

CMP: ₹ 429

Target: ₹ 480 (12%)

Target Period: 12 months

HOLD

May 4, 2022

Strong performance!

About the stock: Saregama India (Saregama) is India's oldest music label with ~1.42 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*

Q4FY22: Saregama reported a healthy set of numbers.

- Revenues were up ~46% YoY to ₹ 180.2 crore, led by TV & films segment, up 150% YoY at ₹ 52.5 crore, as two films ('Zombivili' and 'Habbadi') and one regional web series was licenced during the quarter. Music segment was up 25.5% YoY. Carvaan sales volumes were up 2% YoY to 1.12 lakh units, while licencing revenues continued to be robust. For FY22, licencing revenues at ₹ 358.5 crore, grew by ~26% YoY
- EBITDA grew 50% YoY (down 5% QoQ) to ₹ 51.4 crore with EBITDA margin at 28.5%, up 80 bps YoY (down 7600 bps QoQ owing to revenues mix)
- Consequent PAT was at ₹ 48.2 crore (up 30% YoY)

What should investors do? Saregama's share price has grown by ~16.6x over the past five years (from ~₹ 24 in May 2017 to ~₹ 429 levels in May 2022).

- We expect digital monetisation to provide sustained growth. However, given the demanding valuations, we maintain **HOLD** rating on the stock

Target Price and Valuation: We value Saregama at revised target price ₹ 480, at 40x FY24 P/E, after marginally tweaking our earnings estimates.

Key triggers for future price performance:

- Growth trajectory in music licencing, which management envisages to grow at ~25% 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 & merger synergy
- BUY with a target price of ₹ 670



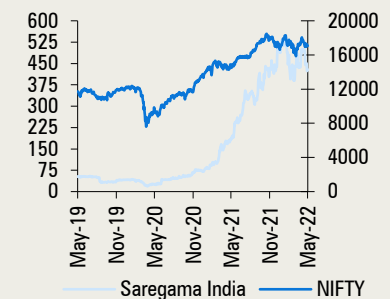
Particulars

Particular	Amount
Market Capitalization (₹ crore)	8,278
Total Debt (FY22)	₹ 0 Crore
Cash & Investments (FY22)	₹ 855 Crore
EV	₹ 7423 Crore
52 week H/L (₹)	151/ 551
Equity capital (₹ crore)	19.3
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Nov-21	Dec-21	Mar-22
Promoters	63.8	57.7	57.7	57.7
DII	2.8	3.6	3.7	3.1
FII	9.5	17.1	16.6	17.1
Other	23.9	21.7	22.2	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 Financial Summary

(Year-end March)	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	521.5	442.0	580.6	21.6	721.1	907.9	25.0
EBITDA (₹ crore)	60.5	130.1	187.1	81.8	227.0	290.9	24.7
Net Profit (₹ crore)	43.9	112.6	153.9	77.8	180.0	231.5	22.7
EPS (₹)	2.5	6.5	8.0		9.3	12.0	
P/E (x)	170.3	66.5	53.8		46.0	35.8	
Price / Book (x)	18.8	14.8	6.0		5.4	5.4	
EV/EBITDA (x)	122.5	55.4	34.6		28.1	22.1	
RoCE (%)	14.7	27.8	14.6		15.7	19.8	
RoE (%)	11.0	22.3	11.2		11.8	15.1	

Source: Company, ICICI Direct Research

Key Business triggers

Licensing revenues to remain robust

The **guidance for licensing revenue (B2B) growth was at 22-25%, ahead of expected industry growth of 15%**, as the company **wants to gain higher share in new content across Hindi and regional languages, also wants to acquire small and mid-sized catalogue** to plug in the content gaps of last 25 years. For FY22, licencing revenues at ₹ 358.5 crore, grew ~26% YoY. We **estimate ~25% CAGR in B2B (licensing) music sales in FY22-24E to ₹ 560 crore** as monetisation of existing IPs via digital platforms and new music acquisition as well as catalogue acquisition will drive growth. It has guided for 32-34% operating margins (before content charge). We **build in 0.5 mn and 0.65 mn units in FY23 and FY24, respectively for Carvaan and expect 27% CAGR in revenues in FY22-24 to ₹ 169 crore. Minimal marketing spends on Carvaan have ensured that Carvaan is just breaking even 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...

Two films ('Zombivili' and 'Habbadi') and one regional web series were licenced during the quarter. The company has also announced a couple of other web series and are expected to be complete in next few months. During FY22, TV and films revenues at ₹ 102.4 crore, up 96% YoY, with operating margins of ~15%. The management has reiterated that it would only make pre-licenced 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 the next couple of years and expect ~25% revenues CAGR in TV & films segment ahead. We estimate ~28% CAGR in TV & films in FY22-24E to ₹ 169 crore.** Furthermore, the company has also entered the events business (mainly for musical events) and talent management business (whereby it will nurture the young talents and provide opportunities in big production projects subsequently banking on commission income the talent earns in the future). **It expects 5-7% margin in events business. It has started the event business with music tour of Diljeet Dosanj in Q1FY23.**

Unit economics of music licensing business

The unit economics for music licensing is as follows-

- **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 the subscription charges. This pool is divided among the licensing companies on the basis of streams made by the customer during the subscription period. The company expects this phase of business expansion to be a key game changer for growth in the medium to long term.

Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	710.4	721.1	1.5	900.2	907.9	0.9	Realign estimates
EBITDA	225.0	227.0	0.9	294.8	290.9	-1.3	
EBITDA Margin (%)	31.7	31.5	-20 bps	32.7	32.0	-71 bps	
PAT	184.4	180.0	-2.4	235.7	231.5	-1.8	
EPS (₹)	9.6	9.3	-2.4	12.2	12.0	-1.8	

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Total operating Income	442.0	580.6	721.1	907.9
Growth (%)	-15.2	31.4	24.2	25.9
Contract manufacturing charges	21.1	47.3	50.0	65.0
Cost of production of TV, Films	46.5	118.2	118.8	143.4
Employee Expenses	69.5	73.5	84.6	104.4
Other Expenses	174.8	154.7	240.8	304.2
Total Operating Expenditure	311.9	393.5	494.2	617.0
EBITDA	130.1	187.1	227.0	290.9
Growth (%)	115.1	43.8	21.3	28.2
Depreciation	5.6	11.8	18.0	18.2
Interest	3.5	4.5	6.0	4.0
Other Income	30.9	34.9	39.0	42.0
Exceptional Items	-	-	-	-
PBT	151.9	205.7	241.9	310.8
MI/PAT from associates	0.9	0.1	0.3	0.3
Total Tax	38.4	51.8	61.0	78.3
PAT	112.6	153.9	180.0	231.5
Growth (%)	156.1	36.7	17.0	28.6
EPS (₹)	6.5	8.0	9.3	12.0

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	112.6	153.9	180.0	231.5
Add: Depreciation	5.6	11.8	18.0	18.2
Add: Interest Paid	3.5	4.5	6.0	4.0
(Inc)/dec in Current Assets	33.0	-110.0	-87.5	-114.3
Inc/(dec) in CL and Provisions	65.6	31.7	62.7	81.2
CF from operating activities	220.3	92.0	179.2	220.5
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-14.2	-63.5	-40.0	-40.0
Others	-52.7	-563.3	-120.0	-100.0
CF from investing activities	-66.9	-626.8	-160.0	-140.0
Change in Reserve & Surplus	-5.6	716.2	-38.6	-220.0
Inc/(dec) in loan funds	-9.2	0.0	0.0	0.0
Interest paid	-3.5	-4.5	-6.0	-4.0
Others	0.9	2.0	0.0	0.0
CF from financing activities	-17.4	713.6	-44.6	-224.0
Net Cash flow	136.0	178.8	-25.3	-143.5
Opening Cash	9.0	145.0	323.7	298.4
Closing Cash	145.0	323.7	298.4	154.9

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	1,358.4	1,499.8	1,511.3
Total Shareholders funds	505.8	1,377.7	1,519.1	1,530.6
Total Debt	0.0	0.0	0.0	0.0
Minority Interest	3.1	3.2	3.2	3.2
Deferred Tax Assets	50.5	56.2	56.2	56.2
Total Liabilities	559.4	1,437.1	1,578.5	1,589.9
Gross Block	245.2	308.8	348.8	388.8
Less: Acc Depreciation	20.5	32.3	50.3	68.5
Net Block	224.8	276.5	298.4	320.3
Capital WIP	2.0	1.8	1.8	1.8
Total Fixed Assets	226.7	278.2	300.2	322.0
Investments	136.6	676.0	796.0	896.0
Other non current Assets	11.2	29.2	29.2	29.2
Debtors	87.4	107.8	138.3	174.1
Loans and Advances	13.5	24.8	30.8	38.8
Other Current Assets	93.4	141.3	169.3	206.5
Cash	145.0	323.7	298.4	154.9
Inventories	69.2	105.4	128.4	161.7
Total Current Assets	408.5	703.1	765.2	736.0
Creditors	56.3	64.5	81.0	102.0
Provisions	70.9	90.2	113.2	142.5
Other Current Liabilities	97.3	95.9	119.2	150.0
Total Current Liabilities	224.6	250.7	313.4	394.5
Net Current Assets	183.9	452.4	451.9	341.4
Application of Funds	559.4	1,437.1	1,578.5	1,589.9

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.5	8.0	9.3	12.0
Cash EPS	6.8	8.6	10.3	12.9
BV	29.0	71.5	78.8	79.4
DPS	20.0	20.0	20.0	20.0
Cash Per Share	8.3	16.8	15.5	8.0
Operating Ratios (%)				
Adj. EBITDA Margin	29.4	32.2	31.5	32.0
PBT / Total Operating income	28.2	30.2	29.0	30.0
PAT Margin	25.5	26.5	25.0	25.5
Inventory days	57.1	66.3	65.0	65.0
Debtor days	72.1	67.8	70.0	70.0
Creditor days	46.5	40.6	41.0	41.0
Return Ratios (%)				
RoE	22.3	11.2	11.8	15.1
RoCE	27.8	14.6	15.7	19.8
RoIC	48.8	42.9	45.9	53.4
Valuation Ratios (x)				
P/E	66.5	53.8	46.0	35.8
EV / EBITDA	55.4	34.6	28.1	22.1
EV / Net Sales	16.3	11.2	8.9	7.1
Market Cap / Sales	16.9	12.9	10.4	8.2
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	1.5	1.5	1.5
Quick Ratio	0.8	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%



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