

## Carvaan weakness an overhang...

Saregama India's revenues for Q1FY21 fell 39.2% YoY to ₹ 76.5 crore due to *Carvaan* sales declining to 15,000 units vs. 219,000 in Q1FY20 as retail stores were shut during lockdown. EBITDA came in at ₹ 18.9 crore, up ~16x YoY, due to lower promotion costs (high marketing expense in base quarter) and reduced production costs and contract manufacturing charges with EBITDA margins at 24.7%. Consequently, PAT was at ₹ 15.8 crore.

## Carvaan sales drop; strong licensing revenue outlook

*Carvaan* (B2C) sales dipped to 15,000 units in Q1FY21 as sales through retail network dropped to almost nil. Majority of sales were registered via digital platforms in June. Saregama reiterated their stance of reducing marketing spends and relying on natural pull in demand from the market coupled with festive demand. We build in 0.5 million (mn) and 0.7 mn units in FY21 and FY22, respectively, for *Carvaan* and expect -5.5% CAGR in revenues in FY20-22 to ₹ 180 crore. Saregama aims to make *Carvaan* a platform with ad monetisation in 18-24 months by offering podcasts. The management has maintained guidance for 15-20% growth in licensing revenue (B2B) for FY21 as content consumption remains robust. The public performance/concerts revenue, however, could drop to zero in FY21. Saregama will invest heavily in music acquisition over the next three years. The company will invest ₹ 200 crore over the next few years with focus on new film music and non-film regional music. It has an ambitious target to garner 20%+ share in new music acquisition market (currently at ~₹ 400 crore, annually). We estimate 20% CAGR in B2B music sales in FY20-22 to ₹ 349 crore.

## TV, movies shoots resumption to aid revenues recovery...

Saregama's film & TV serial shoots, which came to a halt during lockdown, have resumed in July. During lockdown, TV segment witnessed almost nil revenues. Delayed productions of TV & films segment resulted in reduced working capital. On the web series front, the management remains hopeful of a release in FY21E. Saregama has received two new films deal and shoots have started. The company maintained its plan to build a portfolio of small budget profitable films in the next two to three years. We bake in 5.5% CAGR in TV & movies in FY20-22 to ₹ 78 crore, with 8% revenue decline in FY21, to be followed by 20% revenue growth in FY22 on a low base.

## Valuation & Outlook

Saregama's key revenue growth driver remains the B2B segment. Increasing content consumption augurs well for the segment with IP monetisation being key. Revenues through licensing deals with Spotify & Facebook have started to kick in. Saregama's strategy to develop *Carvaan* as a platform and its monetisation through ad/subscription revenue could provide long term visibility. However, subdued *Carvaan* sales and delay in its pickup, in the interim, is likely to remain an overhang. Therefore, we maintain **HOLD** rating on the stock with a revised target price of ₹ 510/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	483.7	613.2	8.4
EBITDA (₹crore)	36.2	38.2	60.5	70.0	88.3	20.8
Net Profit (₹crore)	28.3	54.3	43.9	54.0	68.0	24.4
EPS (₹)	16.3	31.2	25.2	31.0	39.1	
P/E (x)	28.9	15.0	18.6	15.1	12.0	
Price / Book (x)	2.1	1.9	2.0	1.8	1.6	
EV/EBITDA (x)	18.5	19.0	12.3	9.7	7.3	
RoCE (%)	9.4	16.5	14.7	15.4	16.8	
RoE (%)	7.4	12.7	11.0	11.9	13.1	

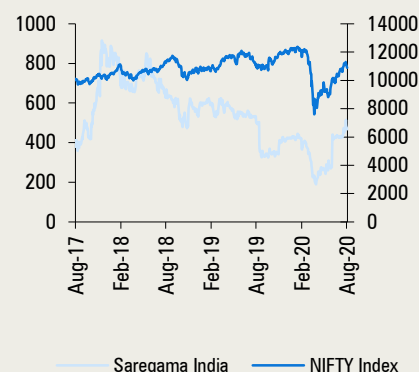
Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization	816.5
Total Debt (FY20)	₹9.2 Crore
Cash & Investments (FY20)	₹108.5 Crore
EV	₹741.3 Crore
52 week H/L	540/185
Equity capital (? crore)	17.4
Face value	10.0

### Price Performance



### Key Highlights

- Music segment declined 37% YoY in the quarter with sharp decline in *Carvaan* Sales, which impacted revenues while sharp de-growth of 59% in TV & films was on account of no fresh content
- Maintain **HOLD** with revised target price of ₹ 510/share

