

Demerger of publication, digital distribution business

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*

Event: Saregama has demerged its entire **distribution business of the company relating to sale of all its physical products including Carvaan** on digital marketplaces along with identified non-core assets (**i.e. investment in publication business**).

- Demerged division topline was ₹ 17.4 crore in FY21 while bottomline (in our view) is miniscule. **We highlight that demerger only involves digital distribution arm and Carvaan business stays with Saregama residual entity.** As per our understanding, distribution arm enjoys non-exclusive rights of selling Carvaan on e-commerce platform, which will continue
- The scheme does not involve cash consideration and existing shareholders will receive "two fully paid up equity shares of ₹ 10 each of the resulting company (Digidrive Distributors Ltd), credited as fully paid up, for every one equity share of ₹ 10 each of the demerged company (Saregama)"

What should investors do? Saregama's share price has grown by ~18.7x over the past five years (from ~₹ 234 in March 2017 to ~₹ 4597 levels in March 2022).

- **Demerger of non-core activity, especially publication, is a key positive likely to drive a focused approach of management on key business of music.** We expect digital monetisation to provide sustained growth. We maintain HOLD rating on the stock

Target Price and Valuation: We value Saregama at a revised target price of ₹ 4890, at 40x FY24 P/E, as we roll over, bake in QIP and higher growth guidance.

Key triggers for future price performance:

- Growth trajectory in music licencing, which the management envisages to grow at 25-30%+ in medium term, along with new content performance
- Recovery in Carvaan on the back of economic reopening and expansion in movies and web series segment

Alternate Stock Idea: Besides Saregama, we like Inox Leisure in media coverage.

- Beneficiary of cinemas recovery and merger synergy
- BUY with a target price of ₹ 680

Key Financial Summary

(Year-end March)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	521.5	442.0	14.8	551.6	710.4	900.2	27.8
EBITDA (₹ crore)	60.5	130.1	55.2	187.8	225.0	294.8	25.3
Net Profit (₹ crore)	43.9	112.6	75.0	149.4	184.4	235.7	25.6
EPS (₹)	25.2	64.6		77.5	95.6	122.3	
P/E (x)	182.2	71.2		59.3	48.1	37.6	
Price / Book (x)	20.1	15.8		6.5	5.9	5.8	
EV/EBITDA (x)	131.3	59.4		36.8	30.1	23.0	
RoCE (%)	14.7	27.8		14.4	16.0	20.2	
RoE (%)	11.0	22.3		10.9	12.2	15.5	

Source: Company, ICICI Direct Research



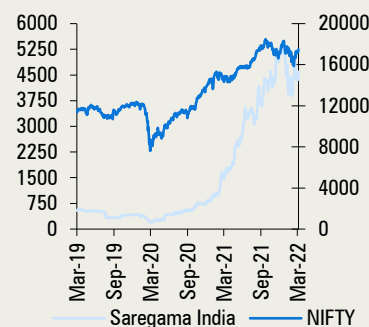
Particulars

Particular	Amount
Market Capitalization (₹ crore)	8,864
Total Debt (FY21)	₹ 0 Crore
Cash & Investments (FY21)	₹ 170 Crore
EV	₹ 8694 Crore
52 week H/L (₹)	1514/ 5506
Equity capital (₹ crore)	19.3
Face value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Nov-21	Dec-21
Promoters	59.1	59.1	57.7	57.7
DII	4.3	3.7	3.6	3.6
FII	6.9	7.4	17.1	16.6
Other	29.7	29.9	21.7	22.2

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 business triggers

Licensing revenues to remain robust

We highlight that post the fund raising of ₹ 750 crore through QIP in Q3FY22, the management had upgraded its guidance for licensing revenue (B2B) to 25-30% vs. 22-25% growth, much ahead of expected industry growth of 12-14%, driven higher investment in new content. We estimate ~30% CAGR in B2B (licensing) music sales in FY21-24E to ₹ 622 crore as monetisation of existing IPs via digital platforms and new music acquisition will drive growth. We build in 0.54 mn and 0.65 mn units in FY23 and FY24, respectively, for Carvaan and expect 22% CAGR in revenues in FY21-24 to ₹ 157 crore. 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.

TV, films provide healthy growth tailwinds...

The company announced a couple of web series that are expected to be complete in the next few months. The management has reiterated that it would remain make pre-licensed films and web series, except for regional movies, thereby minimising the uncertainty. The management has reiterated its target for Yoodlee Films to clock ₹ 100+ crore revenues in three to five years and expects 25-30% revenues CAGR in the TV & films segment ahead. We estimate ~32% CAGR in TV & films in FY21-24E to ₹ 119 crore. Furthermore, Saregama has also entered the talent management business whereby it will nurture young talents and provide opportunities in big production projects subsequently banking on commission income that the talent earns in future.

