

## Licensing revenue growth holds key...

Saregama India's revenues for Q2FY21 fell 31.3% YoY to ₹ 108.1 crore as Carvaan sales declined to 81,000 units vs. 250,000 in Q2FY20. EBITDA, however, was at ₹ 36.9 crore, up 52.3% YoY, due to lower promotion costs (high marketing expense in base quarter) and contract manufacturing charges with a healthy EBITDA margins at 34.1%. Consequently, PAT came in at ₹ 28.2 crore.

## Carvaan sales improve QoQ; digitisation driving growth

Carvaan (B2C) sales at 81,000 units in Q2FY21, while improving QoQ, were lower compared to pre-Covid level, driven by digital sales, as sales through retail network fell due to less footfalls. Saregama, as guided, kept marketing spends minimal during Q2. Currently, Carvaan is being sold mainly in tier I and II cities. The company is hopeful of a pick-up in sales with upcoming festive season. We build in 0.45 million (mn), 0.72 mn units in FY21, FY22, respectively, for Carvaan and expect -5% CAGR in revenues in FY20-22 to ₹ 180 crore. The management guided for 18-20% growth in licensing revenue (B2B) for FY21 as digital consumption via streaming apps is driving growth. Saregama will invest ₹ 200 crore for acquisition of new music over two to three years to capture 20% share of new music. We estimate 20% CAGR in B2B music sales in FY20-22 to ₹ 351 crore as monetisation of existing IPs and licensing deals with platforms holds potential for growth.

## More TV serial launch & movie releases expected...

Saregama's film & TV serial shoots resumed in July. *Roja*, the TV serial, holds top position in the Tamil market. A new Tamil TV serial is also expected to be launched in November. The film segment reported no content cost owing to no releases. The company is planning to develop a web series and is in discussions with other platforms for the same. Under Yoodlee films, the company expects two more releases during the year. The management guided for 10%+ growth in the films segment. We estimate 5% CAGR in TV and films in FY20-22E to ₹ 78 crore, with 37% revenue decline in FY21, followed by 75% revenue growth in FY22 on a low base. Overall margins will normalise as new music acquisition marketing spends ramp up.

## Valuation & Outlook

Increasing digital consumption via streaming and social media platforms is a major growth driver with monetisation of existing IPs being key. Revenues through licensing deals with Spotify & Facebook have started to kick in. The company signed deals with two other platforms during the quarter. Softer marketing spends on Carvaan and other cost cuts will support operating margins in the near term. However, subdued Carvaan sales and delay in its ramp up will limit overall growth. We will track the strategy of converting Carvaan into a platform and its monetisation. New music acquisition spends will also be a key monitorable. We maintain **HOLD** rating with a revised target price of ₹ 680/share at 13x FY22 P/E.

### Key Financial Summary

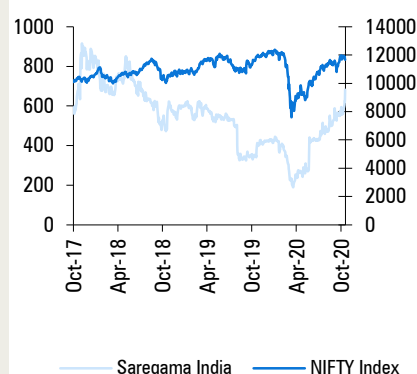
(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹ crore)	356.6	544.7	521.5	450.8	615.2	8.6
EBITDA (₹ crore)	36.2	38.2	60.5	92.1	115.8	38.4
Net Profit (₹ crore)	28.3	54.3	43.9	72.1	91.3	44.2
EPS (₹)	16.3	31.2	25.2	41.4	52.4	
P/E (x)	40.3	21.0	26.0	15.8	12.5	
Price / Book (x)	3.0	2.7	2.9	2.4	2.0	
EV/EBITDA (x)	27.4	27.5	17.6	10.6	8.0	
RoCE (%)	9.4	16.5	14.7	19.5	20.5	
RoE (%)	7.4	12.7	11.0	15.3	16.2	



### Particulars

Particular	Amount
Market Capitalization (₹ crore)	1,140.4
Total Debt (FY20)	₹ 9.2 Crore
Cash & Investments (FY20)	₹ 108.5 Crore
EV	₹ 1065.1 Crore
52 week H/L (₹)	716/ 185
Equity capital (₹ crore)	17.4
Face value (₹)	10.0

