

Preparing for the long haul

Media & Entertainment ▶ Analyst Meet Update ▶ August 24, 2024

TARGET PRICE (Rs): 580

We attended Saregama’s analyst meet (as part of RPSG investor day) where the management reiterated its revenue guidance (excluding Carvaan) of 25-26% over the next 3 years. The core music licensing should log 23% CAGR with improvement in margins on account of leadership and scale benefits. This will be supported by steady catalog growth and investment of Rs1bn in new content, which also ensures that the company remains relevant over the long term. In the video segment, Saregama is at a relatively nascent stage and should see growth of 25-30% over the next 3 years with margin improvement given a bigger library and scale. PBT growth should be slower in the next 6 quarters as the company ramps up content acquisition and integrates Pocket Aces, after which PBT growth should outpace revenue growth. We maintain our estimates and retain BUY with an unchanged DCF-based TP of Rs580/share.

Saregama India: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,366	8,030	10,918	13,105	15,566
EBITDA	2,210	2,466	3,145	4,084	5,137
Adj. PAT	1,853	1,976	2,231	2,859	3,632
Adj. EPS (Rs)	9.6	10.2	11.6	14.8	18.8
EBITDA margin (%)	30.0	30.7	28.8	31.2	33.0
EBITDA growth (%)	18.1	11.6	27.6	29.8	25.8
Adj. EPS growth (%)	21.5	6.6	12.9	28.1	27.0
RoE (%)	13.6	14.1	14.5	16.6	18.5
RoIC (%)	31.8	19.9	17.4	19.0	21.3
P/E (x)	54.7	51.3	45.4	35.4	27.9
EV/EBITDA (x)	42.0	38.2	30.2	23.3	18.4
P/B (x)	7.5	6.9	6.3	5.6	4.8
FCFF yield (%)	(0.1)	0.0	(0.4)	0.1	1.3

Source: Company, Emkay Research

Music licensing and artist management: Investing for the long term

Music licensing remains the backbone of the company. The management is ramping up on new music acquisition to future proof the company for the long term. This will entail investment of Rs10bn over the next 3 years, with payback period of 5 years being maintained. This investment will likely be split equally between Hindi and Regional music with margin profile being slightly better on the regional side. The old catalogue continues to see steady growth of 10-12% with 75-80% margin. Being a pan-India player allows Saregama to monetize its content in a better way. The competitive intensity is not high, with most languages seeing only few players competing for the new music being sold. The company has invested heavily in marketing and analytics which sets it apart from the competitors. It works with all major movie studios. The artist management segment is a byproduct of new music and does not require any upfront investment, while also improving music margins.

Video: Strong growth from a low base

Saregama has the entire gamut of video offerings – from short clips to web series and movies. In the movies segment, it will continue to only operate in the regional space where the risk is lower. The company ensures that 70% of expenses are recovered before the release of the movie with all charges written off at the time of release. Most of Saregama’s competitors also have their own movie production houses. The movie business has high IRR but low margins. For web series as well, the risk is minimized by securing deals with platforms prior to start of production. Over the next 12-18 months the company is looking at an 8-10% margin for this segment.

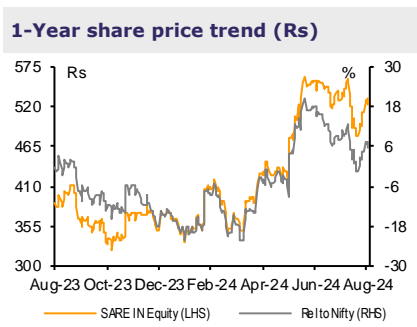
Other segments: Focus on margins for Carvaan; events in test mode

In the Carvaan segment, the focus is now clearly on generating higher margins as opposed to revenue growth. With the elder generation also now becoming accustomed to streaming, the life cycle of the product has become limited. Live concerts are a low margin and high-IRR segment. It allows the company to develop deeper relationships with the artists. Saregama has already hosted various concerts with Diljit Dosanjh.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	10.4
CMP (23-Aug-24) (Rs)	525.5

