

Saregama Ltd

Analyst Recommendation: BUY

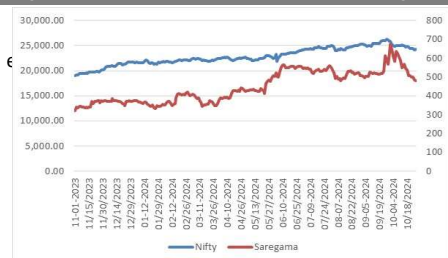
BSE Code: 532163

NSE: SAREGAMA

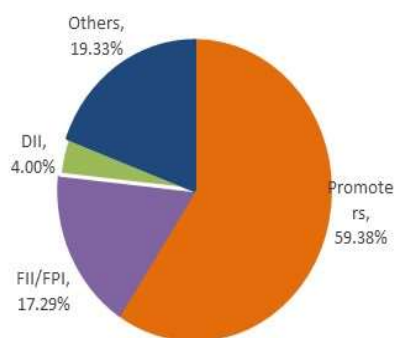
CMP: Rs 500
2 Year Target - Rs 635

| | |
|---------------------------|---------|
| Face Value | 1.0 |
| Market Cap (Rs Cr) | 9,568 |
| 52 week high/low | 689/326 |
| Dividend Yield | 0.76 |
| Shares O/S (Cr) | 19.3 |
| Book Value per Share (Rs) | 80.5 |
| Nifty | 24,205 |

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Oct 2024



Investor's Rationale

- SIL's music licensing revenue (62% of overall) is likely to expand at a 25% CAGR over FY25–27E. SIL is outperforming the industry via IP monetisation, thanks to its massive IP portfolio, which is projected to keep increasing at an 11% CAGR. We reckon investments in new content shall drive up music licensing revenue growth to ~25% CAGR, positioning SIL 1.7x ahead of the industry's 15% CAGR over CY24
- The music industry shall transition from a free or ad-supported music to a paid subscriber base. A paid subscriber generates up to 5x revenue vis-a-vis a free/ad-supported listener. Explosion in digital advertising, rising smartphone penetration and cheap data are a few key growth drivers. For SIL, music licensing has the highest salience (62% of revenue); 67% of its total music licensing revenue comes from OTT platforms, which are projected to transition to a paid subscription model
- We reckon a 24% CAGR for the video business (16% of overall revenue) over FY25–27E. Live events shall see a spike in FY25E (10% of FY25E revenue; 2% in FY24), and then a 12% CAGR over FY25–27E. Live events is a low-risk, low-margin and high-IRR play. The Artist Management segment (3% of revenue) shall clock a 28% CAGR over FY25–27E. No upfront investments are needed to manage its base of 150-plus artists.

Valuation

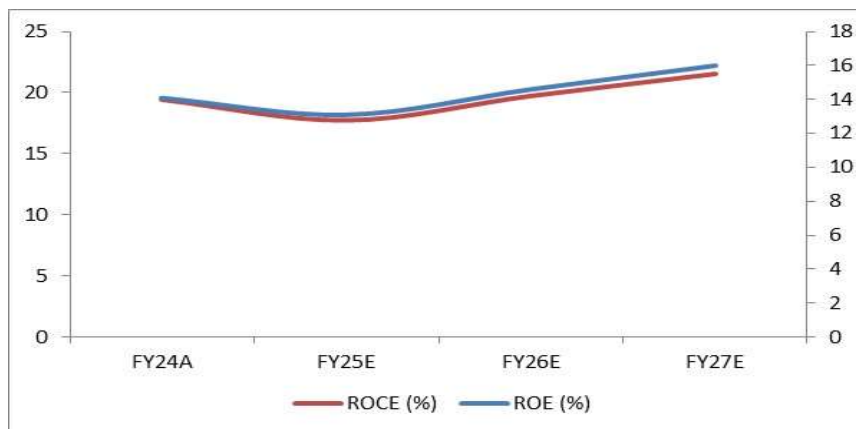
SIL has an overarching objective of monetising its IP portfolio for years and hence plans to invest INR10bn in content over FY25–27E. We are initiating coverage on SIL at 'BUY' with a TP of INR635/share. Key risks: uncertainty in content quality and heightened competitive landscape.

| (Rs Million) | FY24A | FY25E | FY26E | FY27E |
|----------------|---------|----------|----------|----------|
| Revenue | 8,030.0 | 10,021.0 | 12,066.0 | 14,605.0 |
| EBITDA | 2,466.0 | 2,751.0 | 3,450.0 | 4,274.0 |
| Adj. profit | 2,466.0 | 2,751.0 | 3,450.0 | 4,274.0 |
| Adj. EPS (Rs.) | 10.3 | 10.4 | 12.7 | 15.5 |
| P/E (x) | 48.0 | 48.0 | 48.0 | 48.0 |
| ROE (%) | 14.10 | 13.10 | 14.60 | 16.00 |
| ROCE (%) | 19.40 | 17.70 | 19.70 | 21.50 |

