

Strong margins again; most positives factored in...

Saregama India's revenues for Q3FY21 increased 3.4% YoY to ₹ 133.9 crore with growth being led by TV & films segment (Q3FY20 revenue was also impacted due to dip in Carvaan sales). Carvaan sales declined ~30% YoY to 138,000 units in Q3FY21. EBITDA grew 193% YoY to ₹ 40 crore with EBITDA margin at 29.9%. Cost reduction across all fronts (except for TV & films production), mainly in promotion costs for Carvaan and other expenses led to strong growth in operating profit. Subsequently, reported PAT was at ₹ 31.6 crore, up 211% YoY.

Carvaan sales dip offset by licensing growth

Carvaan (B2C) sales at 138,000 units in Q3FY21, while improving QoQ led by digital medium, were still below pre-Covid level as sales through retail network are yet to pick up. Minimal marketing spends have benefitted the company on the margin front and the company guided for low marketing expense for two more quarters. We build in 0.65 mn and 0.7 mn units in FY22 and FY23, respectively for Carvaan and expect -5% CAGR in revenues in FY20-23 to ₹ 175 crore. The management guided for 22-23% growth in licensing revenue (B2B) from FY22 onwards as digital consumption via streaming apps is driving growth. Saregama reiterated their aim to capture 20% share of new music. We estimate 21% CAGR in B2B music sales in FY20-23E to ₹ 430 crore as monetisation of existing IPs via digital platforms and new music acquisition holds potential for growth.

TV, films segment supports growth...

Film & TV revenue jumped 52% YoY as it had a movie release during the quarter and a new Tamil serial was launched. The segment reported profit in Q3. Under Yoodlee Films, the company expects one release during Q4. The management guided for 14-16% growth in films segment. We estimate ~9% CAGR in TV & films in FY20-23E to ₹ 90 crore, with 30% revenue decline in FY21, followed by 60% revenue growth in FY22 on a low base.

Valuation & Outlook

Increasing digital consumption via streaming and social media platforms has enabled the licensing revenue growth and has supported the company in a challenging year. New music acquisition and its monetisation along with pull of older content will be a key monitorable. Minimal marketing spends on Carvaan and other cost cuts will support the 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 caravan into a platform and its monetisation. Although margins resilience has been surprising, we believe sharp run-up in stock price (up 61% in last three months) has already factors in all positives. We roll over our valuations to FY23 and raise our target multiple at 14x P/E (vs. 13x FY 22E P/E) to account for improved margins. We maintain **HOLD** rating with a revised target price of ₹ 1000/share (previous TP: ₹ 680/share).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	544.7	521.5	463.2	613.1	700.8	10.4
EBITDA (₹ crore)	38.2	60.5	129.9	149.1	161.2	38.7
Net Profit (₹ crore)	54.3	43.9	101.1	116.0	124.4	41.5
EPS (₹)	31.2	25.2	58.0	66.7	71.5	
P/E (x)	30.6	37.8	16.4	14.3	13.3	
Price / Book (x)	3.9	4.2	3.3	2.7	2.2	
EV/EBITDA (x)	41.1	26.2	11.3	9.3	8.0	
RoCE (%)	16.5	14.7	25.3	23.8	21.5	
RoE (%)	12.7	11.0	20.2	18.8	16.8	



Particulars

Particular	Amount
Market Capitalization (₹ crore)	1,660.9
Total Debt (FY20)	₹ 9.2 Crore
Cash & Investments (FY20)	₹ 108.5 Crore
EV	₹ 1585.7 Crore
52 week H/L (₹)	1013/ 185
Equity capital (₹ crore)	17.4
Face value (₹)	10.0

Key risks to our call

- Slower than anticipated growth in licensing revenue
- Faster than expected traction in Carvaan sales could lead to better than expected earnings

Key Highlights

- Music segment remained flat YoY in the quarter while TV & films revenue jumped 52% YoY
- Maintain HOLD with revised target price of ₹ 1000/share

Research Analyst

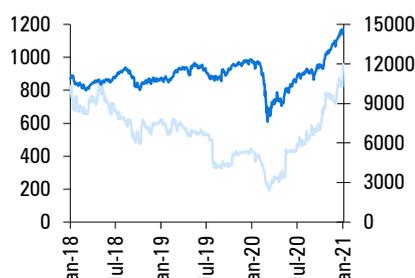
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Conference Call Highlights

- Carvaan cost control to continue:** The management said that cost control on Carvaan will continue for next two quarters and they will rely on natural pull in demand form market. Footfalls in retail stores are still low and share of sales through digital medium is increasing. The management reiterated their stance that Carvaan will breakeven and declined to give any projections. Saregama only promotes caravan, the mother brand and not the regional variants. The two new variants launched during the quarter, Carvaan Mini Kids and Carvaan Karaoke received good response as per management.
- Digitisation remains the growth driver:** The management said digitisation, thereby licensing revenue is driving growth. Saregama has acquired music rights of four Hindi and eight Tamil movies. They reiterated their aim to acquire 20% market share of new music. However, they declined to disclose the acquisition budget. The management said they will beat their previously guided growth estimate of 20-22% in licensing revenue for FY21E. Guided revenue growth from FY22 onwards was at 22-23%. On Carvaan 2.0, there are 289 podcast stations with average daily consumption of 39 minutes
- TV & films reported profit:** The management said film & TV reported profit during the quarter. Saregama released a movie and a new Tamil serial was also launched during the quarter. One more movie is expected to release in Q4. The management guided for 14-16% revenue growth for Yoodlee, going ahead.
- Debt free status; radio insignificant part of revenue:** The management said Saregama is a debt free company with cash surplus of ₹ 150 crore. The company incurs advertising expenses on three fronts: Carvaan, new music and retro music. Saregama's music acquisition expenses were postponed during the quarter due to no movie releases. However, the management said low marketing costs are not sustainable and will increase once movies release in theatres. On the latest IPAB order, the management declined to comment as the decision will be fought over in court by the radio companies. Radio revenue, as per management, forms very small part of total revenue

