

## Near term challenges persist...

Saregama India's topline for Q4FY20 declined 14.3% YoY to ₹ 108.7 crore as Carvaan sales fell to 74,000 units in Q4FY20 vs. 214,000 in Q4FY19, mainly due to no corporate buying and lockdown impact in March. EBITDA came in at ₹ 21.5 crore, up 32% YoY, due to lower contract manufacturing charges & marketing costs. EBITDA margins at 19.8% were up 690 bps YoY. Consequently, PAT was at ₹ 15.8 crore, down 7.1% YoY.

## Music segment – B2B resilient; B2C sales nosedive

Carvaan (B2C) sales dipped to 74,000 units in Q4FY20 due to no corporate buying and inventory reduction by big chains from February onwards. However, the supply chain was not affected and the company will launch Carvaan Mini (Art of living) & Karaoke after normalcy is restored. The newer versions of Carvaan will have return path compatibility. Saregama intends to provide Carvaan as a platform, allowing third party singers/publishers to present their content. Controlling marketing costs, the company will wait for sales pick-up and rely on natural pull in demand from the market. The management was targeting 25% gross margins on Carvaan. We bake in 0.5 mn and 0.7 mn units in FY21 and FY22, respectively, for Carvaan and expect -6.7% CAGR in revenues in FY20-22 to ₹ 175 crore. The management guided for 15-20% growth in licensing revenue (B2B) for FY21, driven by growth in OTT platforms and publishing. The public performance/concerts revenue, however, could drop to zero in FY21. We bake in 19% CAGR in B2B music sales in FY20-22 to ₹ 345 crore.

## TV & Movies segment – to face near term hiccups...

The management said *Roja* serial was leader in its segment in Q4FY20 and remake rights, if given in other languages, will generate additional revenue. However, the TV segment generated nil revenue in April-May due to lack of original content. TV segment may register revenue de-growth in FY21 but EBITDA levels profits may be maintained on higher margins. On web series front, while no deal has been made yet, the management indicated they are working on it internally and are hopeful of a release in FY21E. They added film segment has seen breakeven in FY20. They release films once they pre-order from streaming partner ensuring profitable venture. We bake in 7% CAGR in TV & movies in FY20-22 to ₹ 80 crore, with 5% revenue decline in FY21, to be followed by 21% revenue growth in FY22 on a low base.

## Valuation & Outlook

The silver lining is continued traction in B2B driven by growth in OTT platforms and publishing. The movie business also provides sustainable revenue visibility with profitability now in sight. The near term challenges in Carvaan are likely to restrict overall growth in FY21. We would await fructification of product demand growth given its strategy to convert it into platform for longer visibility. Therefore, we maintain **HOLD** rating with a revised target price of ₹ 440/share at 14x FY22 P/E.

### Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-21E)
Net Sales (₹ crore)	356.6	544.7	521.5	474.9	606.0	7.8
EBITDA (₹ crore)	36.2	38.2	60.5	56.9	71.0	8.4
Net Profit (₹ crore)	28.3	54.3	43.9	43.6	54.6	11.4
EPS (₹)	16.3	31.2	25.2	25.0	31.3	
P/E (x)	25.7	13.4	16.5	16.7	13.3	
Price / Book (x)	1.9	1.7	1.8	1.6	1.5	
EV/EBITDA (x)	16.0	16.6	10.8	10.5	8.1	
RoCE (%)	9.4	16.5	14.7	12.9	14.3	
RoE (%)	7.4	12.7	11.0	9.9	11.0	

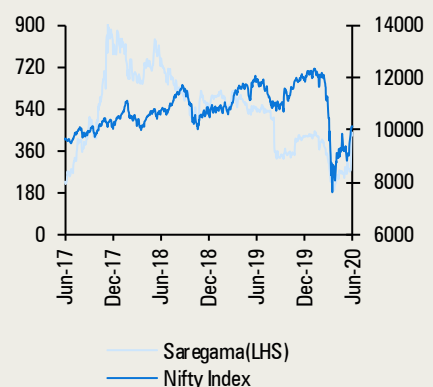
Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization	726.7
Total Debt (FY20)	9.2 Crore
Cash & Liquid Investments(FY20)	₹ 108.5 Crore
EV	₹ 651.5 Crore
52 week H/L	580/ 185
Equity capital (₹ crore)	17.4
Face value	10.0