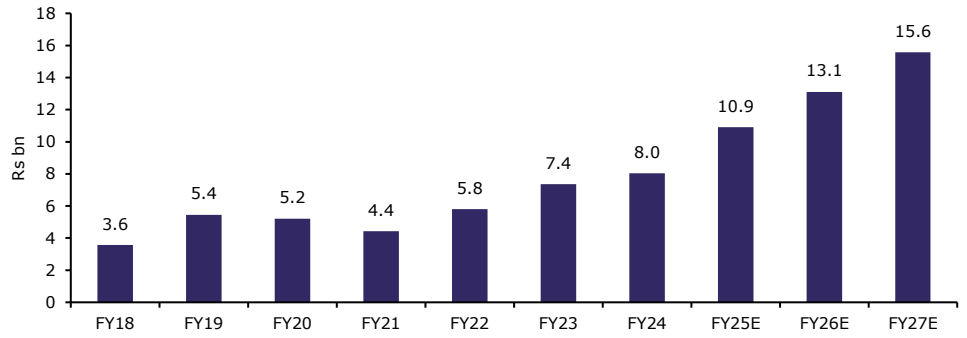
Stock Data	Ticker
52-week High (Rs)	581
52-week Low (Rs)	310
Shares outstanding (mn)	192.8
Market-cap (Rs bn)	101
Market-cap (USD mn)	1,208
Net-debt, FY25E (Rs mn)	-6,410
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	377.5
ADTV-3M (USD mn)	4.5
Free float (%)	40.7
Nifty-50	24,823
INR/USD	83.9
Shareholding, Jun-24	
Promoters (%)	59.2
FPIs/MFs (%)	17.2/3.2

Price Performance			
(%)	1M	3M	12M
Absolute	(1.4)	12.7	32.9
Rel. to Nifty	(2.8)	4.3	4.1



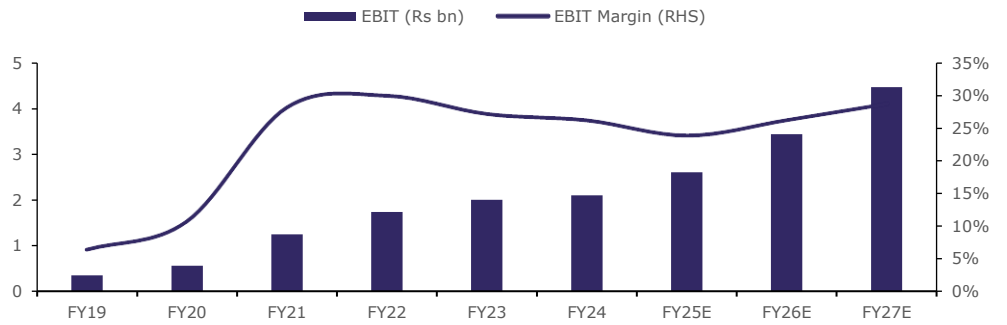
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Exhibit 1: Revenue growth to remain healthy



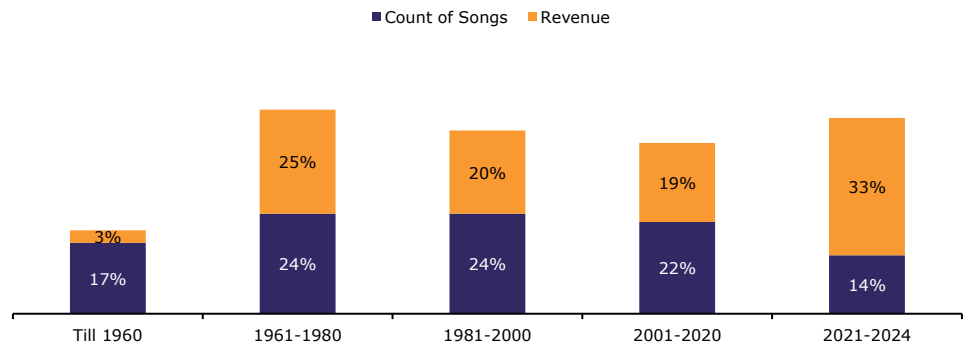
Source: Company, Emkay Research

Exhibit 2: Margins to be impacted in FY25 on account of content investment and acquisition



