

CMP: ₹ 392

Target: ₹ 460 (17%)

Target Period: 12 months

BUY

November 2, 2022

Music licensing segment continues to shine!

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

Q2FY23: Saregama reported a healthy set of numbers.

- Revenues were up ~30% YoY, at ₹ 189.2 crore. The TV & films segment, up 52.6% YoY at ₹ 34.1 crore. Music segment was up ~24% YoY driven by Carvaan sales volumes, which were up ~51% YoY to 1.56 lakh units, while licencing revenues continued to be robust with ~20%+ growth
- EBITDA grew 27.5% YoY to ₹ 56.5 crore with EBITDA margin at 29.9%, down 68 bps YoY, owing to revenue mix
- Consequent PAT was at ₹ 46.1 crore (up 31.4% YoY). The company has changed the useful life of music rights, which aided the EBITDA by ₹ 2.5 crore. Like to like PAT was at ₹ 44.2 crore, up 26% YoY

What should investors do? Saregama's share price has grown by ~5x 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. Post 27% decline in stock in CY22 YTD, we upgrade from HOLD to **BUY**

Target Price and Valuation: We value Saregama at revised target price ₹ 460, at 32x FY25 P/E.

Key triggers for future price performance:

- Growth trajectory in music licencing, which management envisages to grow at ~22-25% in 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 & merger synergy
- BUY with a target price of ₹ 675



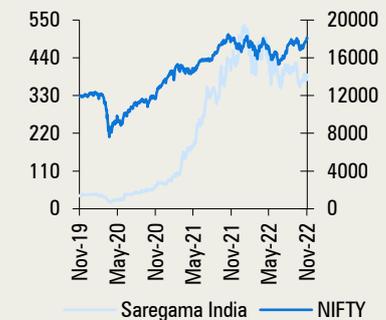
Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,558
Total Debt (FY22)	₹ 0 Crore
Cash & Investments (FY22)	₹ 855 Crore
EV	₹ 6703 Crore
52 week H/L (₹)	346/ 551
Equity capital (₹ crore)	19.3

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	57.7	57.7	58.5	58.5
DII	3.7	3.1	0.2	0.5
FII	16.6	17.1	17.3	17.2
Other	22.2	22.2	24.0	23.8

Price Chart



Recent event & key risks

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

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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	747.0	899.9	1,088.0	23.3
EBITDA (₹ crore)	60.5	130.1	187.1	81.8	217.1	274.8	347.9	23.0
Net Profit (₹ crore)	43.9	112.6	153.9	77.8	179.7	220.2	275.7	21.5
EPS (₹)	2.5	6.5	8.0		9.3	11.4	14.3	
P/E (x)	155.5	60.7	49.1		42.1	34.3	27.4	
Price / Book (x)	17.1	13.5	5.5		5.0	5.0	4.9	
EV/EBITDA (x)	123.7	55.9	35.0		29.8	23.7	18.8	
RoCE (%)	14.7	27.8	14.6		15.6	18.9	23.4	
RoE (%)	11.0	22.3	11.2		11.8	14.4	17.9	

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 ₹ 150.9 crore (up 24.1% YoY) - largely led by regained momentum in Carvaan sales and strong traction witnessed in the music licensing business while music licensing division witnessed healthy 20%+ growth backed by music launches of various national and regional language films coupled 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 ~25% CAGR in B2B (licensing) music sales in FY22- 25E to ₹ 706 crore as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth.**

Carvaan sees healthy growth...

Volumes of Carvaan have improved 51% YoY to 1,56,000 units with the help of newly launched variant - Carvaan Mobile. Minimal marketing spends on Carvaan have ensured that Carvaan is just breaking even/making low margin and the company guided for low marketing expense for a few more quarters till the Carvaan sales volume picks up sharply. During H1, 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. **We build in 0.55 mn, 0.65 mn and 0.7 mn units in FY23, FY24 and FY25, respectively for Carvaan and expect ~18% CAGR in revenues in FY22-25 to ₹ 168 crore.**

TV, films provide healthy growth tailwinds...

