market Cap / Sales	10.5	8.1	6.9	5.7
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	1.5	1.9	1.6	1.5
Quick Ratio	1.1	1.4	1.1	1.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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