

## Equity Research Desk



## ALPHA

25 AUG 2022

## Saregama India Ltd. – Musical Play

Market Data	
CMP	Rs. 409
Date	24-Aug-22
Target Price	Rs. 485
Upside Potential	18.00%
52 Week High/Low	551/295
Market Cap	Small Cap
Sector	Media
Rating	Buy

Saregama India Ltd (SIL) is one of India's largest music recording and publishing companies. It was initially established as a branch of Electrical & Musical Industries Limited, London (EMI) in 1901, before being taken over by the RP-Sanjiv Goenka Group of Kolkata. The company has several milestones to its credit in the history of recording and publishing Indian music. It produced the first song that was recorded in India in 1902 by Gauhar Jan. It currently has a music library of more than 1.42 lakh songs. Folk and light classical music, especially ghazals, and old Hindi film music, acquired from reputed film houses, form the backbone of this collection. Over the years, the company has expanded its business and forayed into the distribution of music in the digital mode apart from physical formats (Carvaan) and has also ventured into the production of TV serials, films and web series.



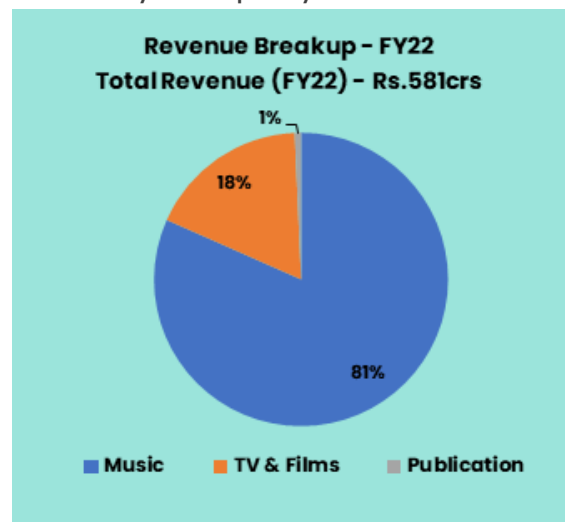
**Products & Services:** The company works under three business verticals namely Music, TV serials & Films and Publications.

**Music** – The company licenses its musicals (songs) to Music streaming platforms like Gaana, Spotify, etc.; licenses to Broadcasting platforms like TV channels, Licenses to Video streaming platforms like Netflix, hotstar, etc.; Licenses to social media platforms and licenses to societies in the public events, malls, shows, etc. Other than IP licenses, the company has a product named 'Carvaan' which is an audio player also acts as a Bluetooth speaker and FM player. This is retailed directly to the customers.

**TV & Films** – Under this segment the company produces and holds rights for Serials and under Yodlee films they are producing Films for OTT platforms.

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	58.49	57.65	0.84
FPI	17.30	17.09	0.21
DII	2.67	3.09	-0.42
Public & Others	21.54	22.17	-0.63
Pledged	0.00	0.00	0.00

**Subsidiaries:** As on 31st Mar 2022, the company has six subsidiary companies and one step down subsidiary company.



Margins - FY22	
EBITDA	32%
EBIT	36%
PAT	26%



## Key Rationale

- **Diversified Revenue** – For a long time, Saregama was using the brand ‘His Master’s Voice (HMV),’ a trademark of EMI Records Ltd (erstwhile The Gramophone Co. Ltd), for selling its products. However, to build up its own brand value, the company started using the brand ‘Saregama, The Soul of India.’ SIL has a leadership position in a rich retro music library, representing 60% of its licensing revenue. The collection represents recordings by legendary artists including Lata Mangeshkar, Mohammed Rafi, Laxmikant-Pyarelal, RD Burman, and Kishore Kumar. On an overall basis, SIL owns intellectual property (IP) rights of more than 1.42 lakh songs, content IP rights of 64 films, 1 web series and 6,000+ hours of television serials. It has also diversified its revenue profile through the physical sales of ‘Carvaan’ (various variants selling in the market from May 2017) and content creation for budget films (Yoodlee films – 18 movies and one web series licensed from its launch in November 2017).
- **Licensing Segment Growth** – SIL’s licensing fee increased at a compounded annual growth rate (CAGR) of 24% during FY20-FY22 and a YoY increase of 28% in FY22. The increase has been a result of the company transforming its business model. With a gradual phasing out of physical music content, the company’s changing business model has been capturing newer and profitable ways to monetise its existing music content, particularly, retro on digital platforms through OTT platforms (including YouTube) and publishing (through movies, TV shows and brand usage). With cheaper availability of data and increased usage of smartphones, the digital use of content has been increasing significantly.
- **Movies and other projects** – Three films are under production currently – a) Malayalam movie ‘Padavettu’ starring Nivin Pauly with shooting done; b) first Punjabi film ‘Oye Makhana’ starring Amy Virk with shooting done and c) shooting began for next Malayalam film ‘Kaapa’ starring Prithviraj Sukumaran. Also, it expects the web series titled Hunter – The Invisible Women starring Suniel Shetty to release soon. The company has also announced a couple of other web series and is expected to be complete in the next few months.
- **Financial Performance** – During the quarter, music segment revenues were up 38.8% YoY at Rs.127.4 crs, led by Carvaan sales volumes which were up 118% YoY to 98000 units, while licencing revenues continued to be robust. Overall, 77 new film and 109 non film songs released during this quarter – 44 Hindi, 16 Tamil, 33 Telugu, 12 Malayalam, 15 Bengali, 21 Bhojpuri and 29 Gujarati songs. The five-year revenue and profit CAGR stand at 22% and 78% respectively. The balance sheet of the company is strong with literally zero debt.