Four films are under production/near release currently – a) Malayalam film with Prithviraj Sukumaran – Khalifa; b) Kasargold starring Asif Ali; c) first Punjabi film Oye Makhana starring Amy Virk with shooting done and set to release on November 3, 2022 and c) Malayalam film Kaapa starring Prithviraj Sukumaran expected to release in Q3 FY23. Also, it has started its new TV Serial namely Ilakkiya on Sun TV from October 10, 2022. This replaces Chandralekha, which had a run of 2,304 episodes. 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-licenced 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% revenues CAGR in TV & films segment ahead. **We estimate ~27% CAGR in TV & films in FY22-25E to ₹ 209 crore.**

Other highlights

- Saregama has released 308 films and non-films songs during Q2FY23 across Hindi, Bhojpuri, Gujarati, Punjabi, Tamil, Telugu, Malayalam, Marathi and Bengali languages. These includes music launches of *Chiranjeevi's God Father*, *Kalyan Ram's Bimbisara*, *Anurag Kashyap's film Do Baaraa*, *Balki's film Chup*, and *Dhanush's film Naane Varuvean* among others. Additionally, it has released multiple original songs sung by *Adnan Sami*, *Satinder Sartaj*, *Shilpi Raj* and *Pawan Singh*
- The other highlight of Q2 was the use of Saregama's songs for the films - *Vikram Vedha*, *Dharamveer*, *Jind Maahi*, etc. for digital content like Coke Bangla and Delhi Crime Season-2 and by brands like WhatsApp, Uber, Dettol etc. in their ad films

- Going forward, the company has indicated towards big budget release only in Q4FY23 or early FY24. Despite these, the management has retained their guidance of 22-25% for licensing revenue (B2B) growth in FY23
- The company has guided for 32-33% of OIBCID margin during H2FY23 (vs. 38% in H1FY23) due to likely change in business mix with higher contribution from low margin events business.
- The company has announced its long-term partnership with Arijit Singh to create multiple original songs and renditions in Hindi and Bengali
- 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). It has started the event business with music tour of Diljeet Dosanj in Q1FY23 wherein six events were held across India and Canada, and continued with six events in Q2FY23 in US and Canada. It expects 5-10% margin in events business
- Saregama's revenues were largely dependent on Music - telecom segment prior to seven to eight years, which is now diversified into a) music and video stream apps, b) short format apps, c) television channels, d) films, and e) digital and live series. The diversified stream has significantly lowered concentration risk for the company while has potential for faster growth in its topline and bottomline performance, going ahead
- Saregama's rising quality of contents (old catalogue as well as newer music content) are enabling them to negotiate better deals with large players
- The company has received necessary approvals from stock exchanges and Sebi for demerger and has now filed an application in front of NCLT, Kolkata. On normal course of business, NCLT generally takes four to five months for whole various process of demerger. 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

	Q2FY23	Q2FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue from TV & Film business	34.1	22.4	38.6	52.6	-11.7
Revenue from Music Business (A)	150.9	121.6	127.4	24.1	18.4
Carvaan	37.4	25.8	25.5	45.4	46.9
Music Streaming	112.0	91.7	100.4	22.1	11.5
Other Operating Revenues	1.5	4.1	1.5	-63.8	0.0
Revenue from Publication	4.2	1.2	3.3	262.1	28.8
	Q2FY23	Q2FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue	189.2	145.1	169.3	30.4	11.7
Other Income	11.4	5.2	9.9	121.0	15.5
Employee Expenses	22.2	20.8	18.7	7.1	19.0
Other expenses	23.5	14.5	19.7	61.7	19.6
Operational Expenses	74.1	43.0	61.4	72.3	20.6
Advertisement and Sales promotion	18.3	13.7	17.2	33.6	6.8
Royalties	15.1	17.6	12.5	-14.5	20.4
EBITDA	56.5	44.4	51.4	27.5	9.9
EBITDA Margin (%)	29.9	30.6	30.4	-68 bps	-49 bps
Depreciation	4.6	1.5	4.1	204.0	11.2
Interest	1.3	1.4	1.4	-7.1	-6.4
Total Tax	15.9	11.5	14.3	38.2	11.1
PAT	46.1	35.1	41.4	31.4	11.3

Source: ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change		
Revenue	735.4	747.0	1.6	907.8	899.9	-0.9	1,088.0	Realign estimates
EBITDA	235.0	217.1	-7.6	299.5	274.8	-8.2	347.9	
EBITDA Margin (%)	32.0	29.1	-289 bps	33.0	30.5	-245 bps	32.0	
PAT	189.5	179.7	-5.2	236.2	220.2	-6.8	275.7	
EPS (₹)	9.8	9.3	-5.2	12.3	11.4	-6.8	14.3	

