

Healthy performance; valuations full after run up...

About the stock: Saregama India (Saregama) is India's oldest music label with ~1.3 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) and creates low budget films as well as web series for OTT platforms through *Yoodlee Films*

Q2FY22 Results:

- Saregama reported robust Q2FY22 results.
- Revenues were up ~34% YoY to ₹ 145.1 crore, on a benign base (~31% decline in Q2FY21), led by TV & films segment, up 237% YoY at ₹ 22.4 crore, on a depressed base. Music segment was up 21.2% YoY. Carvaan sales volumes were up ~27.2% YoY to 1.03 lakh units, on a benign base
- EBITDA grew 20% YoY to ₹ 44 crore with EBITDA margin at 30.6% (down 350 bps YoY) owing to higher selling and distribution expense
- Consequent PAT was at ₹ 35.1 crore (up 24.4% YoY)

What should investors do? Saregama share price has grown by ~18.5x over the past five years (from ~₹ 238 in October 2016 to ~₹ 4440 levels in October 2021).

- We expect digital monetisation to provide sustained growth but given the sharp run up (up 160% in last six months), maintain HOLD on the stock

Target Price and Valuation: We value Saregama at ₹ 4260 i.e. 45x FY23E P/E

Key triggers for future price performance:

- Growth trajectory in music licencing, which the management envisages to grow at 20%+ in medium term, along with new content performance
- Recovery in Carvaan on the back of festive season
- Expansion in movies and web series segment

Alternate Stock Idea: Besides Saregama, in our telecom & media coverage we like Tata Communication

- Cash flow generation consistency and growth levers like cloud, edge & security, IoT
- BUY with a target price of ₹ 1725



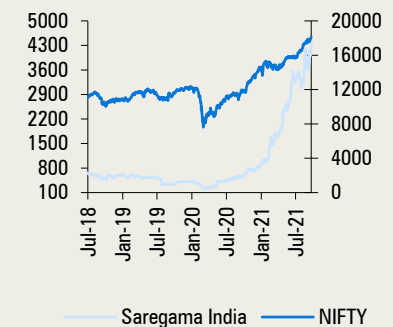
Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,738
Total Debt (FY21)	₹ 0 Crore
Cash & Investments (FY21)	₹ 170 Crore
EV	₹ 7568 Crore
52 week H/L (₹)	4500/ 550
Equity capital (₹ crore)	17.4
Face value (₹)	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	59.1	59.1	59.1	59.1
DII	4.7	5.5	4.3	3.7
FII	4.4	4.4	6.9	7.4
Other	31.8	31.1	29.7	29.9

Price Chart



Recent event & key risks

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

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales (₹ crore)	544.7	521.5	442.0	14.8	564.2	718.9	27.5
EBITDA (₹ crore)	38.2	60.5	130.1	55.2	167.6	215.5	28.7
Net Profit (₹ crore)	54.3	43.9	112.6	75.0	128.8	164.9	21.1
EPS (₹)	31.2	25.2	64.6		73.9	94.6	
P/E (x)	142.2	175.9	68.7		60.1	46.9	
Price / Book (x)	18.1	19.4	15.3		12.9	10.6	
EV/EBITDA (x)	200.3	126.7	57.3		44.0	33.7	
RoCE (%)	16.5	14.7	27.8		27.4	29.3	
RoE (%)	12.7	11.0	22.3		21.5	22.6	

