Equity Research

Equity Research Report   Entertainment

Date: Oct 30, 2024

Saregama Ltd

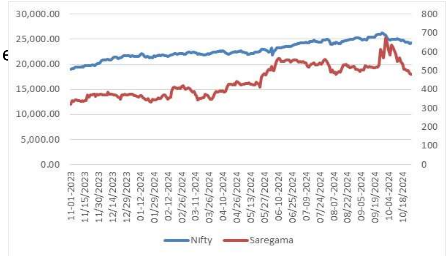
Analyst Recommendation: BUY

BSE Code: 532163   **NSE: SAREGAMA**

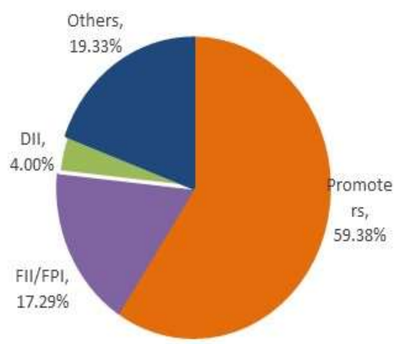
CMP:	**Rs 500**
2 Year Target -	**Rs 635**

Face Value	1.0
Market Cap (Rs Cr)	9,568
52 week high/low	689/326
Dvidend 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 penetrationand 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 OTTplatforms, 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.

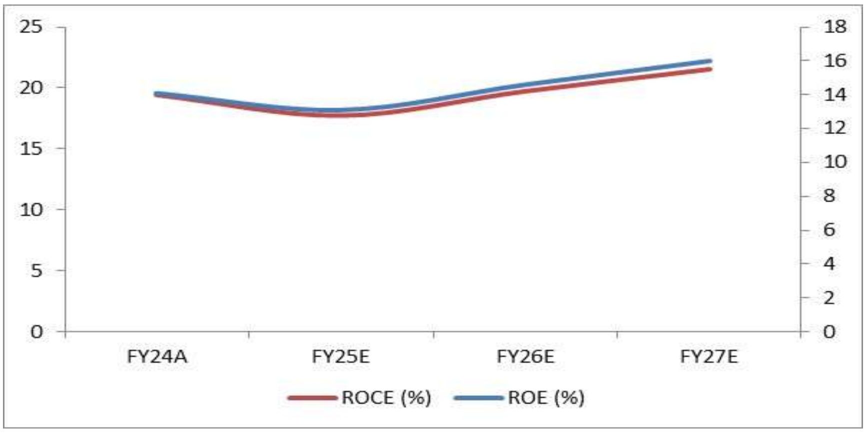
- Saregama owns the rights to ~50% of music ever produced in India. It boasts a panoramic catalogue of 160k+ songs, which includes originals and derivatives. The catalogue is made up of 29% Hindi, 18% Bengali, 11% Tamil, 7% Telugu, 6% Punjabi, 5% Marathi, 5% Malayalam, etc—indicating a well-balanced 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.

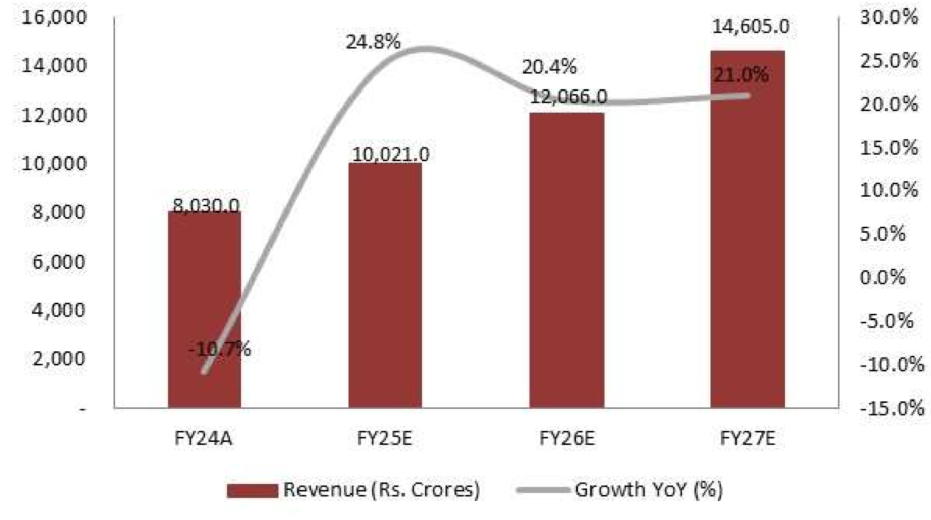
- SIL expects a payback period of five years for all new content acquired, and amortises new content over a period of ten years (48% in first two years), thereafter expecting a 91% margin from these songs for an infinite period. This results in an IRR of 26% from any new music acquired.