### Price Performance



### Key Highlights

- Music segment declined 21% YoY in the quarter, which impacted revenues while sharp de-growth of 76% in TV & films was on account of no movie releases
- Maintain HOLD with revised target price of ₹ 680/share

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## Conference Call Highlights

- **Carvaan sales expected to pick up:** The management said Carvaan sales in Q2, while improving QoQ, were still lower compared to pre-Covid level as sales from retail stores are still down. Digital sales have picked up during the quarter. The festive season is expected to boost Carvaan sales. The management reiterated their stance towards Carvaan and said marketing spend on Carvaan will be lower till the situation normalises. Marketing spend on Carvaan has been minimal during the quarter. It is being sold in tier I and II cities. Also, Carvaan, as a platform, will start generating ad revenue in 18-24 months. The management said all business segments will be self-sustainable in long term and Carvaan will break even by end of FY21
- **Digitisation – key growth driver:** The management said increasing digitisation is a key growth driver for licensing revenue. Market share growth is being led by investment in new content and growth in retro music. Newly announced deals with *Sharechat* and *Moj* along with already in place deals with Spotify and Facebook will drive the licensing revenue. They said licensing income is generated from three avenues: i) streams on music apps, ii) share of ad revenue and iii) part of subscription fee. The company receives variable share of revenue from digital platforms along with minimum guarantee. Revenue from music streaming apps constitutes largest share of licensing revenue. The management guided for 18-20% YoY growth in licensing revenue for FY21. Also, revenue growth will be 22-25% from FY22 onwards. The management said they are planning to acquire 20% market share of new music, which will lead to ₹ 200 crore investment in the next two to three years. They also said music acquisition cost for the whole industry is ₹ 400 crore. Among regional languages, its focus will be on languages like Punjabi, Gujarati, Bhojpuri, Tamil, etc. They added that ways of monetisation, track record of artists, type of songs, etc, are considered while acquiring new music
- **Yoodlee to grow in double digits:** The management said film & TV serial shoots, which were stopped during lockdown, resumed in July. Roja, the TV serial, is the most viewed programme in the Tamil market. The company reported a loss in the TV segment. The TV segment is expected to break even by the end of the year. Content cost for films segment was nil due to no movie releases. In turn, this led to zero revenues. The management guided for double digit revenue growth with profitability for Yoodlee Films. The management said though they give streaming rights to a particular platform for a fixed period, they retain IP rights. The company is planning to foray in a web-series segment and is in discussions with other platforms for development of the same
- **Debt free status; decision on royalty expected by December:** The management said Saregama is a debt free company with cash of ₹ 80 crore. Decision over royalty paid by radio companies is pending in front of the intellectual property board. The verdict on it is expected by end of December
- **Other highlights:** i) The management said global and Indian streaming platforms have a different business model. They do not pose a threat to music labels like Saregama. ii) Break-up of Saregama music library in terms of period and revenue: Songs till 1960s constitute 11% of library and 4% of revenue. Similarly, songs from 1960-80 era constitute 26% of library and 34% of revenue. Songs from 1981-2000 and 2001-20 constitute 31% of library each with revenue share of 27% and 34%, respectively.

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>	<b>544.7</b>	<b>521.5</b>	<b>450.8</b>	<b>615.2</b>
Growth (%)	52.8	-4.3	-13.5	36.5
Contract manufacturing charges	221.6	107.0	53.4	108.0
Cost of production of TV, Films	48.8	54.1	40.4	62.2
Employee Expenses	56.5	66.6	72.2	80.6
Other Expenses	179.6	233.3	192.8	248.6
Total Operating Expenditure	506.6	461.0	358.8	499.4
<b>Adj. EBITDA*</b>	<b>72.2</b>	<b>60.5</b>	<b>92.1</b>	<b>115.8</b>
Growth (%)	16.8	-16.2	52.2	25.8
Depreciation	3.3	4.6	5.4	6.2
Interest	6.6	6.7	3.4	3.2
Other Income*	22.4	11.2	15.0	16.0
Exceptional Items	-	-	-	-
PBT	84.7	60.4	98.3	122.4
MI/PAT from associates	-	(0.4)	1.1	0.5
Total Tax	30.4	16.9	25.1	30.6
<b>PAT</b>	<b>54.3</b>	<b>43.9</b>	<b>72.1</b>	<b>91.3</b>
Growth (%)	32.7	-19.1	64.0	26.7
<b>EPS (₹)</b>	<b>31.2</b>	<b>25.2</b>	<b>41.4</b>	<b>52.4</b>