Key performance highlight and outlook

Licensing revenues to remain robust

The company indicated that licensing revenues remained robust with ~20% YoY growth in H1FY22. The management reiterated its guidance for 22-25% growth in licensing revenue (B2B), much ahead of expected industry growth of 12-14%. We estimate 22.7% CAGR (~25% on adjusted basis) in B2B (licensing) music sales in FY21-23E to ₹ 451 crore as monetisation of existing IPs via digital platforms and new music acquisition will drive growth. We build in 0.5 mn and 0.65 mn units in FY22 and FY23, respectively for Carvaan and expect 37.5% CAGR in revenues in FY21-23 to ₹ 163 crore, on a depressed base of FY21. During the quarter, new content charge at ₹ 11.3 crore, was higher than ₹ 2.5 crore, which impacted reported EBITDA margins. Minimal marketing spends on Carvaan have restricted the Carvaan burn rate and the company guided for low marketing expense for few more quarters till the Carvaan sales volume picks up sharply. Furthermore, focus on transitioning Carvaan from one-time margin product to recurring revenue generating platform will continue. For FY22, the company expects to breakeven for Carvaan. The company is also looking to raise up to ₹ 750 crore and indicated that details would be provided later. The management, however, assured that funds would be focused on investments on core segment – music.

TV & films strong; forays into web series...

The company announced its first web series "Invisible Woman" starring Suniel Shetty and Esha Gupta. The management also clarified that it would continue to make pre-licensed films and web series, except for regional movies, thereby minimising the uncertainty. Film & TV revenue growth was aided by strong traction in monetisation of inventory both on TV and YouTube. Under Yoodlee films, the company released two films *200 Halla Ho* during the quarter. The management expects Yoodlee films to clock ₹ 100+ crore revenues in three to five years. We estimate ~39% CAGR in TV & films in FY21-23E to ₹ 100 crore.

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)	Comments
Revenue	145.1	108.1	105.0	34.2	38.2	Growth was led by TV & Films segment, up 237% YoY at ₹ 22.4 crore, on a depressed base. Music segment was up 21.2% YoY. Carvaan sales volumes were up ~27.2% YoY to 1.03 lakh units, on a benign base
Other Income	5.2	3.4	2.8	49.7	83.9	
Cost of production of TV, Films	27.5	12.3	12.4	122.8	120.7	
Employee Expenses	20.8	18.0	16.8	15.5	23.9	
Other expenses	14.5	16.0	13.5	-9.1	7.9	
Contract manufacturing charges	7.9	0.5	11.9	1,370.4	-33.3	
Change in inventories	-1.3	2.3	-9.4	-156.9	-86.4	
Advertisement and Sales promotion	13.7	6.9	8.4	97.6	63.4	
Royalties	17.6	15.2	14.4	15.7	22.3	
EBITDA	44.4	36.9	37.0	20.3	20.0	Margin decline was owing to higher selling and distribution expense
EBITDA Margin (%)	30.6	34.1	35.2	-353 bps	-466 bps	
Depreciation	1.5	1.3	2.3	20.0	-34.8	
Interest	1.4	0.8	0.7	74.1	107.4	
Total Tax	11.5	9.3	9.5	23.7	21.9	
PAT	35.1	28.2	27.2	24.4	28.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	552.3	564.2	2.2	702.9	718.9	2.3	We realign estimates post Q2FY22 earnings
EBITDA	164.9	167.6	1.6	211.5	215.5	1.9	
EBITDA Margin (%)	29.9	29.7	-16 bps	30.1	30.0	-11 bps	
PAT	126.1	128.8	2.2	162.3	164.9	1.7	
EPS (₹)	72.3	73.9	2.2	93.1	94.6	1.7	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Total operating Income	521.5	442.0	564.2	718.9
Growth (%)	-4.3	-15.2	27.7	27.4
Contract manufacturing charges	107.0	21.1	55.8	78.0
Cost of production of TV, Films	54.1	46.5	77.8	80.3
Employee Expenses	66.6	69.5	79.5	85.7
Other Expenses	233.3	174.8	183.5	259.5
Total Operating Expenditure	461.0	311.9	396.7	503.4
EBITDA	60.5	130.1	167.6	215.5
Growth (%)	-16.2	115.1	28.8	28.6
Depreciation	4.6	5.6	6.8	7.9
Interest	6.7	3.5	4.9	5.6
Other Income*	11.2	30.9	18.0	22.0
Exceptional Items	-	-	-	-
PBT	60.4	151.9	173.8	223.9
MI/PAT from associates	(0.4)	0.9	0.6	0.3
Total Tax	16.9	38.4	44.4	58.0
PAT	43.9	112.6	128.8	164.9
Growth (%)	-19.1	156.1	14.4	28.1
EPS (₹)	25.2	64.6	73.9	94.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	43.9	112.6	128.8	164.9
Add: Depreciation	4.6	5.6	6.8	7.9
Add: Interest Paid	6.7	3.5	4.9	5.6
(Inc)/dec in Current Assets	25.1	33.0	-71.6	-86.5
Inc/(dec) in CL and Provisions	-4.8	65.6	56.9	77.2
CF from operating activities	75.5	220.3	125.7	169.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-8.2	-13.6	-10.0	-10.0
Others	69.7	-53.4	-35.0	-35.0
CF from investing activities	61.5	-66.9	-45.0	-45.0
Change in Reserve & Surplus	-73.3	-5.6	-34.9	-34.9
Inc/(dec) in loan funds	-54.5	-9.2	0.0	0.0
Interest paid	-6.7	-3.5	-4.9	-5.6
Others	-0.3	0.9	0.0	0.0
CF from financing activities	-134.8	-17.4	-39.8	-40.5
Net Cash flow	2.2	136.0	40.9	83.7
Opening Cash	6.8	9.0	145.0	185.9
Closing Cash	9.0	145.0	185.9	269.6