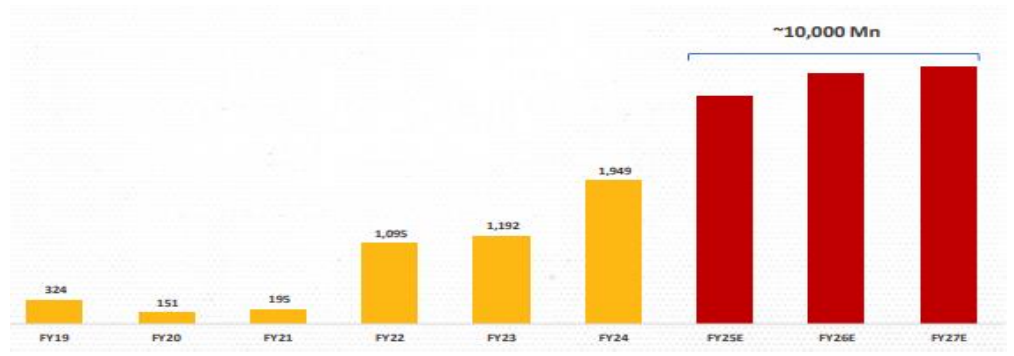
Source: Company, Emkay Research

Exhibit 3: Investment in new music bearing fruit



Source: Company, Emkay Research

Exhibit 4: Ramping up new content acquisition



Source: Company

Exhibit 5: Saregama's FY25 Music Release Calendar

Film Title	Language	Number of Songs
Bad Newz	Hindi	7
Sky Force	Hindi	4
Stree 2	Hindi	4
Jigra	Hindi	6
Sarzameen	Hindi	4
Kanguva	Tamil	5
Train	Tamil	4
Kingston	Tamil	4
Valli Mayil	Tamil	4
Jalsa	Tamil	5
Game Changer	Telugu	5
G.O.A.T	Telugu	5
Kalki 2898 AD	Telugu	7
Krishnamma	Telugu	5
Dilruba	Telugu	5
Bazooka	Malayalam	2
Nunakuzhi	Malayalam	4
Pavi Caretaker	Malayalam	5
Nandanna Sambavam	Malayalam	3
Guruvayoor	Malayalam	4
Martin	Kannada	4
Max	Kannada	4
Devil	Kannada	5
Kichcha 47	Kannada	4
Shivanna 130	Kannada	4