Source: Company, ICICI Direct Research \* FY19 - adjusted EBITDA for inventory loss for which claim was received and booked in Other income

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	54.3	43.9	72.1	91.3
Add: Depreciation	3.3	4.6	5.4	6.2
Add: Interest Paid	6.6	6.7	3.4	3.2
(Inc)/dec in Current Assets	-136.2	25.1	38.1	-87.0
Inc/(dec) in CL and Provisions	35.8	-4.8	-23.6	51.1
<b>CF from operating activities</b>	<b>-36.2</b>	<b>75.5</b>	<b>95.3</b>	<b>64.7</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-21.2	-8.2	-5.0	-10.0
Others	19.7	69.7	-25.0	-35.0
<b>CF from investing activities</b>	<b>-1.5</b>	<b>61.5</b>	<b>-30.0</b>	<b>-45.0</b>
Change in Reserve & Surplus	-8.0	-73.3	0.0	0.0
Inc/(dec) in loan funds	47.9	-54.5	-6.0	0.0
Interest paid	-6.6	-6.7	-3.4	-3.2
Dividend outflow	0.0	0.0	0.0	0.0
Others	0.4	-0.3	0.0	0.0
<b>CF from financing activities</b>	<b>33.7</b>	<b>-134.8</b>	<b>-9.4</b>	<b>-3.2</b>
Net Cash flow	-4.0	2.2	56.0	16.5
Opening Cash	10.8	6.8	9.0	65.0
<b>Closing Cash</b>	<b>6.8</b>	<b>9.0</b>	<b>65.0</b>	<b>81.5</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	17.4	17.4	17.4	17.4
Reserve and Surplus	410.7	381.4	453.4	544.7
Total Shareholders funds	428.1	398.8	470.8	562.2
Total Debt	63.8	9.2	3.2	3.2
Minority Interest	2.6	2.3	2.3	2.3
Deferred Tax Assets	58.1	45.8	45.8	45.8
<b>Total Liabilities</b>	<b>552.5</b>	<b>456.1</b>	<b>522.1</b>	<b>613.4</b>
Gross Block	245.1	253.3	258.3	268.3
Less: Acc Depreciation	29.9	34.5	39.9	46.1
Net Block	215.2	218.8	218.3	222.2
Capital WIP	-	-	-	-
Total Fixed Assets	215.2	218.8	218.3	222.2
Investments	148.3	75.4	100.4	135.4
Other non current Assets	1.6	2.8	2.8	2.8
Debtors	109.8	108.5	93.9	128.1
Loans and Advances	5.1	5.0	4.4	5.9
Other Current Assets	125.7	106.6	97.2	119.1
Cash	6.8	9.0	65.0	81.5
Inventories	96.3	93.6	80.3	109.6
Total Current Assets	343.6	322.8	340.7	444.2
Creditors	56.5	58.0	49.4	67.4
Provisions	35.7	51.6	43.9	60.0
Other Current Liabilities	64.2	54.1	46.8	63.8
Total Current Liabilities	156.3	163.7	140.1	191.2
Net Current Assets	187.4	159.1	200.5	253.0
<b>Application of Funds</b>	<b>552.5</b>	<b>456.1</b>	<b>522.1</b>	<b>613.4</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	31.2	25.2	41.4	52.4
Cash EPS	33.1	27.9	44.5	56.0
BV	245.9	229.1	270.4	322.9
DPS	3.5	1.5	2.0	3.0
Cash Per Share	3.9	5.2	37.3	46.8
<b>Operating Ratios (%)</b>				
Adj. EBITDA Margin	13.2	11.6	20.4	18.8
PBT / Total Operating income	6.4	10.7	19.2	17.8
PAT Margin	10.0	8.4	16.0	14.8
Inventory days	64.5	65.5	65.0	65.0
Debtor days	73.5	75.9	76.0	76.0
Creditor days	37.8	40.6	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	12.7	11.0	15.3	16.2
RoCE	16.5	14.7	19.5	20.5
RoIC	9.6	16.7	27.1	30.5
<b>Valuation Ratios (x)</b>				
P/E	21.0	26.0	15.8	12.5
EV / EBITDA	27.5	17.6	10.6	8.0
EV / Net Sales	1.9	2.0	2.2	1.5
Market Cap / Sales	2.1	2.2	2.5	1.9
Price to Book Value	0.0	0.0	0.0	0.0
<b>Solvency Ratios</b>				
Debt/EBITDA	1.7	0.2	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.9	1.7	1.7	1.7
Quick Ratio	1.3	1.1	1.2	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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