**Ratios - FY22**

ROE	13%
ROCE	20%
Div. Yield	0.73%
PE Ratio	52.00
Face Value	1.00
EPS	Rs. 7.91

**Industry Analysis**

According to a report by global consulting firm PwC, the Indian media and entertainment industry will grow at an 8.8% CAGR and reach Rs.4.30 lakh crore (US\$ 54.93 billion) by 2026. Television would account for 40% of the Indian media market in 2024, followed by print media (13%), digital advertising (12%), cinema (9%), and the OTT and gaming industries (8%). The music industry is expected to reach Rs.23 billion (US\$ 330 million) by 2023, from Rs. 15 billion (US\$ 210 million) in 2020 at a CAGR of 15% between 2020 and 2023. Growth of the sector is attributable to the trend of platform such as YouTube that continues to offer recent and video content-linked music for free, which is expected to drive the paid OTT music sector reaching ~5 million end-users by 2023, generating revenue of ~Rs.2 billion (US\$ 27 million). By 2026, India's OTT video services are expected to be worth Rs.21,031 crore (US\$ 2.68 billion), with subscription-based services accounting for Rs 19,973 crore (US\$ 2.55 billion) and transactional VOD accounting for Rs.1,058 crore (US\$ 135.18 million) (video on demand).

**Growth Drivers**

High mobile penetration, growing societal comfort with digital consumption, falling piracy, advertising revenues moving from traditional media to digital and steady increase in subscription business are the big growth stimulators for the content economy.

India Internet users are expected to reach 900 million by 2025, from ~622 million Internet users in 2020, increasing at a CAGR of 45% until 2025.

The Government of India has supported this sector's growth by taking various initiatives such as digitizing the cable distribution sector to attract greater institutional funding, increasing Foreign Direct Investment (FDI) limit from 74% to 100% in cable and direct-to-home (DTH) satellite platforms and granting industry status to the film industry for easy access to institutional finance.



## Peer Analysis

**Competitors:** Tips Industries, Zee Entertainment, etc.

Tips Industries is the closest competitor for Saregama followed by Zee Entertainment Enterprises. Balance sheet wise, all the three companies are strong. On the other hand, Financial performance is consistent in terms of revenue and profitability in Saregama than the others.

Company	CMP	Mcap.	7 Yr Sales CAGR	7 Yr PAT CAGR	P/E	EPS
Saregama	409	7923	18.00%	55.00%	52	7.91
Tips	1579	2043	4.00%	53.00%	32	49.66
Zee Ent.	264	25358	8.00%	-0.20%	26	10.04

## Outlook

The company aims to lap up ~30% share in new movie content rights (annual spends by industry for new movies music overall is ~Rs.800 crs). The management guidance for licensing revenue (B2B) growth is at 22-25%, ahead of expected industry growth of 15%, led by higher share in new content across Hindi and regional languages and acquisition of small and mid-sized catalogue to plug in the content gaps of last 25 years. The company has also entered 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 has started the event business with music tour of Diljeet Dosanj in Q1FY23 wherein six events were held across India and Canada. It expects 5-10% margin in events business. Also, the company expects Yoodlee films to clock Rs.100+ crs revenues in the next couple of years and expect ~25% revenues CAGR in TV & films segment ahead.



## Valuation

Saregama has been expanding its business from distribution of music, both in digital and physical mode to producing movies and television content, in line with the changing trends of the music and the entertainment industry. We recommend a BUY rating in the stock with the target price (TP) of Rs.485, 40x FY24E EPS.

## Risks

- **Technological risk** – The company is operating in a fast-changing industry, where the formats for distribution of music change with technological advancement. The company was severely affected by the same in the 1980s when the long record player was replaced by music cassettes.
- **Security Risk** – Piracy has been eating into the profitability of the Indian media and entertainment (M&E) industry. Although this has always been in existence, the incidence of piracy has been reducing gradually. The easy availability of substantially cheaper internet access has somewhat had a positive impact on curbing piracy.
- **Competitive Risk** – The music industry is also characterised by intense competition in the film and television media segments, which increases demand for the limited content pool, contributing to an increase in the cost for content acquisition.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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