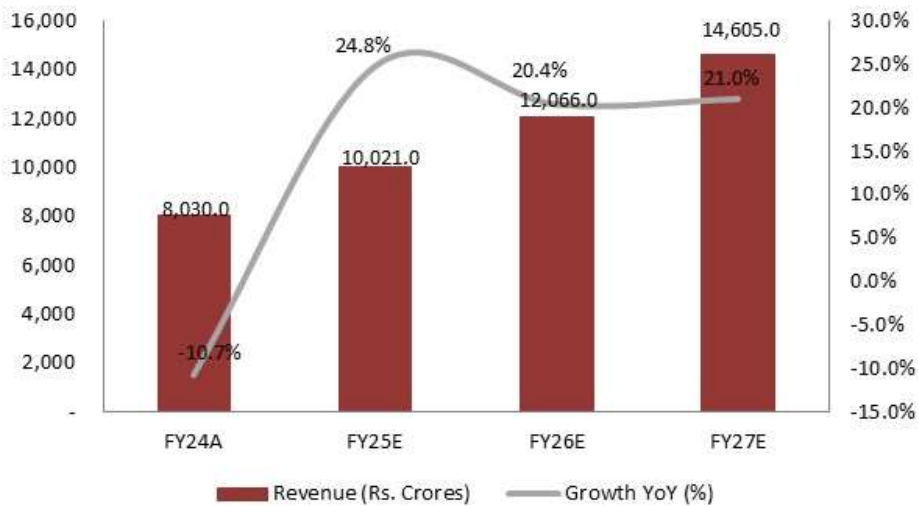
Investment Rationale

- Industry macros favourable: The Indian music industry is expected to touch INR37bn by 2026E, expanding at a 15% CAGR over the three years. Growth will be driven by the expansion of the smartphone base as next 100mn users get access, growth in the SVOD base, more music concert revenue, increased reach of social media, growth of YouTube, and increased international consumption of Indian music.
- Shift to a paid customer base: The paid subscriber base stood at 5mn in 2023. While subscriptions are not significant at present, they are arguably the future since OTT platforms cannot sustain providing free or ad-supported music. The market has the potential to grow the number of paid subscribers to 2–2.5x their current volume in three years (to 15mn) and 4–5x in five years (to 35–40mn).
- Biggest catalogue: SIL boasts a catalogue of 160k+ songs, which includes its originals and derivatives. This catalogue shall clock an 11% CAGR for a minimum period of three years. The company prepares to go on an intense content acquisition spree of INR10bn over FY25–27E. By language, the catalogue is made up of 29% Hindi, 18% Bengali, 11% Tamil, 7% Telugu, 6% Punjabi, 5% Marathi, 5% Malayalam, etc— indicating a well-balanced mix of regional music and music popular countrywide.
- Multiple revenue streams: A good chunk of profits comes from the content acquired in the previous three–four years. The acquisition spree of newer content shall further improve SIL’s profitability, and the company intends to invest INR10bn in content acquisition to position itself to monetise its IP portfolio for years to come. Alongside, the company will tune into the nostalgic melodies, remakes and remixes of the old catalogue, which is generating traction among young audiences. Organised players would grab a higher growth share driven by increased brand awareness, a strong distribution network, a better shopping experience, and loyalty programs.
- Saregama owns the rights to ~50% of music ever produced in India. It boasts a panoramic catalogue of 160k+ songs, which includes originals and derivatives. The catalogue is made up of 29% Hindi, 18% Bengali, 11% Tamil, 7% Telugu, 6% Punjabi, 5% Marathi, 5% Malayalam, etc—indicating a well-balanced mix of regional music and music popular countrywide. In contrast, the industry leader focuses only on Hindi music and does not have regional reach.
- 36% of SIL’s songs were released post-2000, and they contributed 52% to its FY24 revenue. As much as 33% of revenue came from the 14% songs released during 2021–24. This catalogue has grown at 7% annually, and we expect it to log an 11% CAGR as the company prepares to go on an intense content acquisition spree of INR10bn over FY25–27E.
- SIL expects a payback period of five years for all new content acquired, and amortises new content over a period of ten years (48% in first two years), thereafter expecting a 91% margin from these songs for an infinite period. This results in an IRR of 26% from any new music acquired.
- The ad revenue is shared between the company and YouTube in the ratio of 55:45. This ad revenue comes from SIL’s own channel and user generated content (UGC). The company has a subscriber base of 120mn-plus along with a subscriber base of 142mn-plus from Pocket Aces. Our calculations show that revenue from YouTube contributed ~INR2.5bn to SIL’s top line in FY24. SIL allows UGC to use Saregama Music, unless it violates its internal policies. Surprisingly, UGC contributions in YT are bigger than the revenue from Saregama’s own YT channels.