Unit economics of music licensing business

- Free platform - The company claims to earn 10 paisa per stream
- Subscription model (very miniscule currently) - The streaming platform creates a content pool out of 50% of subscription charges. This pool is divided among the licensing companies in the proportion of streams made by the customer during the subscription period

Exhibit 1: Change in estimates – Largely due to QIP, management guidance in Q3 call

(₹ Crore)	FY22E			FY23E			FY24E	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	552.3	551.6	-0.1	702.9	710.4	1.1	900.2	Realign estimates
EBITDA	164.9	187.8	13.9	211.5	225.0	6.4	294.8	
EBITDA Margin (%)	29.9	34.1	420 bps	30.1	31.7	159 bps	32.7	
PAT	126.1	149.4	18.5	162.3	184.4	13.6	235.7	
EPS (₹)	72.3	77.5	7.1	93.1	95.6	2.7	122.3	We bake in QIP led equity dilution

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Total operating Income	442.0	551.6	710.4	900.2
Growth (%)	-15.2	24.8	28.8	26.7
Contract manufacturing charges	21.1	46.4	54.0	63.0
Cost of production of TV, Films	46.5	89.9	80.7	97.3
Employee Expenses	69.5	74.4	85.9	108.0
Other Expenses	174.8	153.1	264.8	337.1
Total Operating Expenditure	311.9	363.7	485.4	605.4
EBITDA	130.1	187.8	225.0	294.8
Growth (%)	115.1	44.4	19.8	31.0
Depreciation	5.6	11.0	14.2	15.6
Interest	3.5	4.0	3.6	3.6
Other Income	30.9	27.1	40.0	40.0
Exceptional Items	-	-	-	-
PBT	151.9	199.9	247.2	315.6
MI/PAT from associates	0.9	0.4	0.3	0.3
Total Tax	38.4	50.1	61.8	78.9
PAT	112.6	149.4	184.4	235.7
Growth (%)	156.1	32.7	23.4	27.8
EPS (₹)	64.6	77.5	95.6	122.3

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	112.6	149.4	184.4	235.7
Add: Depreciation	5.6	11.0	14.2	15.6
Add: Interest Paid	3.5	4.0	3.6	3.6
(Inc)/dec in Current Assets	33.0	-87.2	-95.4	-113.9
Inc/(dec) in CL and Provisions	65.6	50.6	79.2	94.7
CF from operating activities	220.3	127.7	186.1	235.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-13.6	-10.0	-10.0	-10.0
Others	-53.4	-635.0	-120.0	-120.0
CF from investing activities	-66.9	-645.0	-130.0	-130.0
Change in Reserve & Surplus	-5.6	709.6	-38.6	-222.9
Inc/(dec) in loan funds	-9.2	0.0	0.0	0.0
Interest paid	-3.5	-4.0	-3.6	-3.6
Others	0.9	1.9	0.0	0.0
CF from financing activities	-17.4	707.4	-42.2	-226.5
Net Cash flow	136.0	190.2	13.9	-120.9
Opening Cash	9.0	145.0	335.1	349.1
Closing Cash	145.0	335.1	349.1	228.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	17.4	19.3	19.3	19.3
Reserve and Surplus	488.4	1,347.3	1,493.1	1,505.9
Total Shareholders funds	505.8	1,366.6	1,512.4	1,525.2
Total Debt	0.0	0.0	0.0	0.0
Minority Interest	3.1	3.1	3.1	3.1
Deferred Tax Assets	50.5	50.5	50.5	50.5
Total Liabilities	559.4	1,420.2	1,566.1	1,578.8
Gross Block	266.9	276.9	286.9	296.9
Less: Acc Depreciation	40.1	51.2	65.4	81.0
Net Block	226.7	225.7	221.5	215.9
Capital WIP	-	-	-	-
Total Fixed Assets	226.7	225.7	221.5	215.9
Investments	136.6	771.6	891.6	1,011.6
Other non current Assets	12.3	12.3	12.3	12.3
Debtors	87.4	108.8	140.1	177.6
Loans and Advances	13.5	16.9	21.7	27.5
Other Current Assets	93.4	111.7	138.2	169.9
Cash	145.0	335.1	349.1	228.1
Inventories	69.2	113.3	146.0	185.0
Total Current Assets	408.5	685.8	795.1	788.1
Creditors	56.3	68.0	87.6	111.0
Provisions	70.9	85.7	110.4	139.8
Other Current Liabilities	97.3	121.5	156.4	198.2
Total Current Liabilities	224.6	275.1	354.4	449.0
Net Current Assets	183.9	410.7	440.7	339.1
Application of Funds	559.4	1,420.2	1,566.1	1,578.8

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	64.6	77.5	95.6	122.3
Cash EPS	67.8	83.2	103.0	130.3
BV	290.2	708.8	784.4	791.1
DPS	20.0	20.0	20.0	20.0
Cash Per Share	83.2	173.8	181.0	118.3
Operating Ratios (%)				
Adj. EBITDA Margin	29.4	34.1	31.7	32.7
PBT / Total Operating income	28.2	32.1	29.7	31.0
PAT Margin	25.5	27.1	26.0	26.2
Inventory days	57.1	75.0	75.0	75.0
Debtor days	72.1	72.0	72.0	72.0
Creditor days	46.5	45.0	45.0	45.0
Return Ratios (%)				
RoE	22.3	10.9	12.2	15.5
RoCE	27.8	14.4	16.0	20.2
RoIC	48.2	60.2	68.9	87.4
Valuation Ratios (x)				
P/E	71.2	59.3	48.1	37.6
EV / EBITDA	59.4	36.8	30.1	23.0
EV / Net Sales	17.5	12.5	9.5	7.5
Market Cap / Sales	18.1	14.5	11.3	8.9
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.2	1.2
Quick Ratio	0.8	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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