- 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.

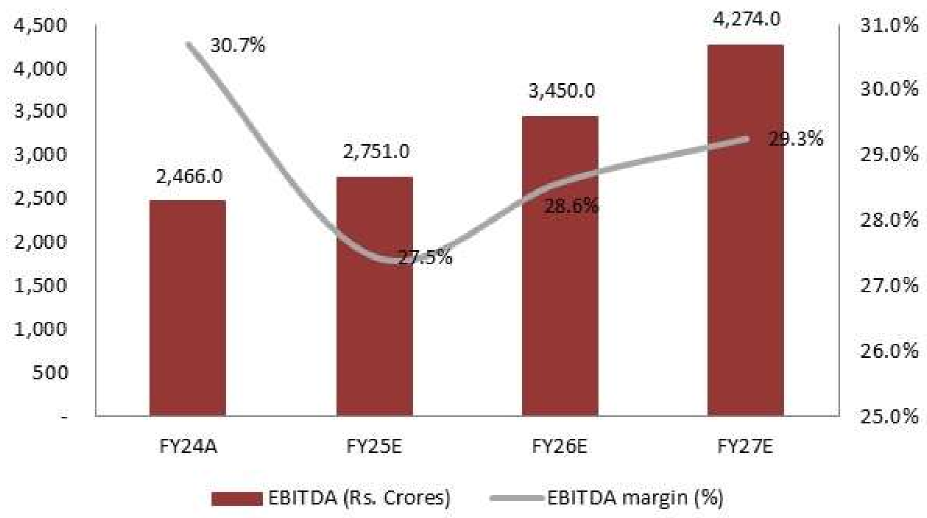
Return ratios



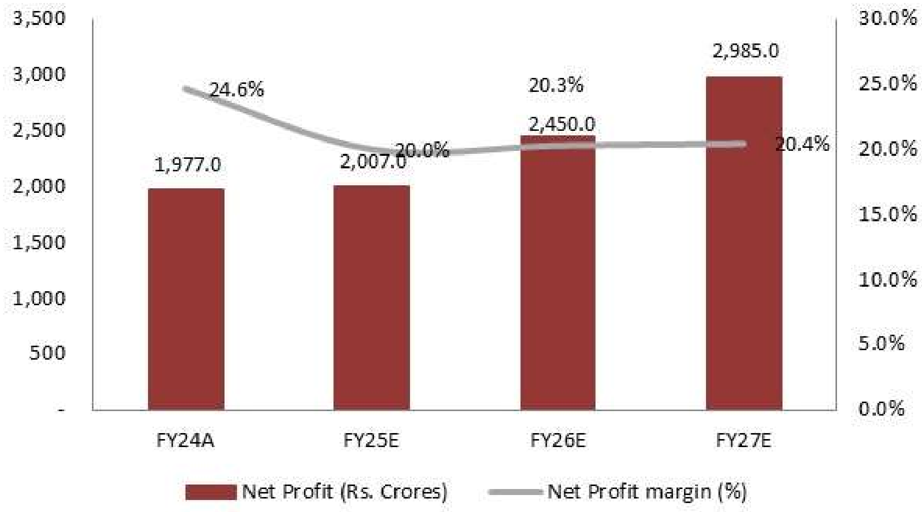
Revenue growth will be strong



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

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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