### Price Performance



### Key Highlights

- Music segment declined 19% YoY in the quarter, which impacted revenues while 39% growth in TV & films segment was a positive
- Maintain HOLD with revised target price of ₹ 440/share

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## FY20 Performance

For FY20, revenues declined 4.3% YoY to ₹ 521.5 crore as Carvaan sales declined to 741000 units vs. 904000 units in FY19 with 32% YoY revenues decline in the same. Revenues from TV& Movies were up 47% YoY at ₹ 70 crore. B2C revenues were up ~25% YoY. Lower contract manufacturing charges led to 58% YoY increase in EBITDA at ₹ 60.5 crore (down ~16% on adjusted basis, adjusting for inventory loss in base year, where insurance claim was booked in other income) with EBITDA margins at 11.6%, up 459 bps on reported basis. PAT came in at ₹ 43.9 crore, down 18.8% YoY

## Other Highlights

- Carvaan to be launched as platform:** The management indicated March generally contributed 50% of total sales and was impacted due to lockdown. The management said they do see potential in Carvaan as they continue to get traction on the website even though sales declined in FY20. The newer versions of Carvaan will have return path compatibility, which gives chance for customisation. In order to launch Carvaan as a platform, the company will allow third party singers/publishers to present their content on it. The management believes podcast consumption will be big in future and will drive growth along with their own IPs. They also added that an alternate channel of distribution could be created for Carvaan to cater to 60+ age group customers
- IP monetisation model:** The management said revenue model for IP differ according to territory, streaming platforms and format. The licenses depend on location (India/overseas), format (music/video) and partner (Amazon Prime/Hotstar/Netflix). Generally, music is licensed to a streaming partner for a period and they receive a variable fee (10 paise) for every play of the song plus minimum guarantee. In case of video, the company charges a flat fee for a licensing period of three to five years. While Saregama retain IP, they do not enjoy upside in case a movie does well on the platform. Similarly, in case of publishing revenue, they get a fixed fee
- Licensing growth revenue guidance; music IP monetisation to be key:** The management guided for 15-20% growth in licensing revenue for FY21, driven by growth in OTT platforms and publishing. The company currently holds a music catalogue of 131000 songs & 59 movies in video segment. Monetisation of music IP will be their focus. The management indicated public performance/concerts revenue could drop to zero in FY21
- Expect greater royalty revenue share from FM industry:** The management said for IPs licensed to FM companies, Saregama received 2% of revenue as a royalty. The deal will expire in September 2020. The management is hopeful of a greater share as a royalty from October and said it is fair considering the radio industry is currently bigger than the music industry
- Spotify & Facebook to increase reach:** Saregama has recently signed deals with Spotify and Facebook in which the Saregama catalogue will be available on both platforms for listening, video & stories, etc. Both Spotify and Facebook are leaders in their respective segments of music streaming and social media with a significant young age population. These deals gives greater potential reach for the Saregama catalogue among the younger generation