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

## Conference Call Highlights

- **Carvaan sales impacted by lockdown:** The management said that *Carvaan* sales in Q1 were affected by retail stores being shut and majority of sales being through e-commerce platforms. The management declined to give guidance for *Carvaan* sales in FY21 and said they are hopeful of a pick-up in sales once the situation normalises. They maintained a cautious approach towards *Carvaan* and added that marketing spend on *Carvaan* will be lower and they will rely on natural pull in demand from market. Also, the management expects *Carvaan*, as a platform to start generating ad revenue in 18-24 months as it believes podcast consumption will be big in future. The management said *Carvaan* is not a loss making product although profits in FY21 are likely to be minimal
- **Licensing to drive revenues:** The management maintained their guidance for 15-20% YoY growth in licensing revenue for FY21, driven by growth in OTT platforms as consumption per day is increased. They said Saregama's licensing revenue growth in the last three years at 22% CAGR was almost double the industry average. Also, ₹ 200 crore will be invested over the next three years for music acquisition. It aims to garner 20%+ share in the new music acquisition market, which is ~₹ 400 crore, annually. The management said their focus will be regional non-film music in the coming years in languages like Punjabi, Gujarati, Bhojpuri, etc. Saregama modified their content acquisition models and adopted the same model for film and non-film music. The management said 30% of licensing revenue comes from music acquired from films in 21<sup>st</sup> century. Also, the Spotify & Facebook deals became operational in the quarter
- **Film & TV shoots resume:** The management said film & TV serial shoots, which were stopped during lockdown, have resumed in July. During lockdown, the company signed agreements to monetise older Tamil content through licensing deals for remake/dubbing. The management said they remain hopeful of a web series release in FY21. On the films front, while the segment suffered losses in the first year, it made marginal profits in the second year. The management said though they give streaming rights to a particular platform for a fixed period, they retain music and other rights. Saregama recognises respective cost and revenues associated with films in the first year itself
- **Increased cash & cash equivalent:** Saregama has reduced working capital by ₹ 35 crore in the quarter. The company said production linked expenses such as content shoot and manufacturing expenses will go up from Q2FY21 onwards. The company has cash & cash equivalents of ₹ 45 crore

## 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>483.7</b>	<b>613.2</b>
Growth (%)	52.8	-4.3	-7.2	26.8
Contract manufacturing charge	221.6	107.0	83.1	129.6
Cost of production of TV, Films	48.8	54.1	50.0	62.6
Employee Expenses	56.5	66.6	71.7	78.9
Other Expenses	179.6	233.3	208.9	253.8
Total Operating Expenditure	506.6	461.0	413.7	524.9
<b>Adj. EBITDA*</b>	<b>72.2</b>	<b>60.5</b>	<b>70.0</b>	<b>88.3</b>
Growth (%)	16.8	-16.2	15.7	26.2
Depreciation	3.3	4.6	4.8	6.1
Interest	6.6	6.7	3.8	3.8
Other Income*	22.4	11.2	12.5	13.8
Exceptional Items	-	-	-	-
PBT	84.7	60.4	73.8	92.2
M/PAT from associates				
Total Tax	30.4	16.9	19.8	24.2
<b>PAT</b>	<b>54.3</b>	<b>43.5</b>	<b>54.0</b>	<b>68.0</b>
Growth (%)	32.7	-19.9	24.1	26.0
<b>EPS (₹)</b>	<b>31.2</b>	<b>25.2</b>	<b>31.0</b>	<b>39.1</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	54.0	68.0
Add: Depreciation	3.3	4.6	4.8	6.1
Add: Interest Paid	6.6	6.7	3.8	3.8
(Inc)/dec in Current Assets	-136.2	25.1	20.7	-68.6
Inc/(dec) in CL and Provision	35.8	-4.8	-13.3	40.3
<b>CF from operating activities</b>	<b>-36.2</b>	<b>75.5</b>	<b>69.9</b>	<b>49.6</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	-3.8	-3.8
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>-9.8</b>	<b>-3.8</b>
Net Cash flow	-4.0	2.2	30.1	0.8
Opening Cash	10.8	6.8	9.0	39.1
<b>Closing Cash</b>	<b>6.8</b>	<b>9.0</b>	<b>39.1</b>	<b>40.0</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	435.3	503.4
Total Shareholders funds	428.1	398.8	452.8	520.8
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>504.0</b>	<b>572.1</b>
Gross Block	245.1	253.3	258.3	268.3
Less: Acc Depreciation	29.9	34.5	39.4	45.5
Net Block	215.2	218.8	218.9	222.8
Capital WIP	-	-	-	-
Total Fixed Assets	215.2	218.8	218.9	222.8
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	100.7	127.7
Loans and Advances	5.1	5.0	4.7	5.9
Other Current Assets	125.7	106.6	101.6	118.9
Cash	6.8	9.0	39.1	40.0
Inventories	96.3	93.6	86.1	109.2
Total Current Assets	343.6	322.8	332.2	401.6
Creditors	56.5	58.0	53.0	67.2
Provisions	35.7	51.6	47.2	59.8
Other Current Liabilities	64.2	54.1	50.2	63.6
Total Current Liabilities	156.3	163.7	150.4	190.6
Net Current Assets	187.4	159.1	181.9	211.0
<b>Application of Funds</b>	<b>552.5</b>	<b>456.1</b>	<b>504.0</b>	<b>572.1</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	31.0	39.1
Cash EPS	33.1	27.9	33.8	42.6
BV	245.9	229.1	260.1	299.1
DPS	3.5	1.5	2.0	3.0
Cash Per Share	3.9	5.2	22.5	23.0
<b>Operating Ratios (%)</b>				
Adj. EBITDA Margin	13.2	11.6	14.5	14.4
PBT / Total Operating income	6.4	10.7	13.5	13.4
PAT Margin	10.0	8.4	11.2	11.1
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	11.9	13.1
RoCE	16.5	14.7	15.4	16.8
RoIC	9.6	16.7	19.9	22.8
<b>Valuation Ratios (x)</b>				
P/E	15.0	18.6	15.1	12.0
EV / EBITDA	19.0	12.3	9.7	7.3
EV / Net Sales	1.3	1.4	1.4	1.1
Market Cap / Sales	1.5	1.6	1.7	1.3
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	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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