Source: ICICI Direct Research

Exhibit 3: Annual Segmental breakup and estimates

	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY 22-25 CAGR (%)
TV & Film business	70.3	52.1	102.4	147.7	174.3	209.1	26.9%
Music Business (A+B+C)	444.3	385.5	473.8	591.9	725.7	878.9	22.9%
A. Carvaan	206.2	86.1	101.7	134.0	156.0	168.0	18.2%
B. Music Licensing	235.7	285.6	363.3	451.7	564.7	705.9	24.8%
C. Other Operating Revenues	2.5	13.8	8.8	6.2	5.0	5.0	-17.3%
Revenue from Publication	6.9	4.4	4.4	7.5	0.0	0.0	-100.0%
Revenue	521.5	442.0	580.6	747.0	899.9	1088.0	23.3%
EBITDA	60.5	130.1	187.1	217.1	274.8	347.9	23.0%
EBITDA Margin (%)	11.6	29.4	32.2	29.1	30.5	32.0	
PAT	43.9	112.6	153.9	179.7	220.2	275.7	21.5%

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Total operating Income	580.6	747.0	899.9	1,088.0
Growth (%)	31.4	28.7	20.5	20.9
Contract manufacturing charges	69.1	101.3	117.0	126.0
Cost of production of TV, Films	74.0	119.1	148.1	177.7
Employee Expenses	73.4	86.6	96.3	114.2
Other Expenses	177.0	223.0	263.7	322.0
Total Operating Expenditure	393.5	529.9	625.1	740.0
EBITDA	187.1	217.1	274.8	347.9
Growth (%)	43.8	16.0	26.6	26.6
Depreciation	11.8	18.7	22.5	27.2
Interest	4.5	5.5	5.6	6.0
Other Income	34.9	48.2	48.0	54.0
Exceptional Items	-	-	-	-
PBT	205.7	241.1	294.7	368.7
MI/PAT from associates	0.9	0.1	0.0	0.0
Total Tax	51.8	61.3	74.4	92.9
PAT	153.9	179.7	220.2	275.7
Growth (%)	36.7	16.8	22.6	25.2
EPS (₹)	8.0	9.3	11.4	14.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	153.9	179.7	220.2	275.7
Add: Depreciation	11.8	18.7	22.5	27.2
Add: Interest Paid	4.5	5.5	5.6	6.0
(Inc)/dec in Current Assets	-110.0	-103.3	-93.6	-115.1
Inc/(dec) in CL and Provisions	31.7	74.0	66.4	81.7
CF from operating activities	92.0	174.5	221.2	275.5
(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	-38.6	-212.3	-260.3
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	-44.1	-217.9	-266.3
Net Cash flow	178.8	-29.6	-136.7	-30.8
Opening Cash	145.0	323.7	294.1	157.4
Closing Cash	323.7	294.1	157.4	126.7

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	1,499.5	1,507.4	1,522.8
Total Shareholders funds	1,377.7	1,518.8	1,526.7	1,542.1
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	1,578.2	1,586.1	1,601.5
Gross Block	309.6	349.6	389.6	429.6
Less: Acc Depreciation	33.1	51.8	74.3	101.5
Net Block	276.5	297.8	315.3	328.1
Capital WIP	1.8	1.8	1.8	1.8
Total Fixed Assets	278.2	299.5	317.1	329.9
Investments	676.0	796.0	896.0	896.0
Other non current Assets	29.2	29.2	29.2	29.2
Debtors	107.8	143.3	172.6	208.7
Loans and Advances	24.8	31.9	38.4	46.5
Other Current Assets	141.3	174.5	204.9	242.4
Cash	323.7	294.1	157.4	126.7
Inventories	105.4	133.0	160.3	193.7
Total Current Assets	703.1	776.8	733.7	818.0
Creditors	64.5	83.9	101.1	122.2
Provisions	90.2	117.3	141.3	170.8
Other Current Liabilities	95.9	123.4	148.7	179.8
Total Current Liabilities	250.7	324.6	391.1	472.8
Net Current Assets	452.4	452.2	342.6	345.2
Application of Funds	1,437.1	1,578.2	1,586.1	1,601.5

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	8.0	9.3	11.4	14.3
Cash EPS	8.6	10.3	12.6	15.7
BV	71.5	78.8	79.2	80.0
DPS	2.0	2.0	2.0	2.0
Cash Per Share	16.8	15.3	8.2	6.6
Operating Ratios (%)				
Adj. EBITDA Margin	32.2	29.1	30.5	32.0
PBT / Total Operating income	30.2	26.6	28.0	29.5
PAT Margin	26.5	24.0	24.5	25.3
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	11.8	14.4	17.9
RoCE	14.6	15.6	18.9	23.4
RoIC	42.9	43.2	50.1	58.3
Valuation Ratios (x)				
P/E	49.1	42.1	34.3	27.4
EV / EBITDA	35.0	29.8	23.7	18.8
EV / Net Sales	11.3	8.7	7.2	6.0
Market Cap / Sales	13.0	10.1	8.4	6.9
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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