Price Performance



Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Total operating Income	521.5	463.2	613.1	700.8
Growth (%)	-4.3	-11.2	32.4	14.3
Contract manufacturing charges	107.0	36.3	97.5	105.0
Cost of production of TV, Films	54.1	47.7	62.8	72.2
Employee Expenses	66.6	71.8	78.9	86.9
Other Expenses	233.3	177.5	224.7	275.5
Total Operating Expenditure	461.0	333.3	463.9	539.6
Adj. EBITDA*	60.5	129.9	149.1	161.2
Growth (%)	-16.2	114.7	14.9	8.1
Depreciation	4.6	5.6	6.1	7.0
Interest	6.7	3.4	3.2	3.2
Other Income*	11.2	15.0	16.0	16.0
Exceptional Items	-	-	-	-
PBT	60.4	135.9	155.8	167.0
MI/PAT from associates	(0.4)	1.0	0.5	-
Total Tax	16.9	33.9	39.3	42.1
PAT	43.9	101.1	116.0	124.4
Growth (%)	-19.1	130.0	14.8	7.2
EPS (₹)	25.2	58.0	66.7	71.5

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)	FY20	FY21E	FY22E	FY23E
Profit after Tax	43.9	101.1	116.0	124.4
Add: Depreciation	4.6	5.6	6.1	7.0
Add: Interest Paid	6.7	3.4	3.2	3.2
(Inc)/dec in Current Assets	25.1	31.5	-79.4	-46.5
Inc/(dec) in CL and Provisions	-4.8	-19.7	46.6	27.3
CF from operating activities	75.5	121.8	92.6	115.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-8.2	-5.0	-10.0	-10.0
Others	69.7	-25.0	-35.0	-35.0
CF from investing activities	61.5	-30.0	-45.0	-45.0
Change in Reserve & Surplus	-73.3	0.0	0.0	0.0
Inc/(dec) in loan funds	-54.5	-6.0	0.0	0.0
Interest paid	-6.7	-3.4	-3.2	-3.2
Dividend outflow	0.0	0.0	0.0	0.0
Others	-0.3	0.0	0.0	0.0
CF from financing activities	-134.8	-9.4	-3.2	-3.2
Net Cash flow	2.2	82.4	44.4	67.2
Opening Cash	6.8	9.0	91.4	135.8
Closing Cash	9.0	91.4	135.8	203.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	17.4	17.4	17.4	17.4
Reserve and Surplus	381.4	482.4	598.5	722.9
Total Shareholders funds	398.8	499.8	615.9	740.3
Total Debt	9.2	3.2	3.2	3.2
Minority Interest	2.3	2.3	2.3	2.3
Deferred Tax Assets	45.8	45.8	45.8	45.8
Total Liabilities	456.1	551.1	667.2	791.6
Gross Block	253.3	258.3	268.3	278.3
Less: Acc Depreciation	34.5	40.1	46.2	53.2
Net Block	218.8	218.2	222.1	225.1
Capital WIP	-	-	-	-
Total Fixed Assets	218.8	218.2	222.1	225.1
Investments	75.4	100.4	135.4	170.4
Other non current Assets	2.8	2.8	2.8	2.8
Debtors	108.5	96.4	127.7	145.9
Loans and Advances	5.0	4.5	5.9	6.8
Other Current Assets	106.6	98.8	118.9	130.6
Cash	9.0	91.4	135.8	203.0
Inventories	93.6	82.5	109.2	124.8
Total Current Assets	322.8	373.6	497.4	611.1
Creditors	58.0	50.8	67.2	76.8
Provisions	51.6	45.1	59.8	68.3
Other Current Liabilities	54.1	48.1	63.6	72.7
Total Current Liabilities	163.7	144.0	190.6	217.8
Net Current Assets	159.1	229.7	306.8	393.3
Application of Funds	456.1	551.1	667.2	791.6

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	25.2	58.0	66.7	71.5
Cash EPS	27.9	61.2	70.2	75.5
BV	229.1	287.1	353.8	425.2
DPS	1.5	2.0	3.0	3.0
Cash Per Share	5.2	52.5	78.0	116.6
Operating Ratios (%)				
Adj. EBITDA Margin	11.6	28.0	24.3	23.0
PBT / Total Operating income	10.7	26.8	23.3	22.0
PAT Margin	8.4	21.8	18.9	17.8
Inventory days	65.5	65.0	65.0	65.0
Debtor days	75.9	76.0	76.0	76.0
Creditor days	40.6	40.0	40.0	40.0
Return Ratios (%)				
RoE	11.0	20.2	18.8	16.8
RoCE	14.7	25.3	23.8	21.5
RoIC	16.7	38.6	39.8	40.5
Valuation Ratios (x)				
P/E	37.8	16.4	14.3	13.3
EV / EBITDA	26.2	11.3	9.3	8.0
EV / Net Sales	3.0	3.2	2.3	1.8
Market Cap / Sales	3.2	3.6	2.7	2.4
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.2	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.7	1.7	1.7
Quick Ratio	1.1	1.2	1.1	1.1

Source: Company, ICICI Direct Research

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