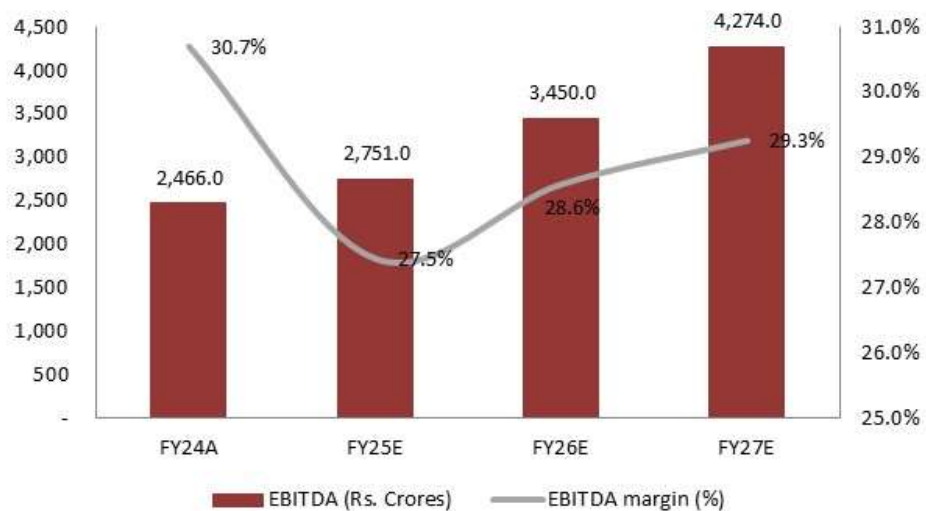
Return ratios



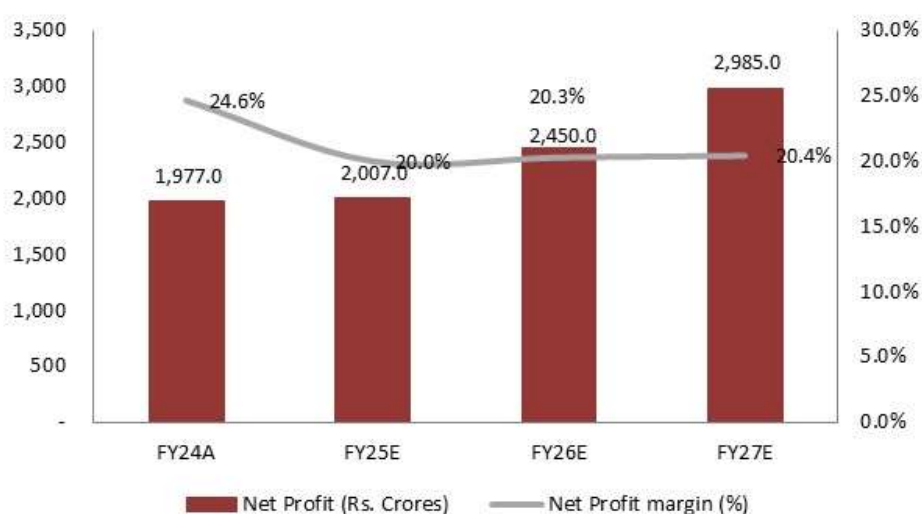
Revenue growth will be strong



EBITDA will maintain strong growth



Net profit will maintain strong growth



Outlook and Valuation

SIL has an overarching objective of monetising its IP portfolio for years and hence plans to invest INR10bn in content over FY25–27E. We are initiating coverage on SIL at 'BUY' with a TP of INR635/share. Key risks: uncertainty in content quality and heightened competitive landscape.

Saregama Limited - Company Overview

- SIL is the largest listed music label with a revenue share of ~18%, and boasts the largest repository of over 160k+ songs along with 70-plus films, 45-plus digital series and 6k-plus hours of TV series.
- With ~750mn smartphones and ~22mn connected TVs paired with cheap data amid growing demand for digital content, Saregama is in a sweet spot to ride the digital consumption boom.
- The Music Licensing business shall keep on doing well with old and new content forming a good mix; Music Retail shall decline as the company is limiting distribution channels to online and modern trade channels only.
- The Video business's margins shall expand with the loss-making Pocket Aces expected to break even by the end of FY25. The company has a policy of not investing more than 18% of its capital in the Video business.
- Artist Management and Live Events are the newer segments that SIL forayed into during the past year to diversify its revenue stream and deepen artist relationships; they do not require any upfront capital investment.