## 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>474.9</b>	<b>606.0</b>
Growth (%)	52.8	-4.3	-8.9	27.6
Contract manufacturing charges	221.6	107.0	90.0	126.0
Cost of production of TV, Films	48.8	54.1	53.3	68.4
Employee Expenses	56.5	66.6	63.4	78.1
Other Expenses	179.6	233.3	211.4	262.5
Total Operating Expenditure	506.6	461.0	418.1	535.0
<b>Adj. EBITDA*</b>	<b>72.2</b>	<b>60.5</b>	<b>56.9</b>	<b>71.0</b>
Growth (%)	16.8	-16.2	-6.0	24.9
Depreciation	3.3	4.6	4.7	5.5
Interest	6.6	6.7	5.5	5.5
Other Income*	22.4	11.2	12.5	13.8
Exceptional Items	-	-	-	-
PBT	84.7	60.4	59.1	73.9
MI/PAT from associates				
Total Tax	30.4	16.9	15.5	19.4
<b>PAT</b>	<b>54.3</b>	<b>43.5</b>	<b>43.6</b>	<b>54.6</b>
Growth (%)	32.7	-19.9	0.3	25.1
<b>EPS (₹)</b>	<b>31.2</b>	<b>25.2</b>	<b>25.0</b>	<b>31.3</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	43.6	54.6
Add: Depreciation	3.3	4.6	4.7	5.5
Add: Interest Paid	6.6	6.7	5.5	5.5
(Inc)/dec in Current Assets	-136.2	25.1	25.3	-69.5
Inc/(dec) in CL and Provisions	35.8	-4.8	-16.1	40.8
<b>CF from operating activities</b>	<b>-36.2</b>	<b>75.5</b>	<b>63.1</b>	<b>36.8</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	-20.0	-50.0
<b>CF from investing activities</b>	<b>-1.5</b>	<b>61.5</b>	<b>-25.0</b>	<b>-60.0</b>
Change in Reserve & Surplus	-8.0	-73.3	0.0	0.0
Inc/(dec) in loan funds	47.9	-54.5	0.0	0.0
Interest paid	-6.6	-6.7	-5.5	-5.5
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>-5.5</b>	<b>-5.5</b>
Net Cash flow	-4.0	2.2	32.6	-28.7
Opening Cash	10.8	6.8	9.0	41.6
<b>Closing Cash</b>	<b>6.8</b>	<b>9.0</b>	<b>41.6</b>	<b>12.9</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	425.0	479.5
Total Shareholders funds	428.1	398.8	442.4	497.0
Total Debt	63.8	9.2	9.2	9.2
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>499.7</b>	<b>554.2</b>
Gross Block	245.1	253.3	258.3	268.3
Less: Acc Depreciation	29.9	34.5	39.3	44.7
Net Block	215.2	218.8	219.0	223.6
Capital WIP	-	-	-	-
Total Fixed Assets	215.2	218.8	219.0	223.6
Investments	148.3	75.4	95.4	145.4
Other non current Assets	1.6	2.8	2.8	2.8
Debtors	109.8	108.5	98.9	126.2
Loans and Advances	5.1	5.0	4.6	5.9
Other Current Assets	125.7	106.6	100.4	117.9
Cash	6.8	9.0	41.6	12.9
Inventories	96.3	93.6	84.6	107.9
Total Current Assets	343.6	322.8	330.0	370.8
Creditors	56.5	58.0	52.0	66.4
Provisions	35.7	51.6	46.3	59.1
Other Current Liabilities	64.2	54.1	49.3	62.9
Total Current Liabilities	156.3	163.7	147.6	188.4
Net Current Assets	187.4	159.1	182.4	182.4
<b>Application of Funds</b>	<b>552.5</b>	<b>456.1</b>	<b>499.7</b>	<b>554.2</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	25.0	31.3
Cash EPS	33.1	27.9	27.8	34.5
BV	245.9	229.1	254.1	285.5
DPS	3.5	1.5	2.0	3.0
Cash Per Share	3.9	5.2	23.9	7.4
<b>Operating Ratios (%)</b>				
Adj. EBITDA Margin	13.2	11.6	12.0	11.7
PBT / Total Operating income	6.4	10.7	11.0	10.8
PAT Margin	10.0	8.4	9.2	9.0
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	9.9	11.0
RoCE	16.5	14.7	12.9	14.3
RoIC	9.6	16.7	16.0	18.3
<b>Valuation Ratios (x)</b>				
P/E	13.4	16.5	16.7	13.3
EV / EBITDA	16.6	10.8	10.5	8.1
EV / Net Sales	1.2	1.2	1.3	1.0
Market Cap / Sales	1.3	1.4	1.5	1.2
Price to Book Value	0.0	0.0	0.0	0.0
<b>Solvency Ratios</b>				
Debt/EBITDA	1.7	0.2	0.2	0.1
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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