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	17.4	17.4	17.4	17.4
Reserve and Surplus	381.4	488.4	582.3	712.4
Total Shareholders funds	398.8	505.8	599.7	729.8
Total Debt	9.2	0.0	0.0	0.0
Minority Interest	2.3	3.1	3.1	3.1
Deferred Tax Assets	45.8	50.5	50.5	50.5
Total Liabilities	456.1	559.4	653.4	783.4
Gross Block	253.3	266.9	276.9	286.9
Less: Acc Depreciation	34.5	40.1	46.9	54.8
Net Block	218.8	226.7	229.9	232.0
Capital WIP	-	-	-	-
Total Fixed Assets	218.8	226.7	229.9	232.0
Investments	75.4	136.6	171.6	206.6
Other non current Assets	2.8	12.3	12.3	12.3
Debtors	108.5	87.4	111.3	141.8
Loans and Advances	5.0	13.5	17.3	22.0
Other Current Assets	106.6	93.4	113.8	139.6
Cash	9.0	145.0	185.9	269.6
Inventories	93.6	69.2	92.7	118.2
Total Current Assets	322.8	408.5	521.0	691.2
Creditors	58.0	56.3	69.6	88.6
Provisions	51.6	70.9	87.6	111.7
Other Current Liabilities	54.1	97.3	124.2	158.3
Total Current Liabilities	163.7	224.6	281.4	358.6
Net Current Assets	159.1	183.9	239.6	332.6
Application of Funds	456.1	559.4	653.4	783.4

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	25.2	64.6	73.9	94.6
Cash EPS	27.9	67.8	77.8	99.2
BV	229.1	290.2	344.1	418.7
DPS	1.5	20.0	20.0	20.0
Cash Per Share	5.2	83.2	106.7	154.7
Operating Ratios (%)				
Adj. EBITDA Margin	11.6	29.4	29.7	30.0
PBT / Total Operating income	10.7	28.2	28.5	28.9
PAT Margin	8.4	25.5	22.8	22.9
Inventory days	65.5	57.1	60.0	60.0
Debtor days	75.9	72.1	72.0	72.0
Creditor days	40.6	46.5	45.0	45.0
Return Ratios (%)				
RoE	11.0	22.3	21.5	22.6
RoCE	14.7	27.8	27.4	29.3
RoIC	16.7	48.2	58.2	72.2
Valuation Ratios (x)				
P/E	175.9	68.7	60.1	46.9
EV / EBITDA	126.7	57.3	44.0	33.7
EV / Net Sales	14.7	16.9	13.1	10.1
Market Cap / Sales	14.8	17.5	13.7	10.8
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	1.1	1.2	1.2
Quick Ratio	1.1	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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