Balance sheet (Consolidated)

| Rs In Million | FY24A | FY25E | FY26E | FY27E |
|--------------------------|--------------|--------------|--------------|--------------|
| Share capital | 193 | 193 | 193 | 193 |
| Reserves & surplus | 14498 | 15736 | 17416 | 19632 |
| Shareholders funds | 14691 | 15929 | 17609 | 19825 |
| Minority interest | 34 | 34 | 34 | 34 |
| Borrowings | 17 | 0 | 0 | 0 |
| Trade payables | 934 | 1098 | 1322 | 1601 |
| Other liabs & prov | 4662 | 4671 | 4679 | 4690 |
| Total liabilities | 20338 | 21732 | 23644 | 26150 |
| Intangible Assets | 5130 | 6190 | 7395 | 8496 |
| Net block | 2238 | 2350 | 2459 | 2566 |
| Capital work in progress | 55 | 55 | 55 | 55 |
| Non current inv | 21 | 21 | 21 | 21 |
| Cash/cash equivalent | 5421 | 5383 | 5411 | 5690 |
| Sundry debtors | 1587 | 1510 | 1818 | 2201 |
| Loans & advances | 221 | 221 | 221 | 221 |
| Other assets | 5665 | 6002 | 6264 | 6900 |
| Total assets | 20338 | 21732 | 23644 | 26150 |

Profit & Loss Account (Consolidated)

| Rs In Million | FY24A | FY25E | FY26E | FY27E |
|--------------------------|-------------|-------------|-------------|-------------|
| Total operating income | 8030 | 10021 | 12066 | 14605 |
| Gross profit | 5710 | 6964 | 8446 | 10224 |
| Employee costs | 932 | 1102 | 1267 | 1461 |
| Other expenses | 1700 | 2154 | 2534 | 2994 |
| EBITDA | 2466 | 2751 | 3450 | 4274 |
| Depreciation | 362 | 478 | 585 | 693 |
| EBIT | 2104 | 2273 | 2865 | 3581 |
| Less: Interest expense | 32 | 40 | 40 | 40 |
| Add: Other income | 637 | 450 | 450 | 450 |
| Extraordinary items | | | | |
| Profit before tax | 2709 | 2683 | 3275 | 3991 |
| Provision for tax | 732 | 676 | 825 | 1006 |
| Profit after tax | 1977 | 2007 | 2450 | 2985 |
| EPS | 10.3 | 10.4 | 12.7 | 15.5 |

Cash Flow (Consolidated)

| Rs In Million | FY24A | FY25E | FY26E | FY27E |
|----------------------------|------------|-------------|-------------|-------------|
| Reported profit | 1976 | 2007 | 2449 | 2986 |
| Add: Depreciation | 47 | 38 | 41 | 43 |
| Interest (net of tax) | 32 | 40 | 40 | 40 |
| Others | 253 | 666 | 920 | 1206 |
| Less: Changes in WC | -862 | -87 | -338 | -730 |
| Operating cash flow | 932 | 1988 | 2287 | 2538 |
| Less: Capex | -923 | -1650 | -1900 | -1900 |
| Free cash flow | 10 | 338 | 387 | 638 |

Key Ratios & Valuations (Consolidated)

| Year to March | FY24A | FY25E | FY26E | FY27E |
|------------------------------|-------|-------|-------|-------|
| RoE (%) | 14.1 | 13.1 | 14.6 | 16 |
| RoCE (%) | 19.4 | 17.7 | 19.7 | 21.5 |
| Inventory days | 317 | 305 | 287 | 274 |
| Receivable days | 74 | 57 | 51 | 51 |
| Payable days | 129 | 121 | 122 | 122 |
| Working cap (% sales) | 49.8 | 38.9 | 35.1 | 34 |
| Gross debt/equity (x) | 0 | 0 | 0 | 0 |
| Net debt/equity (x) | -0.4 | -0.3 | -0.3 | -0.3 |
| Interest coverage (x) | 64.9 | 56.8 | 71.6 | 89.5 |



Equity Research

| Large Cap. | Return | Mid/Small Cap. | Return |
|---------------|------------------------|--------------------|--------------------------|
| Buy | More than equal to 10% | Buy | More than equal to 15% |
| Hold | Between 10% & -5% | Accumulate* | Upside between 10% & 15% |
| Reduce | Less than -5% | Hold | Between 0% & 10% |
| | | Reduce/sell | Less than 0% |

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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