Source: Company, Emkay Research

Saregama India: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,366	8,030	10,918	13,105	15,566
Revenue growth (%)	26.9	9.0	36.0	20.0	18.8
EBITDA	2,210	2,466	3,145	4,084	5,137
EBITDA growth (%)	18.1	11.6	27.6	29.8	25.8
Depreciation & Amortization	208	362	539	644	662
EBIT	2,002	2,104	2,606	3,440	4,475
EBIT growth (%)	15.0	5.1	23.9	32.0	30.1
Other operating income	0	0	0	0	0
Other income	536	637	408	413	412
Financial expense	57	32	33	33	33
PBT	2,481	2,708	2,982	3,821	4,854
Extraordinary items	0	0	0	0	0
Taxes	630	732	750	962	1,222
Minority interest	(3)	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,853	1,976	2,231	2,859	3,632
PAT growth (%)	21.5	6.6	12.9	28.1	27.0
Adjusted PAT	1,853	1,976	2,231	2,859	3,632
Diluted EPS (Rs)	9.6	10.2	11.6	14.8	18.8
Diluted EPS growth (%)	21.5	6.6	12.9	28.1	27.0
DPS (Rs)	3.0	4.0	4.0	4.0	4.0
Dividend payout (%)	31.2	39.0	34.6	27.0	21.2
EBITDA margin (%)	30.0	30.7	28.8	31.2	33.0
EBIT margin (%)	27.2	26.2	23.9	26.3	28.7
Effective tax rate (%)	25.4	27.0	25.2	25.2	25.2
NOPLAT (pre-IndAS)	1,493	1,535	1,950	2,574	3,348
Shares outstanding (mn)	192.8	192.8	192.8	192.8	192.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,481	2,708	2,982	3,821	4,854
Others (non-cash items)	(432)	(400)	164	263	283
Taxes paid	(668)	(514)	(750)	(962)	(1,222)
Change in NWC	(447)	(862)	(671)	(653)	(729)
Operating cash flow	934	933	1,724	2,469	3,186
Capital expenditure	(1,031)	(923)	(2,100)	(2,393)	(1,969)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	(1,481)	166	(1,692)	(1,980)	(1,557)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	(14)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(6)	(30)	(33)	(33)	(33)
Dividend paid (incl tax)	(578)	(771)	(771)	(771)	(771)
Others	(168)	(33)	0	0	0
Financing cash flow	(752)	(849)	(804)	(804)	(804)
Net chg in Cash	(1,299)	250	(773)	(315)	825
OCF	934	933	1,724	2,469	3,186
Adj. OCF (w/o NWC chg.)	488	71	1,052	1,815	2,457
FCFF	(97)	10	(376)	76	1,217
FCFE	(154)	(23)	(409)	43	1,184
OCF/EBITDA (%)	42.3	37.8	54.8	60.5	62.0
FCFE/PAT (%)	(8.3)	(1.1)	(18.3)	1.5	32.6
FCFF/NOPLAT (%)	(6.5)	0.6	(19.3)	2.9	36.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	193	193	193	193	193
Reserves & Surplus	13,228	14,498	15,959	18,047	20,908
Net worth	13,421	14,691	16,151	18,239	21,101
Minority interests	34	35	34	34	34
Deferred tax liability (net)	464	474	474	474	474
Total debt	7	54	54	54	38
Total liabilities & equity	13,926	15,254	16,714	18,802	21,646
Net tangible fixed assets	2,207	2,238	2,884	3,519	3,557
Net intangible assets	1,183	5,185	6,100	7,214	8,483
Net ROU assets	7	7	7	7	7
Capital WIP	0	0	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	21	21	21	21	21
Cash & equivalents	7,470	6,598	5,825	5,510	6,335
Current assets (ex-cash)	5,050	5,622	6,680	7,407	8,329
Current Liab. & Prov.	3,115	2,994	3,380	3,454	3,647
NWC (ex-cash)	1,935	2,629	3,300	3,953	4,683
Total assets	13,926	17,344	18,804	20,891	23,752
Net debt	(8,566)	(7,183)	(6,410)	(6,095)	(6,937)
Capital employed	13,926	15,254	16,714	18,802	21,646
Invested capital	5,331	10,085	12,318	14,721	16,757
BVPS (Rs)	69.6	76.2	83.8	94.6	109.4
Net Debt/Equity (x)	(0.6)	(0.5)	(0.4)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(3.9)	(2.9)	(2.0)	(1.5)	(1.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	17.9	18.8	18.9	21.7	24.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	54.7	51.3	45.4	35.4	27.9
P/CE(x)	49.1	43.3	36.6	28.9	23.6
P/B (x)	7.5	6.9	6.3	5.6	4.8
EV/Sales (x)	12.6	11.7	8.7	7.3	6.1
EV/EBITDA (x)	42.0	38.2	30.2	23.3	18.4
EV/EBIT(x)	46.3	44.7	36.4	27.7	21.1
EV/IC (x)	17.4	9.3	7.7	6.5	5.6
FCFF yield (%)	(0.1)	0.0	(0.4)	0.1	1.3
FCFE yield (%)	(0.2)	0.0	(0.4)	0.0	1.2
Dividend yield (%)	0.6	0.8	0.8	0.8	0.8
DuPont-RoE split					
Net profit margin (%)	25.2	24.6	20.4	21.8	23.3
Total asset turnover (x)	0.5	0.6	0.7	0.7	0.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	13.6	14.1	14.5	16.6	18.5
DuPont-RoIC					
NOPLAT margin (%)	20.3	19.1	17.9	19.6	21.5
IC turnover (x)	1.6	1.0	1.0	1.0	1.0
RoIC (%)	31.8	19.9	17.4	19.0	21.3
Operating metrics					
Core NWC days	95.9	119.5	110.3	110.1	109.8
Total NWC days	95.9	119.5	110.3	110.1	109.8
Fixed asset turnover	2.1	1.3	1.2	1.1	1.1
Opex-to-revenue (%)	39.5	40.4	37.3	36.5	36.0

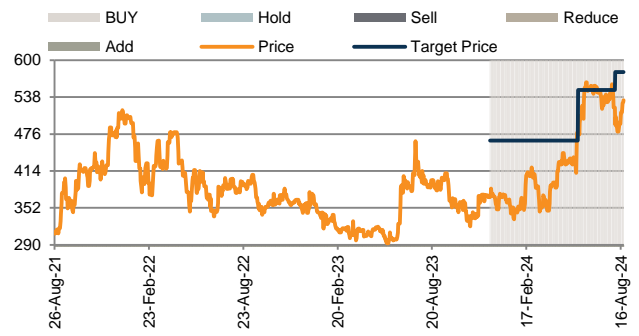
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
05-Aug-24	492	580	Buy	Pulkit Chawla
26-May-24	478	550	Buy	Pulkit Chawla
25-Mar-24	365	465	Buy	Pulkit Chawla
11-Feb-24	358	465	Buy	Pulkit Chawla
09-Dec-23	371	465	Buy	Pulkit Chawla

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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